Chapter - I
Introduction
Chapter - 1

Introduction

1.1 Introduction:

India is a vast country spread from the Himalaya's in the North to the Indian Ocean at the South, and from the Arbian Sea in the West to the Bay of Bengal in the East. The basic occupation of the people of India is agriculture. It is also traditional occupation in this country. The livelihood of majority of the masses comes from the profession of agriculture. The ancient Indians are the first in human civilization to discover the science of agriculture.

India obtained freedom in 1947. The dawn of freedom not only brought in its train new horizons of hopes but also a number of problems such as the problem of poverty, of un-employment, of population, of nutrition, of schooling, of habitations, of standard of living, and so on. These problems made it necessary to take immediate steps through the process of planning and development. All these problems were associated with the issues of growth and development in areas both economic and non-economic. The process of socio-economic growth and development relied to great extend on financial growth and development.

The process of economic growth is complex and creates problems of adjustment in all sectors of the economy but especially so in finance. Finance is usually the oldest sector in the economy, characterized by a distinctive pattern
of life and organization; life in attachment to finance; in small units combining property, management and labour; engaging all or most of the family members in financial pursuits.

Improvement in financial productivity in India is of paramount importance today, not merely because it provides food and other wage-goods to the rising population, but also because it ensures a strong base for the future development of the economic sector. It has been very rightly pointed out that country is not poor because it has a sound financial base. The Indian financial market, as is well known, has been starved of capital investment, firstly, because of the poverty or low levels of income of the local community, and secondly, because financial market has traditionally been considered 'full of risks & uncertainty'. The financial market consists of some basic activities of which banking and insurance are of prime importance.

The origin of insurance is lost in antiquity. The earliest traces of insurance in the ancient world are found in the form of marine trade loans or carriers' contracts which included an element of insurance. Evidence is on record that arrangements embodying the idea of insurance were 'made in Babylonia and India at quite an early period. In Geeta,¹ the most scared book of India, references were made to the concept 'YOGAKSHEMA' in fact, the very logo of LIC i.e. "Yoga Kshema Vahamyaham" has been taken from the Geeta. more or less akin to the well-being and security of the people. The codes of Hummurabi
and of Manu² had recognized the advisability of provision for sharing the future losses. However, there is no evidence that insurance in its present form was practiced prior to the twelfth century.

Insurance is a mechanism of spreading the risk of one upon many. Indeed, it is a method of distributing the burden of loss of one person on a number of persons within the group formed for this purpose. The concept of spreading the risk through modern day insurance can be traced and linked back to one of the oldest conventions known to the civilized world, that is to say the convention of General Average used to be practiced in maritime trade and adventure during the Rhodian time from 916 B.C. This convention, still in practice, is nothing but sharing by all interests involved. The extraordinary and voluntary sacrifices or expenditures undertaken by the master of the vessel at a time of peril to save the adventure imperiled. Historians can also go back to 4th Century to find out the trace of risk sharing concept in the practice of Bottomry & Respondentia Bonds in maritime trade where the loans taken by ship owners & Cargo owners under such bonds were to be repaid only if the adventure reached safely.³

1.2 Statement & Significance of Problem Under Study:

The institution of life insurance provides security in the modern world, which is governed mostly by materialistic considerations. The role of money in
the industrial society has made it necessary that there should be an institution like life insurance, providing hedge against any life risk. The agrarian society in India, the institution of joint family provided the needed security. With the industrialisation of the country joint family is being replaced by nuclear family. Hence, there is no security in the event of bread winner of the family dies or becomes permanently disabled. The growing role of money in our economy and the expanding industrialisation make it necessary that there should be an arrangement for social security. It has been proved that life insurance alone is the answer.

The quest for security and freedom from want and distress has been the consistent urge of man through ages. This urge has assumed several forms according to their needs of the people and stages of development of the society. In the ancient agrarian society joint family and the community (Biradari) provided the needed security. Industrialisation set in the process of urbanisation which so deeply uprooted the old values that the individual got alienated from previous socio-cultural world. The new order did not provide for social security for individual members of a community. In the modern industrial society an individual has social risks which cause hardship and privatization as his private sources are seldom adequate to meet them. The magnitude and dimensions of the risks of living in modern industrial society are such that an individual of small means cannot effectively provide for them by his own ability or foresight alone or even
in private combination with his colleagues. The answer has been found in the institution of Life Insurance which in fact is the product of industrial revolution⁴. The industrial revolution in the Western Europe transformed the agrarian feudal society into an industrial capitalist society dominated by individualist philosophy of lifer. Consequently the problems of life and living became more complicated and assumed new proportions. In the beginning of the industrial revolution, there was no institutional arrangement to provide security against loss of family income in the event of death or disability of the bread winner even though the chances for the same had increased with the increasing use of machinery under new system of production. Individual endeavour to provide for all eventualities against risk to life in the new industrial era, by accumulation of wealth and property did not proved adequate in the changed socio-economic realities of industrial society. The necessity to provide security in industrial society proved to be the mother of invention of the institution of life insurance. The genesis and evolution of the institution and its capacity to cater to every conceivable need of man in the advanced industrial society both in capitalist and communist countries, bear out that insurance has emerged as an integral part of industrial society. The institution of life insurance is an intelligent expression of man's will to live and in conclusive evidence of his success in the instinctive search for security. From primitive society to agrarian feudal society, man has sought and found some institutional arrangement for his security. Modern life
insurance is logical outcome of his search for security in the advanced industrial society created by industrialisation.\textsuperscript{5}

Insurance is a contract in which a sum of money is paid by the assured in consideration of insurer's incurring the risk of paying a large sum upon a given contingency. Life Insurance contract may defined whereby the insurer, in consideration of a premium paid either in lump sum or in periodical installments, undertakes to pay expiry of a certain sum of money either on death of the insured or the contract embodies an agreement in which broadly stated, the insurer undertakes to pay a stipulated sum upon the insured or at some designate time to a designated beneficiary.\textsuperscript{6}

Life insurance is a unique financial product. It deals scientifically and precisely with variables that are emotional and, within the context of our own individual lives, completely unpredictable. Perhaps the most important factor about life insurance is simply that it works. It is not only an investment but has a psychological aspect of family protection after sudden death of the insured. Since the 1850s, when the modern life insurance policy was created, insurance companies have consistently kept their contractual "promise to pay." This in turn has made it possible for millions of men and women in this country to keep their promises to their families, building a plan of financial security on the foundation of life insurance protection. Although no amount of protection can be a substitute for the loss of the person, millions of families have been protecting
themselves under life insurance, thereby affording them the confidence that their families would continue to lead a decent life. Apart from affording this protection individually, life insurance companies with their vast reserves participate in a big way in the nation-building activity. They are the major contributors towards development of all infrastructure facilities all over the country.

The Insurance sector is of vital importance to every modern economy. First because it encourages the savings habit, second because it provides a safety net to rural and urban enterprises and productive individuals. And perhaps more importantly it generates long-term ingestible funds for infrastructure building. The nature of the insurance business is such that the cash inflow on insurance companies is constant while the payout is deferred and contingency related.

This characteristic of their business makes insurance companies the biggest investors in long gestations infrastructure development projects in all developed and aspiring nations. This is the most compelling reason why private sector (and foreign) companies which will spread the insurance habit in the societal and consuming interest are urgently required in this vital sector of the economy.

It need not be emphasized that Life insurance is basically governed by the universal twin objectives of risk coverage and savings for future. Life insurance will protect the family and/or specified dependents in the event of the policy
holder's death. In general, it is an essential component in planning for future. There are many options with coverage, depending on the situations. There are three main categories of life insurance: term life, universal life, and whole life insurance. Term life is the simplest and least expensive type of policy. Its main function is to pay a specific lump sum to the beneficiary upon a specific event. Other types of life insurance provide both a death benefit and a cash value account. Whole life insurance offers cover against risk of death whenever it occurs. Variable life insurance provides permanent protection and is more suited for the risk-oriented policy holder.

Universal life insurance provides permanent protection for the dependents and is more flexible than whole or variable life. Apart from these policies, Endowment policies pay the insurance money in the event of death of the insured during the endowment term and also in the event of the insured surviving till the end of the endowment term. In the Indian context, till recently Life Insurance Corporation of India was the only life insurance provider. But with the opening up of the insurance sector, many private players like TATA-AIG, Allianz Bajaj, Max New York Life, etc., have introduced many innovative products in line with the changing preferences of the individuals. These companies are also offering products, which combine the security of life with the opportunity of enjoying high returns on the investment made. Thus life insurance serves as an effective savings instrument also. With so many companies in this front, life insurance,
An annuity in its broadest sense is a series of periodic payments. Strictly speaking, it is an antithesis of an insurance contract as it provides payments in installments for an initial investment, as opposed to the usual insurance contract of payment of lump sum, in return for regular installments of premium. However as in a regular life insurance contract, in annuities also, the fundamental principle of Law of Large Numbers plays a major role in the distribution of 'risks'. Within the annuities, there are several variations like Life Annuities, Annuity Certain, and Annuity for Life and Certain etc. Another version of an annuity is Tension'. The pensions are mainly created to give post-retirement benefits to the individuals when their income stops. In India especially, there is a great deal of potential for the growth of annuities and pensions as what has been achieved hitherto is precious little.

Policy servicing is a very vital function of the insurance companies, especially because of the long-term nature of the contract. As the policy holder has to wait for a very long period in order to get any tangible benefit, courteous and efficient service during the contract period goes a long way in keeping the customers' loyalty. The best service that can be rendered in an insurance policy is, of course a timely and hassle-free settlement of a claim. But there are several other services which the customer expects to be rendered during the policy period. Therefore a life insurance company's responsibilities in this aspect
A life insurance contract is an aleatory contract. It is based on the possibility of a chance of occurrence and, in all likelihood, one side will benefit more than the other. However, for life insurance to work, the insurer needs to remove as many variables as possible. This brings us to the final principle of insurance, which is fair and accurate risk assessment. Especially with individual insurance policies, coverage is issued based on the assumption of reasonable risk. This means insuring people who are generally in good health at the time of application. This is also why medical exams and blood samples are sometimes required. The company assumes that a certain percentage of insureds will die prematurely, which it deems as reasonable. However, if the companies were to issue policies on seriously ill applicants, it would lead to adverse selection and in the long run, life insurance would become prohibitively expensive. A number of factors are considered when evaluating a risk for insurance and establishing an equitable premium for coverage. Primary among these are health and medical history, occupation, amount of insurance, age, sex, lifestyle, and hobbies & avocations. The above are the key criteria in risk selection. They determine whether the risk will be accepted for coverage and, if so, at what rate. Risk evaluation is usually taken care of by the professional underwriters. Underwriting is a vast subject by itself.
Basically, insurance enables those who suffer a loss to be compensated for the effects of their misfortune. The payments come from a fund of money contributed by all the holders of individual insurance policies. In other words, individual risks are pooled and shared, with each policyholder making a contribution to the common fund. The contribution is known as the premium. Premiums are paid to insurance companies, which accumulate the money into the fund from which claims are paid. The loss is in fact paid for by the policyholder making the claim and also by all the other policyholders who have not had the occasion to claim. Insurers are professional risk takers. They know the probability of different types of risk happening. They can calculate the premiums needed to create a fund large enough to cover likely loss payments. Clearly, only a proportion of policyholders will require compensation from the fund at any one time. Charging the right amount of premium from a policyholder is a very important and fundamental requirement. Within a group of people, it is possible that different people project varying degrees of risk and hence premium should be commensurate with the risk that one projects. This concept leads to the principle of equitable premium (as opposed to equal premium). While there are several tools to arrive at a proper premium to be charged, there is need for constant verification of these rates as the factors that go into the setting of these premia (eg., mortality rates) are themselves dynamic. Added to this, the changing interest scenario, inflationary trends etc., have a bearing on the setting of premium.
Finally, the intricacies of designing a new product, in general, and an insurance product in particular need be delt with. Life insurance products being dependent on several statistical details of mortality and other related matter are not easy to be introduced every now and then. In order to obviate this problem, insurance companies depend mainly on the basic building blocks and make variation in the optional riders to come up with new products. The various combinations of these riders make up a host of products for the policy holders to choose from.

These different combinations; renewed standards of underwriting; cutting edge techniques in policy servicing and above all, the keen competition among the various insurance companies, both old and new, make life insurance business a very dynamic and a closely competed domain. With this volume we conclude our series on Life Insurance.

Life Insurance Corporation of India is one of the largest public enterprises in India. Public Enterprises in any country cannot perform all the economic and business activities efficiently. Even in a socialist country, public enterprises in all the fields cannot discharge their full responsibilities. Complete governmentalisation or nationalization will lead towards serfdom or anarchism. In absence of free will personal interests; the economic activities will not provide adequate and qualitative production. This is the reason that some troubles have started in some parts of USSR and China. In Indian conditions where we fra^e*
adopted mixed economy. Expecting too much from public enterprises will distort the economy and ultimately will lead towards wastage of precious resources. Supporting and subsidizing by the Government indirectly punish the tax-payers and the country-men. Therefore, it is the high time to recast our Industrial Policy and should consider the productivity and efficiency as criteria to continue a particular unit enterprises cannot be sustained as sacred cow without milk. Similarly, the unscrupulous private enterprises declaring themselves sick cannot be put on ambulance for a longer time. It is a matter of satisfaction that the Government has started taking pragmatic approaches to revive the productivity and efficiency base criteria for the development of an enterprise. The restrictions on utilization of full capacity by private enterprises are being removed gradually to increase production and productivity of economy. The public enterprises will have to come at the competitive of the private enterprises. If the formers are loosing in the efficiency and productivity criteria, they should be closed down and the price enterprises having more efficiency and productivity should be encouraged to increase production of the economy. The industrial policy that the public enterprises provide more employment opportunities although production is nominal should be changed to being them under productivity criterion. Providing employment of the sake of employment is adding fuel to the fire of inflationary trend in the economy because the productivity is very low. The Government decision to denationalize certain production undertaking is welcome step because
they rain idle without production or very small production. Other political parties should realize the gravity of productivity and discard the public enterprises for the sake of political system.\textsuperscript{10}

The new economic policy has set forth the ideals of liberalisation, privatisation and globalisation. Privatisation takes the form of disinvestments in various sectors by the government. The Government cannot perform all the functions with equal efficiency. The regulatory role, Promotional role, entrepreneurial role and planning role have not been fully discharged by Government. Barring few enterprises as envisaged in the Industrial Policy 1956, rest of the public enterprises should be returned back to the private institutions if their productivities are not improved to the level of a private enterprise. The government should concentrate more on regulatory and planning roles. The entrepreneurial role should be confined only to those areas where the private entrepreneurs are hesitant and cannot discharge their functions satisfactorily at national level. Non-profitable business activities, defence, transport, educations, communication and such types of public activities should be undertaken by the Government. W.A. Levis observed: "The nationalization of industry is not essential to planning, a government can do nearly anything its wants to do by way of controlling industry without resorting to nationalization". Neither state monopoly not private monopoly is desirable in the economy. The competition being the back bone of the productivity should be encouraged to promote the economy.
The competition may be between and amongst the public and private enterprises. The productivity and efficiency are the important criteria to permit the continuation of enterprises. The public enterprises in some areas perform better than the private enterprises and, therefore, should be permitted to continue to accelerate the growth of the economy. On the other hand, many public enterprises are wasting public money because of continuous loss and less production. Such enterprises should be handed over to the competent private companies. On the reverse, some private enterprises are at loss and declaring themselves sick. They should be taken over by the Government companies of the area or by the private houses as the circumstances and nature of the business may be prevailing at that time. The privatization may be done after analyzing the efficiency of the organization and their role in the economy. The problem of public enterprises, inefficiency of public enterprises and efficiency of private enterprises, are considered under privatization and efficiency.11

With the nation's infrastructure in a state of imminent collapse, India couldn't have afforded to be lumbered with sub-optimally performing monopoly insurance companies and therefore the passage of the insurance Regulatory and Development Authority Bill on December 2, heralds an era of cautious optimizes where stakes are high for all parties concerned. For the Govt. of India, Foreign Direct Investment (FDI) must pour in as anticipated: for foreign insurers, investments must start yielding returns and for the domestic insurance
industry—their market penetration should remain intact. On the fringe the customer
is pondering whether all the hype created on liberalization will actually benefit
him.  

The IRDA bill provides for the establishment of an authority to protect the
interest of the holders of insurance policies, to regulate, promote and insure
orderly growth of the insurance industry and amend the insurance Act, 1938,
the Life Insurance Act, 1956 and the General Insurance Business (nationalization)
Act, 1972. The bill allows foreign equity stake in domestic private insurance
companies to a maximum of 26 percent of the total paid-up capital and seeks to
provide statutory status of the insurance regulator. The insurance business in
India is pegged at $ 6.6 Billion whereas industry leaders feel privatization will
increase it to $ 40 Billion within next 3-5 years.  

India adopted the New Economic Policy in 1991 as a result of its
participation in General Agreement of Trade & Tariff (GATT). The Uruguay
round of GATT proved to be a landmark in the economic history of the country.
The role of WTO also increase the after the acceptance of Dunkel Report in
principle. This opened the new avenues of globalization, privatization and
liberalization as against the socialistic pattern of society adopted by India in its
constitution under the Directive Principles of State Policy. The Life Insurance
business was Nationalised as a result of the process of socialisation in 1956
when Dr. C. D. Deshmukh14 was the Finance Minister of India. The Life Insurance
Corporation of India has so far been working as a government monopolist in the field of life insurance business. But the new trend of \textit{lasseize faire} after the new economic policy led to privatization of life insurance business. This created the situation of monopolistic competition in life insurance sector. A number of new companies like ICICI prudential, Birla Sunlife, Bajaj Allianz, Max NewYork Life etc. entered the life insurance market. This brought new challenges in front of Life Insurance Corporation of India. Therefore, the researcher has in this study analysed the impact of new economic policy and the resultant privatization on Life Insurance Corporation of India.\footnote{15}

1.3 The Concept of Life Insurance:

In this section the researcher has presented an overview of the concept of Life Insurance with reference to its economic and ethical value.

\textbf{Economic Foundations of life Insurance}:

As already mentioned, Life Insurance was an offshoot of the constant search for economic security needed by the human race.

"Security can be thought of as peace of mind and freedom from uncertainty. Insecurity implies feelings of doubt, fear and apprehension. Security is measured by the probability that man's needs will be satisfied" S S Huebner in his book Life Insurance.
Security, i.e., economic security, therefore, relates to a man’s needs or wants. These needs or wants are never static. On the other hand, they are under constant threat of not being fulfilled. They undergo changes. Even priorities changes. Ultimately, satisfaction of these needs depends on the financial position of individual, his decision-making and the general economic environment of the society. These needs can be sufficiently provided as long as the financial positive of the person is stable. There are, however, many risks and uncertainties related to an individual’s financial position. Hence, there is always risk or uncertainty related to the satisfaction of one’s needs.16

Risks Factor:

What are these threats or risks to the financial stability to individuals? Let us consider the case of an individual (man or woman), who remains sing (which is not possible in most of the cases) i.e., a situation where the person has dependents. There still are risks to which he is exposed. First physical or mental disability. Once this condition sets I, the affected person faces Income-Stoppage. There will be no money even to meet basic physiological needs. Secondly, once the person retires from active work life, say at age 60 or 65, he will have similar problem to face. Income suddenly stops. He cannot depend on others. In both instances, he will meet what we may call an economic death. Physical mental disability, either due to disease or accident, cannot be foreseen.
Old age however, is not unforeseen. But ask any person who just retired from active life, whether he anticipated that situation. The most likely reply, in a vast major of cases, would be “it came so suddenly I feel as though I started my work-life on yesterday.” Time runs so fast that most individuals lose conscious of time which they are active and retirement suddenly stares at them and wakes them up from slumber. For a single individuals, death does not create any problems because he/she will have no dependents.\textsuperscript{17}

Let us consider a family man. Legally and morally he is bound to support to satisfy the needs and wants of all members of his family. Apart from upkeep, family desires to maintain a particular standard of living. Probably, they would like to improve and enhance that standard; then, education of children, marriage of daughters, start-in-life for sons, a roof over their heads, etc. If it is a tradition family, there will be additional responsibilities towards parents, brothers and sisters. In the same way as the individual who is single, a family man faces for twin risks to his financial position through

(a) Physical or mental disability, because disease or accident and

(b) Retirement from active work life.

But there is another imponderable risk, viz. death. An untimely and premature death of the bread-winner brings economic disaster to the dependent family. Let us be very clear that we are not talking here about the sentimental loss to the family, but only financial loss.
Economic Stability:

There are three ways in which these problems of either a single individual or a family man can be tackled viz.,

(1) Social Security Schemes of the Government

(2) Group efforts and

(3) individual efforts.

The first one viz., social security for all is still a far cry in our country. At the most, the Government can have some social security schemes for the socially and economically backward sections of the society i.e., for people below the poverty line. The Government of India has already introduced such schemes. The second one is group effort. This can be made available through Group Life/Accident/Health Insurance Schemes. But these are mostly limited to a few groups in the organized sector and therefore not widely prevalent.18

The third one is individual effort. This method alone holds a promise. Here each individual chalks out his own programs to provide economic security to himself and to the members of his family depending upon his own financial position. He will have to make his own personal financial plan and decide where he would like to invest his disposable income. Several instruments, offered by the state, public sector and private sector, are available in the market. And one instrument, best suited to meet any kind of eventuality or contingency, for this kind of effort is Life Insurance. As Miles M Dawson wrote in his *The Business*
of Life Insurance, “There is noting more uncertain than life and nothing more certain than Life Insurance.”19

Human Life Value:

No discussion on the basis economic risks faced by individuals and how then should be met is complete without mention of the concept of Human Life Value. Ever since it was proposed by Late S S Huebner20 in 1924, this concept has revolutionized the general perception of life insurance. This concept attempted change materially the widely held view that -

(1) Life Insurance is essentially and physical-death proposition with no profit to the premium payer and

(2) Life Insurance selling does not require professional counselling.

Human Life Value concept is one segment of the general theory of human Capital. People are an important element in a Nation’s wealth. They acquire knowledge and skills which have economic value. Combined with other human investment, a Human Capital is formed. The productive superiority of the technically advanced countries is predominantly because of this Human Capital. In the olden days in the USA, the concept of human life value was used to determine the compensation to be allowed to the relatives of an individual killed by a third party. Subsequently, the valuation of human life in connection with legal actions seeking recovery for wrongful death gained considerable
prominence. Sir William Petty\textsuperscript{21} (1623-1687) was the first Economist to be credited with using the concept of the economic value of man. In 1853, Sir William Farr\textsuperscript{22}, an Economist and Statistician, derived the first set of equations used to describe the human life value. In so doing, he laid the basic foundation of the theory as it is known today.

It was not, however, until 1920s that the concept of Human Life Value became established as the economic foundation of Life Insurance. Let us now consider the elements of this concept.

The primary purpose of life insurance is the protection of the family. Every family is dependent for subsistence upon income. In some cases, income may be derived from the return on investments or inheritance. But in an overwhelming majority of cases, the subsistence of the family depends upon the current earnings of the breadwinner. He or she is the breadwinner who has assumed responsibility or the support of dependents. The dependent family members have a right to look to the breadwinner for adequate maintenance. His or her life has an economic value to the dependents. It is this value of one life in relation to another that justifies the existence of life (and health) insurance.

Human Life Value is subject to loss through a number of serious risks including

(i) Premature Death

(ii) Temporary Disability
Any event affecting an individual’s earning capacity has a corresponding impact on his or her Human Life Value.

While Human Capital is the productive potential of an individual, Human Life value is a measure of the actual future earnings of an individual. It is the Capitalized Value of an individual’s net future earnings after subtracting self-maintenance costs.

1.4 Life Insurance Business in India:

Insurance business was established in India for the first time in the year 1938 under private partnership. The private partnership life insurance covered only few segments and established 245 branches all over the country. Due to non-coverage of common people and as a result of Nationalization of financial sector the Life Insurance Corporation was established. Life Insurance Corporation was set up in 1956 as a result of amalgamation of 245 insurance companies and it is governed by the Insurance Act, 1956.23

This section is devoted to review the growth and development of Life Insurance in India. It gives a brief account of the history of its development. The section is divided into following part -
1. **Life Insurance Prior to Independence**

   Life insurance in its modern form came to India from England as far back as in 1818. The first insurance company on Indian soil, namely the Oriental Life Insurance Company was started in Calcutta mainly by Europeans, to help the widows of their community. It was through the efforts of Babu Muttyalal Seal, one of the directors, that his friends in Oriental were prevailed upon to insure Indian lives. It was Raja Ram Mohan Roy, father of Indian renaissance who, moved by the revolting practice of Sati and seeing the sad plight of desperate widows and helpless orphans, appealed to his wealthy friends through the columns of the Calcutta Journal in 1822, to start an Institution of your own to maintain our poor widows and orphans. Prince Dwarkanath Tagore, Ramtanu Lahiri, and Rustomji Cowasji took an active part in the development of insurance business in this country in the early years.²⁴

   To quote from Welford's Encyclopedia²⁵: "Bombay Life Assurance Company was founded in Bombay on May 1, 1823. Madras Equitable was founded in 1829. Madras Widours was started in 1834. Medical Invalid and General was established in the United Kingdom in 1841 and soon started operating in India. It took over New Oriental in 1853. It also later took over the
Agra Insurance Company, Family Endowment and Indian Laudable. The entire amalgamation of these five companies was absorbed in the Albert Life Assurance Company in 1860 which went into liquidation in 1869.

In fact, the Universal Life Assurance Company which started operation in 1840 in India, was taken over by North British in 1901 and became a part of Life Insurance Corporation in 1956. That carries the history of insurance even beyond 100 years. The Christian Mutual, founded in the Punjab, and the Tinnevelly Diocesan Council Widows Fund of Madras which started as early as 1847 and 1849 respectively, also became part of LIC in 1956. The Bengal Christian Family Pension Fund, which started in Calcutta in 1852, was absorbed by LIC in 1956. These companies had a hundred years of experience even before LIC was formed.

The period of fifty years commencing with 1818 was one in which sincere efforts were made to find ways and means to write Life business scientifically. In the absence of mortality data, the writing of Life business was haphazard. This was a period of trial and tribulation and a number of companies were absorbed by other companies, or were forced into liquidation. In England, during the period 1824 to 1868, 285 companies were formed and of these 174 had ceased to exist by 1870. The British Parliament enacted the Insurance Act of 1870 to counter this evil. The main provisions of the Act were that: 

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a) All life offices should make uniform statements every year in prescribed form and actuarial reports periodically,
b) A deposit of £20,000 was compulsorily to be made for every company; and
c) Composite companies should maintain separate life funds.

Some provisions were also incorporated in the Act to provide legal protection to policyholders. The work done between 1818 and 1870 laid the foundation for writing life business in India and paved the way for promotion of Indian companies.

'So far, the Indian companies were not governed by any Act. Except by the Indian Companies Act passed in 1866 by the Government, which covered all companies, including insurance companies.

The year 1870 heralded the birth of the first Indian insurance company, the Bombay Mutual Life Assurance Society, which came into existence to cover Indian lives at normal rates. During the earlier period, Indian lives were treated as sub-normal and loaded with an extra premium of 15 to 20 percent. This was the first attempt to provide insurance on a countrywide scale at normal rates, since, up to then, the European insurance companies considered Indian lives inferior to European lives.28

On 3rd December, 1870, G.A.Summers, Asstt. Registrar, Bombay High Court, gathered six of his personal friends around him and the seven earnest
men, seven willing pockets, just seven rupees for initial expenses gave shape to a plan offering insurance without the risk of ruin and the Bombay Mutual Life Assurance Society came into existence. With George Gahagan, Chairman, Nathaniel Spencer, Director and Secretary, Nana Bapu Joshi, Auditor Pandit Ishwar Chandra Vidyasagar a noted social reformer and educationist, founded the "Hindu Family Annuity Fund" in 1872 in Calcutta. This company was started to give financial help to Hindu widows and orphans through annuities. The history and growth of the Fund was in some ways the history of the public life of Bengal for over 80 years, and a galaxy of public men were associated with it.  

The fund was created by voluntary donations and by subscriptions, to provide for all the maintenance of the parents, widows, children and other relatives.  

The next most important Indian life office was the Oriental Government Security Life Assurance Company which was established on May 5, 1874 by a distinguished Actuary Mr. D.M.Salter, Sir Phirozshah Mehta was one of its founder directors. Mr. Slater could visualize the importance of the role that life insurance was destined to play in Indian economy and he set out to introduce it in an organized manner.

2. Life Insurance After Independence:

This section gives a brief historical review of the development of LIC after independence.
'Soon after the winter session of the Parliament in 1954 the AICC Session at Avadi in January, 1955, formally adopted Socialistic Pattern of Society as the objective motto. They also urged the nationalization of life insurance business. As Dr. C. D. Deshmukh\textsuperscript{31} writes: "My thoughts had been running in that direction (for nationalization of life insurance) for several months during 1954 and I had asked Shri K.G. Ambegaonkar, Secretary. Economic Affairs to do the preliminary exploration... and subsequently to his successor Shri H.M. Patel to get on with the job energetically with his well-known dynamism. Patel had drawn up the plan ready for being put into effect at short notice". He further mentions "Seth Ramakrishna Dalmia's extraction of Rs. 2.25 crore (misappropriation by the Bharat Insurance Company) had occurred in the middle of the month (January 1956) but the amount was recovered. This was a heaven sent opportunity for achieving the nationalization of life insurance that H.M. Patel and I had been working on during the previous months. We were ready to nationalize with every detail worked out, including orders to our officers to travel and take over as soon as the Ordinance was issued". It was clear that Shri Deshmukh had more or less made up his mind.

On submitting the Controller's report Shri Ambegaonkar, Secretary, Economic Affairs, commented, "Surprisingly, the official view is enthusiastically in favour of nationalization". Since the normal tendency of Government servants was to adhere to the status quo, this comment by Shri Ambegaonkar was under
Normally, the first step in implementing a momentous decision like this would have been to place the matter before the Cabinet, for approval. Such a step would, however, have greatly endangered secrecy as, in the process of circulation, the papers are sometimes seen by others as well. Dr. Deshmukh, therefore, decided to seek the Prime Minister's approval, leaving the reference to the Cabinet to a later date.

He conveyed to the Prime Minister that in the Finance Minister's opinion, too, the time was ripe. Within less than a week came the enthusiastic reply, to nationalize life insurance immediately. When Shri M.J. Rao was appointed Administrator of Empire and Jupiter companies, the countrywide publicity made the task of keeping the nationalization project secret more difficult, especially in the last stages of the work.

Taking advantage of this incident, the Controller of Insurance required all insurers transacting life insurance business to furnish audited statements of the assets belonging to their life insurance business. This, of course, was not a case of locking the stable after the horse has gone, but the purpose was to enable Government to compare, after the companies had been taken over, the composition of the assets taken over, with those shown in the audited statements. Any significant differences coupled be pursued and last minute deflection of assets by astute managements foiled.
The 'D-Day' neared. The blue print was ready. Consultations with the Attorney General and the Law Ministry then followed, and the scheme was sent to the chief draftsman for the drafting of the ordinance, which he did in an unusually short time.

On the historic day 19th January 1956; when everything was ready and it was time to fix the appointed day. When the All India Radio announced that the Finance Minister Shri C.D. Deshmukh would broadcast to the nation at 8.30 p.m. that day, nobody had any idea of what he was going to talk about. Most people thought that he would be talking on the problems of Bombay State Reorganisation, a burning topic of the day. But they heard him say.

This afternoon the Government have promulgated an ordinance regarding life insurance. All life insurance companies, Indian as well as foreign, doing business in India came under Government management and control. This is the first and preparatory step towards the nationalization of life insurance. It will be followed by the more elaborate action called for and it is proposed to place before the next Session of the Parliament a Bill for the Nationalization of this important sector of insurance business. Both in respect of the short period during which the management of the companies will vest in the Government, and in respect of the ultimate assumption of the proprietorial rights over them, reasonable compensation will be paid by Government.
Explaining the rationale of the action, he said: “The Planning Commission, in order to organize the credit system of the country, envisaged the need of the involvement of the whole mechanism of finance such as the banking system, insurance, the stock exchange and other institutions connected with investment, for it is only thus that the process of mobilizing savings and utilizing them to the best advantage becomes socially purposive”.

“Nationalisation of life insurance is a further step (after the nationalization of Imperial Bank) in the direction of more effective mobilization of the people’s savings.”

“With a second plan in the offering, involving an accelerated rate of investments and development, the widening and deepening of all possible channels of public savings has become more than ever necessary. Of this process, the nationalization of insurance is a vital part”.

Shri. Deshmukh concluded his address with a cherished hope that the nationalization of life insurance would be another milestone on the road the country had chosen in order to reach its goal of a socialistic pattern of society. “Into the lives of millions in the rural areas, it will introduce a new sense of awareness of building for future in the spirit of calm confidence which insurance alone can give. It is a measure conceived in a genuine spirit of service to the people. It will be for the people to respond, confound the doublers and make it a resounding success.
Life Insurance - From Nationalization to Privatization:

This was the first step taken towards the nationalization of life insurance business in India. On 20th January, 1956 all life insurance companies were taken over by 43 nominated custodians. The custodians were experienced senior executives of private insurance companies, reporting directly to the Finance Ministry. From the word go, the complex task of running the industry on a permanent basis and continuing the services to policy holders without interruption were their major concerns. The actual work of integration had to await legislation. The custodians managed the insurance companies till 1-9-1956, when Life Insurance Corporation was established under the general direction and control of the Ministry of Finance.36

The Ordinance provided for the transfer of the control of 154 Indian Insurers, 16 non-Indian insurers and 75 provident societies. These arrangements were designed to ensure that no inconvenience whatsoever was caused to the policy-holders. With the Government take-over the management aimed towards the evolution of a common uniform premium rate, policy conditions and service and working procedures and above all to help promote team spirit.

Well-Guarded Secret:

Top Government decision to nationalize life insurance was a well-guarded secret. The arrangements to implement the provisions of the proposed ordinance
had been well-planned in extreme secrecy. Preparation for the nationalization was done very meticulously, secretly and efficiently. Dr. Deshmukh recalls in his autobiography: "I sent H.M. Patel to the Commerce and Industry Minister (Shri T. T. Krishnamachari) to obtain his concurrence, secure the Prime Minister's approval and announce on the radio without letting the Director General of All India Radio see the script, that life insurance was going to be nationalized. An Ordinance had been kept ready for the President's signature and was issued the same night. The next morning at 9.00 a.m. our officers, according to instructions, walked into the respective insurance offices, showed their authority and took over the business. Life insurance had been nationalized. I believe that the introduction of this will be regarded as one of the best kept secrets of the Government of India in all times to come".37

Different Reactions:

The nationalization of life insurance was received very warmly and with high expectations by the entire nation. Insurance workers too were very happy with this decision. The President of the All India Insurance Employees, Association Shri Rajni Patel in a telegraphic message to the Finance Minister, dated January 20, 1956 congratulated him and assured full cooperation of the employees.38
A leading journal Capital, in its Republic Day issue, wrote: “Both Insurance
and Banking should be nationalized wholly because both these institutions are
like the linch-pin of the applecart of our national economy. They control the
levers of national development and they constitute very vital elements in our
national life”.

We discussed the matter and I think it is a good decision from the point
of view of our Five-Year Plan and also from the point of view of our objective of
a socialistic pattern of society. So we take steps, one by one, consolidate them
and prepare for the next step, in a practical way, not talking too much about
nationalizing everything and socializing everything”.

It was often argued as to why was it necessary to take over management
through promulgation of an ordinance. The Finance Minister explained, “After
the Government had reached the decision to nationalize, this issue was debated
whether any interim measures were necessary until Parliament discussed the
relevant issues and passed the necessary legislation. Considering the nature of
insurance business and the sensitive aspect of its investment, Government felt it
necessary to immediately take over the insurance business by an Ordinance.
The precaution was taken, in the light of past experience, to prevent a serious
frittering away of the assets. It was feared that the insurance managements
may use dubious ways to enrich themselves, perhaps at the expense of
policyholders. A transaction might have been shown back dated, the documents
manufactured to cover any misappropriation. Anticipating all this, the Government did not allow them to adjust the books of insurance companies. “As Dr. Deshmukh had informed the Parliament, “Indeed complaints have reached my ears emanating from some managements that it was a pity that they did not have another 24 hours in order to adjust the accounts”.

Delay in the process of legislation to nationalize would have created other complications. Even the better type of management would have lost interest in their companies and thereby the interest of policyholders might have suffered in consequence.

The Slogan and the Symbol:

There was a keen search to choose a motto for the organization and to design a suitable logo. Shri A. Rajagopalan recalls: “Soon after the enactment of the LIC Bill, the question of choosing a motto for LIC was considered by Shri H.M. Patel. When Shri S. Ananthachari, senior stenographer to the Principal Finance Secretary suggested the last quadrant of the verse 22 of Chapter IX of the Geeta, everybody appreciated it. The verse is as follows:

अनन्याशिशितंतर्यमां ये जनाः पर्युपासते ।
तेषां नित्याभिभुक्तानां योगक्षेमं वहाम्मशहम ॥

“As for those who worship me, thinking of me alone and nothing else, ever attached to me, I bear the burden of getting them what they need/or for
getting them what they have no and guarding/protecting for them what they have."

"The context in which the word has been employed as the motto of the LIC, one can interpret this word ‘Yogakshema’ from two different standpoints. If looked at from an individual policyholder’s point of view would appear, it is he who practices Yoga, by working hard, day and night and earning, which he had not done before, while it is that carries on his (policyholder’s) Kshema by assuring safety and security. Looked from a collective point of view, of the country as a whole, it is LIC which practices both Yoga and Kshema. It collects a vast amount of wealth from its innumerable policyholders by way of premium and ensures the welfare of the whole country, including, of course, the policyholders by investing and directing the funds in activities which contributes to the economic prosperity of the country. Looked at from either angle, the ideal of Yogakshema, signifies the willing well-meaning and spontaneous joint partnership between policyholder and LIC, for the general well-being of the whole country, Saga of Security.

A lively discussion followed amongst the officials, recalls Shri A. Rajagopalan, of it were appropriate to adopt it in the undue sense of insurance. A suitable modification was suggested in the wordings. The Finance Minister Dr. C. D. Deshmukh, a Sanskrit scholar himself, vetoed the move. "As you have borrowed a quotation from the Scripture don’t tinker with it."
The protective hands of Life Insurance and assuring continuance of the glow of life (symbolized by the luminous flame of a lamp) is the insignia of Life Insurance Corporation of India. This was designed by the Advertising and Sales Promotion Associates, a leading advertising agency.

The Bill to provide for the nationalization of life insurance business in India was introduced in the Lok Sabha on 18th February, 1956 as a Finance Bill. It was referred to the Joint Select Committee of the Parliament on 19th March, 1956 after due discussions, After the Select Committee report, it was taken in the Lok Sabha on 18th May, 1956, the Lok Sabha adopted the motion. After its discussion in the Rajya Sabha also it was referred to the President for his assent. The Bill became an Act on 1-7-1956 after the Presidential assent the country’s economy promoted and more funds provided for economic development.

However, the bold step of nationalization taken in 1956 could not maintain the situation after 1991 when India adopted the New Economic Policy after its entry into GATT i.e. General Agreement of Trade & Tarriff, Uruguay Round also known as The Dunkel Report. The political fall of USSR diverted the Indian mind from socialism to capitalism. WTO gradually took hold of the Indian economic policy after 1991. The New Economic Policy had the guiding principles of Globalization, Privatization and Liberalization instead of the socialistic pattern of society as adopted in the directive principles of state policy of the Constitution.
of India. This resulted in the entry of a number of private companies in the Life Insurance sector. Thus, the story of Life insurance in India starts from privatization comes to Nationalization and again turns upto Privatization. This is in short the saga of the philosophy of insurance in India.

1.5 Objectives of Study:

The objectives of the present study are as follows:

1. To present a historical overview of the concept of insurance.
2. To present a profile of area under study i.e. Nanded District.
3. To study the insurance system in India with special reference to life insurance.
4. To present an overall profile of Life Insurance Corporation of India since foundation to the present times.
5. To review the performance of Life Insurance Corporation of India during the period under study with special reference to Nanded district.
6. To study the role of government in life insurance business.
7. To study the problems faced by Life Insurance Corporation of India as a result of the new economic policy.
8. To study the nature of competition in life insurance business arising out of
   privatization with special reference to Nanded district.

9. To present conclusions & give suggestions / recommendations.

1.6 Limitations of Study:

The limitations of the present study are as follows:

1. The study is limited to Nanded district from a geographical point of view.

2. The study is limited to a period of 5 years from 2000-01 to 2004-05.

3. The study is limited to LIC of India.
   These are the limitations of the study.

1.7 Statement of Hypothesis:

The hypothesis of the present study are as follows:

1. The new economic policy of privatization has exercised a positive impact on
   the performance of Life Insurance Corporation of India.

2. The New Economic Policy of Privatization has exercised a positive impact on
   the approaches & attitudes of LIC agents.

3. The New Economic Policy of privatization has diverted a number of customers to away from LIC

4. The New Economic Policy of privatization has created needs of strategic reconsideration for LIC.
   These are the hypothesis of the study.
1.8 Methodology of Research:

The present research work is a study of the impact of privatization on Life Insurance Corporation of India (LIC) with reference to Nanded district during the period of 5 years from 2000-01 to 2004-05. This is an explorative, descriptive, analytic study based upon historical data. This is also an empirical study. Therefore the research model selected is that which is suitable for such type of study. The research methodology adopted is as follows:

A) Primary Data: This study is based upon primary data. Primary data is the foundation of this study. The researcher has collected primary data by means of personal visits and questionnaires. Following questionnaires were prepared.

1. Questionnaires – ‘A’ – Customers of LIC
2. Questionnaires – ‘B’ – LIC Agents / Officers

The researcher visited the LIC officers at the selected sample branches. The data was collected, classified, tabulated and presented in graphic form. It was subjected to analysis & interpretation techniques by use of statistical methods.

B) Secondary Data: This study also uses secondary data. Secondary data is also one of the foundations of this study. The researcher has collected
secondary data from the published sources. The researcher has used following sources.

1. Annual reports of LIC of India
2. Annual reports of Private Insurance Companies working in Life Insurance Sector
3. Report of private research institutes and government committees like IRDA.
4. Various journals, periodicals, newspapers, Internet.

The secondary data was also analyzed and used for presentation of conclusions.

C) Statistical Methods Used:

The study has used various statistical methods such as Collection and classification of data, Tabulation of data, Graphic presentation of data, Use of percentages, averages, etc. Statistical inference and logic for testing of hypothesis, The test of significance whereever necessary are used.

Thus the researcher has used various statistical methods for analysis and interpretation of data.

D) Size of Sample:

This study is an empirical study. It is based upon sample survey. The researcher has used strategic convenience sample randomly selected. The following method has been adopted.
There are 16 talukas in Nanded district. The researcher has selected 50% sample of the taluka. Further the researcher has selected one branch office of LIC of India from each taluka. Thus, a sample of 8 commercial LIC branch offices. The researcher randomly selected 20 LIC customers from each taluka and 10 LIC Agents from each taluka. Thus, the total sample size was 160 customers and 80 agents.

1.9 Chapter Scheme of the Thesis:

The thesis is divided into following chapters.

Chapter - I – Introduction:

This chapter gives an analytic introduction to the subject matter under study. It gives statement & significance of the problem under study. It describes the nature and scope of the topic. It also states the objectives and limitations of the study. The Hypothesis of study are stated. The methodology of research is also described. The chapter scheme is also stated.

Chapter - II – Review Of Literature:

This second chapter present the review of past studies related with the subject matter under study. This chapter gives an indepth analytic sketch of the literature connected with the subject matter under study.
Chapter - III: Profile of Nanded District

This chapter gives a historical sketch of Nanded district. It reviews the geographical aspects of the area under study. It also presents agro-economic environment with special reference to present insurance scenario.

Chapter –IV: Life Insurance Corporation of India

This chapter gives and introductory profile of Life Insurance Corporation of India as a whole. It gives a brief idea of the historical development of the life insurance sector before and after independence. It gives an analytiv view of the role of the insurance system with reference to life insurance in India. The chapter also reviews the overall performance of Life Insurance Corporation of India.

Chapter - V : Impact of Privatization on Life Insurance Corporation of India - I

This chapter is based upon the analysis and interpretation of primary and secondary data. This chapter covers performance analysis of sample branches of LIC in Nanded district for the period of 5 years i.e. 2000-01 to 2004-05.
Chapter - VI: Impact of Privatization on Life Insurance Corporation of India - II

This chapter presents the various problems related with Life Insurance Corporation of India. The issue is analysed with reference to the impact of new economic policy and the resultant privatization. The chapter is based upon primary data.

Chapter - VII: Conclusion and Recommendations:

This chapter presents the conclusion based upon the analysis and interpretation of data. It also gives suggestions and recommendations for development of life insurance business in Nanded district. The hypothesis is tested and proved. It gives further guideline of research. It is expected that this study will help further research in this subject.

Bibliography and Questionnaire are annexed in the Appendix.

Notes & References:


32. Dharmendra Kumar, Ibid. Pp. 28.
33. Dharmendra Kumar, Ibid. Pp. 28.
34. Dharmendra Kumar, Ibid. Pp. 29.
41. Dharmendra Kumar, Ibid. Pp. 32.
42. Dharmendra Kumar, Ibid. Pp. 33.