Chapter-III

LIC and Its Business
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LIFE INSURANCE CORPORATION AND ITS BUSINESS

Introduction

The corporation was established by an Act of Parliament, which received the assent of the President on 18th June 1956. The Act came into force on 1st July 1956 and the corporation began to function w.e.f 1st September 1956. Till recently the corporation is having the exclusive privilege of carrying on Insurance business in India. The corporation is an autonomous body and has necessarily to run on sound business principles. The corporation has been fully carrying out the role assigned to it and justifying the confidence of the public by offering adequate security at reasonable cost, dependable service, economic management and favorable returns to the nation at large.

It will be appropriate to quote here the words of the then Finance Minister, shri, C.D Deshmukh, from his broadcast to the nation on the eve of the promulgation of the Insurance. [Emergency Provision] ordinance 1956. He said; “The nationalization of Insurance will be another milestone on the road the country has chosen in order to reach its goal of a socialistic pattern of society. In the implementation of the second five-year plan, it is bound to give material assistance. Into the lives of millions in the rural areas, it will introduce a new sense of awareness of building for the 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 doubters and make it a resounding success”.

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The nationalization of insurance is aimed at widening the channels of public savings and is an important step towards mobilizing these savings more effectively than heretofore, to finance the National Plans. Nationalized insurance, in brief, is designed to bring to the door of even the humblest citizen, wherever he may be the benefits of this social service, to ensure complete security of the funds collected by way of premiums and to utilize profitably such funds for nation-building activities.

The corporation’s central office is located at Mumbai. There are 7 Zonal offices one each at Mumbai, Kolkatta, Delhi, Kanpur, Hyderabad, Chennai and Bhopal. At present the corporation has 100 Divisional offices and 2048 Branch offices in India. In addition, there are overseas offices at U.K, Fiji, Nepal, Kenya, Sri Lanka, Myanmar and Mauritius in territories outside India.

Advantages of Insurance Business

It is Superior to an Ordinary Savings Plan

This is so because unlike other savings plans, it affords full protection against risk of death. In case of death, the full sum assured is made available under a life assurance policy, whereas under other savings schemes the total accumulated savings alone will be available. The latter will be considerably less than the Sum assured, if death occurs during easily years.

Insurance encourages and forces thrift

A savings deposit can be to easily withdrawn. Many may not be able to resist the temptation of using the balance for some less worthy purpose. On the other hand, the payment of interest on a mortgage. Thus insurance in effect brings about compulsory savings.
Easy settlement and protection against creditors

The life assured can name a person or persons to whom the policy moneys would be payable in the event of his death. The proceeds of a Insurance policy can be protected against the claims of the creditors of life assured by effecting a valid assignment of the policy. A Married Women’s Property Act policy constitutes a trust in favour of the wife and /or children and no separate assignment is necessary. The beneficiaries are fully protected from creditors except to the extent of any interest in the policy retained by the assured.

Administering the legacy for beneficiaries

It often happens that a provision which a husband or father has made through insurance is quickly lost through speculative or unwise investment or by unnecessary expenditure or luxuries. These contingencies can be provided against in the case of insurance. The policy holder can arrange that in the event of his death the beneficiary should receive, instead of a single sum i) Payment of the net claim amount by equal installments over a specified period of years, or ii) payment of the claim amount by smaller monthly installments over the selected period followed by a lumpsum at the end thereof.
Ready marketability and suitability for quick borrowing

After an initial period, if the policyholder finds himself unable to continue payment of premiums he can surrender the policy for a cash sum. Alternatively, he can tide over a temporary difficulty by taking a loan on the sole security of the policy without delay. Further, an Insurance policy is sometimes acceptable as security of the policy without delay. Further, an Insurance policy is sometimes acceptable as security for a commercial loan.

Tax Relief

For computing income tax the Indian Income Tax Act allows deduction from Income Tax payable, a certain percentage of a portion of the taxable income of individuals or Hindu Undivided Families, which is diverted to payment of insurance premiums. When this tax relief is taken into account it will be found that the assured is in effect paying a lower premium for his Insurance.

Insurable Interest

It is sometimes argued that insurance is a sort of gamble, in as much as it enables a person to have a chance regarding the receipt of a large sum of money on the occurrence of a contingency such as fire or death, by paying a small amount of premium. The purpose of insurance is to protect the insured against losses resulting from hazards beyond his control.
The Principle of indemnity cannot be applied and does not apply to an Insurance contract because of the difficulty of putting a monetary value on the human life.

Such insurable interest must be a pecuniary interest and its amount is to be measured by the pecuniary loss, which the person for whose benefit the insurance is affected will sustain by reason of the death of the life assured. Moral obligations or duties owed to the assured are not sufficient to sustain insurable interest.

a) A person has insurable interest in his own life to an indefinite extent.

b) Wife has insurable interest in the life of her husband and the husband in the life of his wife.

c) A parent has no insurable interest in the life of his child, qua-child, the child has no insurable interest in the life of his parent, qua-parent,

d) Nor have brothers or sisters insurable interest in each other's lives qua-sisters or quo-brothers [qua means to be in the capacity of

e) An employer has an insurable interest in the life of an employee of his and vice versa.

f) A creditor has insurable interest in the life of his debtor upto the amount of the debt.

g) A partner has insurable interest in of the capital contracted to be brought in by his co-partner.

h) A surety has insurable interest in the life of his co-surety to the extent of the proportion of his debt and also in the life of his principal debtor.
It should be noted that, ordinarily where a proposal is on the life of another, the proposer must have an insurable interest in the life to be assured.

**Contract of Insurance**

A contract of insurance is a contract of utmost good faith technically known as uberrima fides. The in this important principal which applies to all forms of Insurance. The proper, which is one of the parties to the contract, is presumed to have means of knowledge, which are not accessible to the corporation, who is the other party to the contract. Therefore, the proposer is bound to tell the insurer everything affecting the judgment of the insurer, no matter how so ever unimportant it may seem to him. In all the contracts of insurance the proposer is bound to make full disclosure of all material facts and not merely those, which he thinks material. Misrepresentation, non-disclosure or fraud in any document leading to the acceptance of the risk automatically discharges the corporation from all liability under the contract. Although section 45 of the Insurance Act, 1938 provides that no policy can be called in question after a period of two years from the date of its issue on the ground that any statement in the proposal or a related document was false or inaccurate this provision is not applicable if the corporation can prove that misrepresentation or non-disclosure was on a material fact and was fraudulently made and that the policy holder knew at the time that the statement he made was false. It is therefore, in the interest of would be policyholder to disclose all material facts to the corporation to avoid any complications when the claim arises.
It is equally obligatory on an agent to see that the assured does not obtain the contract by means of untrue representation or concealment in any respect. It is the duty, which the agent owes both to his client and to the corporation.

Object of Insurance

The corporation would normally entertain proposals for assurance where the object of assurance is:

i) Family Protection

ii) Provision for old age or

iii) In exceptional cases, the object of insurance may be:

   a) To serve as security to educational funds in respect of loans advanced for educational purposes or

   b) To provide donations to charitable institutions like hospitals and schools.

Where it is desired to affect insurance with a view to securing a loan for business purposes, the question as to whether the proposal would be entertained or not would entirely depend on the individual merit of each case. In such cases, the corporation must be satisfied that the income of the assured is sufficient to meet the premiums, interest on loan and instalments for liquidating the loan. The corporation should also be informed as regards the amount of loan raised or to be raised, whether the borrower will be paying the premiums and whether the policy will be the only security.
Moral hazard

Although from the statement made in the proposal form, personal statement and medical report the corporation is in a position to gauge the risk involved because it can ascertain these from the age, sex, occupation, physique and present condition of health of the individual, the risk of death in the case of a particular proponent depends also on other factors such as his own personal habits, has standard of living, income etc. To this extent the corporation is dependent upon the agent for a true and correct picture of the individual to be given in the Agent’s confidential Report, which is required to be completed in all cases.

The income of a proposer plays a very important part in deciding the moral hazard involved in acceptance of the risk on his life. Moral hazard would operate in cases where there is no genuine need for insurance.

Policy of Life Insurance Corporation

Life Insurance Corporation offers life insurance protection under group policies to various groups such as employer, employee, professionals, co-operatives, weaker sections of the society, etc. It also provides insurance coverage to people at subsidised rates under social security group schemes. Besides providing insurance coverage, the corporation also offers group schemes to employers, which provide fund for the management of gratuity and pension liabilities of the employers.
The main features of the schemes are low premium, simple insurability conditions such as employee not being absent from duty on grounds of ill health on the date of entry and easy administration by way of issue of a single master policy covering all the employees / members. Premiums are based on age, combination of the member’s occupations and working conditions of the group. However, there are certain conditions as to minimum group size and the minimum participation to make the scheme viable. The standard schemes offered by Life Insurance Corporation are as follows.

**General**

1. Group Term Insurance Schemes
2. Group Insurance Scheme in lieu of Employee’s Deposit Linked Insurance (EDLI) Scheme.
3. Group Gratuity Scheme
4. Group Superannuation Scheme
5. Group Savings Linked Insurance (GSLI) Scheme
6. Voluntary Retirement Scheme

**Social Security Schemes**

i. Jan Shree Bima Yojana
ii. Swarn Jayanti Swarojgar Scheme
iii. Krishi Shramik Samajik Suraksha yojana 2001
During the year 1989, corporation established the following institutions:

i. **Life Insurance Corporation Mutual Fund**

For Life Insurance Corporation Mutual Fund schemes an asset management company Jeevan Bima Satyog Asset Management Company ltd (JBS AMC) was incorporated on 20-04-94.

ii. **Life Insurance Corporation Housing Finance Ltd.**

iii. **Life Insurance Corporation E.C. in Bahrain as a Joint Venture**

**Details of Schemes Are Available In the Diary of Life Insurance Corporation**

In the year 2001 corporation (with 55Percent shareholding) has established Life Insurance Corporation Nepal as a joint venture.

The sums assured by all policies issued by the corporation including any bonuses declared in respect thereof are guaranteed as to payment in cash by the Government of India. This provides unimpeachable security to the insuring public.
Policies to be guaranteed by Central Government

The sums assured by all policies issued by the corporation including any bonuses declared in respect thereof and, subject to the provisions contained section 14 the amounts assured by all policy issued by any insurer the liabilities under which have vested in the corporation under this act, and all bonuses declared in respect thereof, whether before or after the appointed day, shall be guaranteed as to payment in cash by the Central Government.

Section 37 of Life Insurance Corporation Act 1956

The corporation is, once every year, required causing an investigation to be made by Actuaries into the financial condition of its business including evaluation of its liabilities and submit the report of the Actuaries to the Central Government.

Out of the surplus disclosed as a result of such an investigation, 95 percent thereof or such higher percentage as the central government may approve, will be allocated to or reserved for the Life Insurance policy holders of the corporation and the remainder after meeting the liabilities of the corporation if any, which may arise under section 9 of the Life Insurance Corporation Act, will be paid to the Central Government or if the Government so directs be utilised for such purposes and in such manner as the Government may determine. The manner in which the surplus allocated to the policy holders is to be distributed will be determined by the valuing Actuary.
Some Insurance Schemes

i). Salary Saving Scheme

The salary saving scheme provides for payment of premiums by monthly deduction from the salary of the employees by the employer. In terms of this scheme, the additional charge of 5% percent of the premium usually added for the monthly mode of payments will be waived. Details of the scheme may be ascertained from the office.

ii) Accident Benefit

Accident Benefit provides for payment of an additional benefit equal to the sum assured in installment on permanent total disability and also waiver of subsequent premiums payable under the policy. It also provides for payment & an additional amount equal to the sum assured in case of death by accident. In case of a policy entitled to this additional benefits, while it is in force for full sum assured and before the expiry of the period for which premium is payable or before the policy anniversary on which the age nearer birthday of the life assured 35, whichever is earlier, if the life assured is involved in an accident resulting in either permanent disability or death and the same is proved to the satisfaction of the corporation.
Accident benefit

(Some important points)

<table>
<thead>
<tr>
<th>Table No.</th>
<th>Name of the plan</th>
<th>Maximum A.B</th>
<th>Maximum Limit overall or exclusive</th>
<th>A.B. Premium - Per 000 S.A.</th>
<th>Remarks</th>
</tr>
</thead>
<tbody>
<tr>
<td>89</td>
<td>Jeevan Sathi</td>
<td>Rs.25Lakhs.</td>
<td>Overall</td>
<td>Rs. 2/-</td>
<td>A.B. premium for both husband and wife, limit for each life separately</td>
</tr>
<tr>
<td>91</td>
<td>New Janraksha</td>
<td>Rs. 5 Lakhs</td>
<td>Overall</td>
<td>Nil</td>
<td>-</td>
</tr>
<tr>
<td>102</td>
<td>Jeevan Kishore</td>
<td>Rs. 1 Lakh</td>
<td>Exclusive</td>
<td>Nil</td>
<td>Only on attainment of age 25 years</td>
</tr>
<tr>
<td></td>
<td></td>
<td>Rs. 25Lakhs</td>
<td>Overall</td>
<td>Re.1/-</td>
<td>A.B can be availed within overall limit of Rs. 25 Lakhs. [on or after attainment of majority] but within S.A. amount by applying thereof to branch office.</td>
</tr>
<tr>
<td>131</td>
<td>Jeevan Asha-II</td>
<td>Rs.25 Lakhs</td>
<td>Exclusive</td>
<td>Re. 1/- Or Rs. 2/-</td>
<td>A.B can be availed upto equal to S.A or upto double the</td>
</tr>
<tr>
<td>No.</td>
<td>Plan</td>
<td>Coverage</td>
<td>Benefit</td>
<td>Premium</td>
<td>Note</td>
</tr>
<tr>
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</tr>
<tr>
<td>140</td>
<td>Bima Plus</td>
<td>Rs. 2 Lakhs</td>
<td>Exclusive</td>
<td>Rs. 0.50</td>
<td>Capital market oriented plan</td>
</tr>
<tr>
<td>149</td>
<td>Jeevan Anand</td>
<td>Rs. 5 Lakhs</td>
<td>Exclusive</td>
<td>Nil</td>
<td>A.B. will not apply beyond 35 years of age</td>
</tr>
<tr>
<td>150</td>
<td>New Bima Kiran</td>
<td>Rs. 5 Lakhs</td>
<td>Exclusive</td>
<td>Nil</td>
<td>Exclusive limit but including A.B. under Table-111</td>
</tr>
<tr>
<td>151</td>
<td>New Jeevan Shree</td>
<td>Rs. 25 Lakhs</td>
<td>Overall</td>
<td>As per P.P.T</td>
<td>P.P.T=Premium Paying Term</td>
</tr>
<tr>
<td>152</td>
<td>Jeevan Rekha</td>
<td>Rs. 25 Lakhs</td>
<td>Overall</td>
<td>As per P.P.T &amp; age as entry</td>
<td>Separated chart for PPT &amp; Ages at entry</td>
</tr>
<tr>
<td>154, 155, 156 &amp; 157</td>
<td>JeevanSamridhi</td>
<td>Rs. 25 Lakhs</td>
<td>Overall</td>
<td>Re. 1/-</td>
<td>Inclusive of the maximum limit of Rs.25 Lakhs placed under other Insurance Plans.</td>
</tr>
</tbody>
</table>

There is an overall limit of Rs.25 Lakhs, for accident benefit under all the plans. Plants that have "Exclusive" limit as above are not counted for this overall limit.

Accident benefit is not available under the following plans:

1. Table 43, 51, 52, 58, 30, 61, 135 (Bal Vidya), 142 and 143, 136 (Single Premium).
2. Annuity plans table 146, 147 and 148


**a. Benefits payable on disability to the life assured**

Payment is made in monthly instalments spread over 10 years of an additional sum equal to the sum assured by the policy, the first installment becoming payable one month after the date of disablement provided, however, if the policy becomes a claim before the expiry of the said period of years, the disability benefit instalments which have not fallen due will be paid along with the claim. This is subject to the condition that such additional sum payable in respect of the policy together with any such additional sum payable in respect of the policy together with any such additional sums payable under other policy on the life of the assured issued by the corporation or any insurer whose business has been taken over by the corporation will not exceed Rs. 25 Lakhs.

**b. Disability benefit**

This benefit will be granted to all lives assured both male and female, under all tables except Temporary Assurance Mortgage Redemption Assurance Convertible Term Assurance and Referred Annuity Policies unless specifically excluded on account of hazardous occupation or physical defect or adverse personal history.
Tax laws and Insurance

a. Introduction

The primary purpose of taxation is to provide sufficient revenue to the state. It has also been recognized as an instrument by which the social and economic objectives of a welfare state could be achieved. Taxes are utilised now for providing incentives for more savings, fostering industrial development by selective concessions. Checking inflationary pressures and achieving social objectives like reduction of inequalities and enlargement of opportunities to the common man.

b. Income Tax

Income tax is payable by an individual or Hindu undivided family in respect of the total income earned every year. But if the individual or H.U.F. saves, out of the income chargeable to tax, any sum in the specified manner a certain proportion of the saving is allowed to be deducted from the tax payable by the assesses, when this tax relief on the savings is taken into account, it will be found that the assured is in effect paying a lower premium for his insurance. The specified forms of savings are: Life Insurance Premium, contribution to recognised Provident fund or Family pension schemes; or Unit linked Insurance plan; or Subscription to Public Provident Fund scheme.

c. Wealth Tax

Wealth Tax is a tax on property or capital owned by an individual or H.U.F. in respect of their net wealth. This tax is to be paid year after year on the same property whether the property yields an income or not, as long as it has a market value.
d. Married Women's property Act

Section 6 of the married women's property act, 1874 (M.W.P. Act) provides that a policy of insurance effected by any married man on his own life, and expressed on the face of it to be for the benefit of his wife, or of his wife and children, or any of them, shall ensure and be deemed to be a trust for the benefit of his wife or of his wife and children or any of them, according to the interests so expressed, and shall not, so long as any object of the trust remains, be subject to the control of the husband, or to his creditors or form part of his estate.

Keyman Insurance

Keyman Insurance is an insurance taken by a business firm on the life of an employee whose services contribute substantially to the success of the business of the firm. The object of keyman insurance is to indemnify a business firm from the loss of earnings resulting from the death of a valuable employee. Loss of earning may occur because immediate replacement of the keyman may not be possible and it may take a longer time to train another person to perform his functions. Further loss may occur if the keyman can be replaced only at considerable cost of training etc. to the business of the firm. The amount of keyman insurance can be estimated to the monetary value of the likely setback to the profits of the concern due to the death of the keyman.

Keyman insurance can be taken by business firm on the life of its employee’s and no benefit of any sort accrues to the concerned employees. While the primary object of this insurance is to protect the company against premature death of valuable employee, the company also secures some tax advantages.
"A keyman insurance policy of the Life Insurance Corporation of India, provides an insurance policy taken by a business organization or a professional organization on the life of an employee, in order to protect the business against the financial loss, which may occur from the employee’s premature death. The keyman is an employee or a director, whose services are perceived to have a significant effect on the profitability of the business. The employer pays the premium.

Ref: CBDT Cir. No. 762/4 dt. 18-2-98

Thus keyman insurance cannot be given in the following cases

➤ Keyman has a share of more than 51Percent capital in the firm
➤ His family has a share of more than 35Percent capital in the firm

"Family" of keyman includes key person, spouse, and minor children.

➤ The company is incurring losses consistently
➤ The keyman is illiterates
Quantum of keyman insurance

The keyman is generally identified by his qualifications, experience, responsibilities, remuneration and his contribution to the growth of the company. The following factors would generally be taken into account while deciding the quantum.

➢ The Qualification of the keyman

➢ Experience Vis-à-vis exposure in different capacities

➢ His service in the company and previous record

➢ Whether he is the only keyman in the particular area or otherwise.