CHAPTER II
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Life Insurance in India:

(i) Origin:

The origin of insurance is shrouded in obscurity. Its story is as old as the mankind itself. Man was endowed with an instinct, among others, to protect himself, against unforeseen contingencies, involving loss of persons and property. Even in the primitive age, it could be observed, man was willing to make some sort of a sacrifice for security, to avert the evil consequences of fire and flood. Thus the principle of insurance had an ancient origin, traced back to almost 6000 years.

But the scientific form of insurance had its beginning due to the outstanding contribution of Edmund Halley, who prepared in 1693, a table on 'Degrees of mortality of mankind' based on vital statistics on the records of births and deaths maintained in Silesis, the only city in the world then at Greece. The records were instrumental for his construction of the first Annuity table in the world.

2. ibid P. 84
Induced by his hypothesis, Abraham De movier, another personality, provided that a given number of persons alive at any age, an equal number would die each year and this enabled him to invent a formula for calculating the annuities on life. Later this concept blossomed into the development of Actuarial Science. But a turning point in the history of life insurance was made in 19th century, when the Institute of Actuaries was started in London in 1848.³

Mention should also be made about, some of the oldest life offices in the world. The 'Amicable Society' which was considered the most reputed life office, with the Royal Charter from the Queen Anne and recognised by the British Government to transact life insurance business from 1706. But life insurance business was not quite free from speculation as some of the bogus business companies floated affected their businesses. This problem led to the enactment of the Gambling Act, 1774, which distinguished legitimate insurance and gambling and highlighted the sound principle of insurable interest in the life insurance business.

In India, it appeared from the writings of Kings

3. ibid P.85.
Manu, Yajanyavalkaya and Vishnu that a carrier in India was also an insurer in a restricted sense. Yet it is not certain whether the ancient Hindus had a system of insurance and practised it. Because Insurance against death was considered and regarded, as want of belief in God and His Goodness, by our countrymen. Hence it was not considered as a fertile soil for the growth of the life insurance business.

But, however, India was not quite new to the concept of insurance. The sanskrit term 'Yogakshema' the present motto of Life Insurance, means some sort of an insurance practised by the Aryans in this country some 3000 years ago. In India in the early days and perhaps even now, there is a widespread superstition that to insure one's life is to court death. Moreover the need for insurance was not felt in India for a variety of reasons. Indian Culture embedded in joint family system took care of the complete protection of all of its members in all eventualities like education, marriage, sickness and other ceremonies. The joint family system which had its deep roots stood like a banyan tree, providing all pervading shade and shelter.

5. ibid. P.32.
6. ibid. P.85.
This resembled more or less a self assurance. Hence it took quite some time for the Indian Public to understand and accept the concept of Insurance, till the arrival of Britishers in India.

The dawn of the East India Company, exposed Indians to the British industrial and commercial systems and latter led to the fundamental changes in their social, cultural and economic outlook in the Society. It was therefore the British who founded the First Insurance company on Indian soil in 1818 which was called the Oriental Life Insurance Society". It played a good role in providing insurance and the Prince Shri.Dwarakanath Tagore was associated with this society to create insurance conscious among the public. Besides Raja Ram Mohan Rai, who was a staunch advocate of insurance for and by Indians, at times, encouraged the practice of insurance.

Though several European insurance companies were formed, in 19th Century, they all failed due to the fact that they were all badly managed and reluctant to offer the cover of insurance to the Indians. The first event which sphere-headed the movement of Indian based and managed life insurance business, was the starting of 'Bombay mutual
Life assurance Society' in 1880, which extended the benefit of insurance to the Indian citizens also.

The dawn of the 20th century saw many indigenous insurance companies coming up and thus paved the way for a steady growth of insurance business in India on modern lines.

ii) History of Life Insurance Legislation:

The Swedeshi Movement of 1905, the Non-cooperation Movement in 1919 and the Civil disobedience Movement in 1929 laid a strong foundation for establishing insurance business in India. These movements paved the way for the boycott of british goods and also the British institutions. Hence a proper legislation for insurance business was felt by then British Government.

During the first decade of the twentieth century, a large number of insurance companies had come into existence. But many of them failed due to bad management and inadequate finance. The government recognising the need for a control on this business, passed the first Insurance Act, in 1912.

The insurance Act 1912, based on the English Insurance

Act, 1909 and it did not make any improvement with regard to certain deficiencies in the legal requirements of the following:\textsuperscript{2}

1. Absence of deposits by foreign companies;
2. Absence of substantial deposits from the Indian Companies;
3. Absence of restriction on investments;
4. Exemption granted to foreign companies from submitting particulars of their Indian business;
5. Absence of administration of the Act by the separate department; and
6. Powers granted to Governor-General to exempt certain companies from the purview of the Act.

Some amendments were made in the years 1916 and 1919, but were of no avail for a remedy, most needed by Indian citizens. Moreover, many of the concessions shown and restrictions placed in the English Act, were reflected in these amended Acts. Hence it did not come up to the expectation of the people of India.

In the year 1928, the Indian Life Insurance Act, 1928 was passed amending and replacing certain provisions\textsuperscript{2}.

\textsuperscript{2} Life Insurance in India, (1941), R.M. Ray. P.240.
of the Act of 1912. This Act enabled the government to collect statistical information regarding the business done by both Indian and Non-Indian companies. The first step in the form of effective legislation came up in the year 1935, when an Officer on special assignment was appointed by the government to report on the law of insurance in India.

On his recommendations, in 1938, the Insurance Act 1938 was passed. Various provisions were included in this Act to protect the interests of the policyholders. Several amendments were made to this Act in the years 1939, 1940, 1941 and 1945 for covering certain important businesses and for the abolition of certain categories of business in life insurance.

Despite this illustrious beginning, some unhealthy trends developed and to have a greater control, an amended insurance Act was passed by the government in 1950. The Act aimed at making it difficult for certain financiers to get control over insurance companies or to use insurance funds for speculation purposes and thereby preventing interlocking of interest between insurance companies and banks.

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3. Life Insurance, O.S.Gupta, P.333.
4. The Indian Life Assurance Officers' Association Silver Jubilee Souvenir, P.73.
Inspite of all these restrictions in the Act and sufficient government control over the activities of the Life Insurance business, there were quite often charges levelled against these individual insurance companies.

Some of the charges levelled against them are the following:

1. Inefficiency of management;
2. Misappropriation of funds;
3. Least interests shown to the policyholders in as far as it was concerned with investments of the funds.

Hence arguments were put forth for and against nationalisation of the life insurance in the years 1954 and 1955, which were quite often brought to the notice of the free independent government of India.

On 19th January, 1956, the President of India issued the Life Insurance (Emergency provisions) Ordinance 1956, an ordinance for taking over of the management of the life insurance business in India. On 18th June, 1956 the parliament passed the Life Insurance Corporation Act, 1956, which came into force from 1st September 1956 and
which provided for the establishment of a statutory body, known as the Life Insurance Corporation of India. This was the step, never before attempted anywhere in the world on such a gigantic scale. But the free independent India achieved this great feat.

The Life insurance corporation was allowed to carry on the business of insurance in India with the view to develop the insurance business to the best advantage of the community.

iii. Organisational structure of LIC of India.

Life insurance corporation is a service industry and differs from the manufacturing concerns in that there is no raw material to be bought, inventoried and processed. Large investment in capital goods is not required. The insurance company makes long term contracts running over several years into the future. As a result of which, they accumulate vast financial resources to be utilised for the welfare and development purposes of the country. It is this concept which magnifies the importance of a sound

5. Thirty years of nationalised insurance - Brochure. South Zone LIC
1. Life Insurance Organisation; FII P.13.
management and organisation structure for the Life insurance Corporation of India.

In 1956, the Life Insurance Corporation of India, came into existence with the following set up.²

- Central Office
- Zonal Offices
- Divisional Offices
- Branch Offices
- Sub Offices
- Development Centres

It took off with 5 zones, 34 divisional offices and 216 branches.

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2. Life Insurance in India, G.R. Desai, P.68.
Twenty one thousand employees were absorbed from erstwhile insurance companies. There were 2,19,000 agents on rolls of the Corporation. There were 154 Indian insurers and 16 non-indian insurers, besides 75 Provident societies, got merged and came within the fold of the Life Insurance Corporation of India, when it was nationalised by a separate Act. The growth of Life Insurance business after nationalisation is shown in Table 2.1 and Charts 2.1 and 2.2.

Management:

The Affairs of the Corporation are managed by the Board of members not exceeding fifteen in number, appointed entirely by the Central Government. One of the members is appointed as the Chairman of the Board by the Central Government.

The Board meets once every month. The Chairman has got full control and authority to take any decision in the event of any emergency situation arising in the interim period between two meetings of the Board. 3

## TABLE 2.1

**GROWTH OF LIFE INSURANCE OFFICES:**

<table>
<thead>
<tr>
<th>Year</th>
<th>No. of Divisional Offices</th>
<th>No. of Branches</th>
<th>No. of Employees</th>
<th>No. of Agents</th>
<th>No. of Development Offices</th>
</tr>
</thead>
<tbody>
<tr>
<td>1-9-'56</td>
<td>34</td>
<td>216</td>
<td>21,000</td>
<td>89,000</td>
<td>--</td>
</tr>
<tr>
<td>31-3-'80</td>
<td>41</td>
<td>742</td>
<td>55,596</td>
<td>1,19,077</td>
<td>6,732</td>
</tr>
<tr>
<td>31-3-'85</td>
<td>43</td>
<td>1,107</td>
<td>62,977</td>
<td>1,62,478</td>
<td>6,949</td>
</tr>
</tbody>
</table>

**SOURCE:** Chairman's review: 1980-81; 1984-85. LIC of India
CHART 2.1

GROWTH OF TOTAL BUSINESS

NO OF POLICIES IN LAKHS


227 236 243 252 265
EXCEPT 1956, OTHERS ARE, ON 31st MARCH OF THE YEAR
Committees:

The Life Insurance Corporation Act, 1956 empowers the Corporation to entrust the work to its committees. The Act specifically provides for the formation of two committees:

1. Executive Committee;
2. Investment Committee.

The Corporation is also permitted by the Act to form some other committees as it deems necessary.

1. Executive Committee:

This has been entrusted with the general superintendence, direction of the affairs and business of the Corporation. The committee is also authorised to exercise all powers and do all such acts and things as it may be delegated by the Corporation. The Committee consists of five members of the Corporation including the Chairman and it meets once a month, just before the Corporation meets for its regular business matters.

2. Investment Committee:

The investment committee has been charged with the
responsibility of advising the Corporation in all matters concerned with the investment of funds of the corporation. It consists of not more than seven members of whom not less than three are members of the Corporation and the remaining are persons from other areas of knowledge. The committee meets frequently and the sittings will be normally at the central office.

Organisation of the Central Office:

The Central Office of the Corporation is located at Bombay. It is a policy making and co-ordinating body and its direct executive responsibility is in a very limited field. Mainly it co-ordinates the activities of the various zones and confines itself to giving broad policy directions and decisions on inter-zonal matters. The Central Office maintains control over the operations of the Branch, Divisions and Zonal Offices.

The various departments at the Central Office are shown in Chart No. 2.3. All the departments are headed by an Officer designated as the Chief or Executive Director and assisted by the Secretary and assistant secretaries.
ORGANISATION OF THE CENTRAL OFFICE

CHAIRMAN

MANAGING DIRECTORS

MARKETING  PUBLICITY  PUBLIC RELATIONS  PHS DEPT  O & M  G & S  ACCOUNTS  PERSONNEL  LEGAL

ACTUARIALS  BUILDINGS  INVESTMENT  VIGILANCE DEPT.

Source: Bhima Vidya, Volume 3, 1984
Chairman:

The Chairman is the chief executive of the Corporation. Subject to the general or specific directions from the Corporation or any of its committees except the investment committee, he can exercise all powers of the committee. The chairman has to carry out the advice of the investment committee in regard to investments of funds by the Corporation. However the Act specifically provided that in emergency situations, the Chairman can exercise all powers of the Corporation.

Managing Directors:

By virtue of the provisions of the Act, the Corporation is empowered to appoint one or more persons they are members or not, to be the managing directors of the Corporation. The managing director is a whole time director and will exercise all powers entrusted or delegated to him, by the executive committee of the Corporation.

Organisation of a Zonal Office:

These offices have been charged with the responsibilities
of the development programme of the whole zone. The zonal office of the Corporation are situated at five places namely Madras, Bombay, Calcutta, Delhi and Kanpur. They are the centres for the five zones namely Southern, Western, Eastern, Northern and Central zones respectively.

The zonal office arranges periodical conferences of heads of the divisions under the zonal jurisdiction to discuss the progress of business and plans for the future. The various circulars on policy matters and plans of insurance emanate only from the zonal office.

The organisation of a zonal office is shown in Chart 2.4. Each department is headed by the Regional Manager of the Deputy Zonal Manager rank and assisted by the Assistant Secretaries.

Organisation of a Divisional Office:

Divisional offices work under the broad framework of the policies laid down by the Central Office and under the guidance and supervision of the Zonal Office.

On the recommendations of the Era Sezhiyan Committee which submitted its report on 30th August, 1980 and on the suggestions of Prof. Iswal Dayal, an eminent management
CHART 2.4

ORGANISATION OF A ZONAL OFFICE

ZONAL MANAGER

- Personnel
- Marketing
- Estates Establishments
- Legal Department
- Accounts Department
- Mortgages
  - Machine Department
  - Engineering Department
  - Economic Cell

consultant, appointed by the Corporation to go into the organisational improvements in Life Insurance industry, the Corporation has effected some improvements in the structure and functions of the divisional offices and Branch Offices. ¹

The divisional offices will be primarily responsible for controlling and guiding the branches without assuming any operating functions in any area except in Legal and Mortgages. It will be an office of support, service and guidance to the branches. It will supervise the functioning of the branches and enable it to perform by providing support service like physical and human resources, their training etc.

Similarly wherever the Branch, for certain operational reasons does not have an In house micro-processor, the support device in this will be provided by the divisional office.

The various departments in the divisional offices are shown in Chart 2.5. The various departments are headed by the Managers of divisional rank, assisted by the managers of assistant divisional rank. The supervisory staff and assistants under them will carry out the necessary routine.

CHART 2.5
ORGANISATION OF DIVISIONAL OFFICE

DATA PROCESSING

MARKETING

UNDER WRITING

PLANNING REVIEW

ACCOUNTS

PERSONNEL INDOUS RELATIONS

LEGAL ASSISTANTS

MANAGEMENT COMMITTEE

OFFICE SERVICES

SALES

POLICY SERVING

TRAINING

AGENTS DEVELOPMENT OFFICERS

TRAINING ON PLANNING DATA COLLECTION & MAINTENANCE REVIEW

BRANCH A/C

GENERAL A/C

INDUSTRIAL RELATIONS

PERSONNEL

SCRUTINY

DIVISIONAL OFFICE ACCOUNTS CONSOLIDATION SURPLUS FUNDS

MANAGEMENT DEVELOPMENT TRAINING STAFF SUPERVISING

OFFICE UPKEEP FURNITURE STATIONARY PRINTED FORMS OFFICE EQUIPMENTS

SOURCE: Bhimavidiya, Volume 8
functions of the office.

Organisation of a Branch:

The Branch Offices of the Corporation are the primary business procuring offices. The constitution of the Branches has undergone a tremendous change by virtue of the implementation of the organisational improvement, effected by the Life Insurance Corporation, from the year 1983.

Since all the servicing functions are decentralised from the divisional office, the branch is now authorised to issue policies, service them and make payments of claims either arising out of death or by maturity.

They are now made full-fledged accounting units with full responsibility for total performance of sales and service. Branches in the reorganised set-up will be a profit and growth centre. 1

The organisation of a Branch is shown in Chart 2.6. The various departments are managed by the Assistant Branch Managers (Administration) Assistant Branch Manager (Development) and Administrative Officer. The supervisory staff, the section heads and Higher Grade Assistants, called HGA, will man the various sections of the department in the office. They will be assisted by the assistants.

1. Yogakshema Vol. 26 No. 8 & 9, 1982, P. 20
CHART 2.6

ORGANISATION OF A LARGE BRANCH

BRANCH MANAGER

MACHINES

SALES
- Sales
- Agents
- Development Officers
- N.B. Registration
- Commission Settlement
- Mortgage Enquiries
- Agents' Training

NEW BUSINESS
- Policy Issue
- Underwriting

POLICY SERVICES
- All PHS functions including loans, claims and surrenders

ACCOUNTS
- Cash Receipts and Payments
- Banking
- Commission Payments
- General Account
- Preparation of Trial Balance

OFFICE SERVICES
- Office upkeep
- Furniture and Stationery
- Maintenance of Leave Records
- Salary Payments

MANAGEMENT COMMITTEE

Source: Bhimavidya, Volume 8
Know Your Institution.