CHAPTER II

HISTORICAL BACKGROUND AND PRESENT POSITION OF LIFE INSURANCE INDUSTRY IN INDIA
The growth of life insurance fund is related to the growth of life insurance in force. The low percentage of the life insurance savings to personal disposable income as indicated in the previous Chapter is due to the low standard of life insurance in the country. This in turn is mainly on account of the organisational and structural weaknesses of life insurance offices in India which have failed to create insurance consciousness among the people. In this Chapter I have substantiated this statement in the background of the history of life insurance in India.

Historical Background of Life Insurance in India

There are various phases of the development of life insurance industry in India. They have been classified by various authors in different ways. In my opinion the following classification is quite logical to trace the history

1. Prior to nationalisation, life insurance in India was sold by Indian and Non-Indian Insurance Companies, Provident Societies and Post Offices. The number of Non-Indian Insurance Companies was very small in relation to Indian Insurance Companies. The contribution of the Provident Societies was also insignificant in the total life business. Postal Insurance was sold only to certain categorised persons without employing insurance agents. In the historical description I have, therefore, concentrated my attention mainly on the life insurance activities of Indian Insurers.
of life insurance in its true perspective.

I: Period of Early Foundation - 1818 - 1918

II: Period of Steady Progress - 1919 - 1957

III: Period of Boom - 1938 - 1966

IV: The Dynamic Era - 1947 - 1955

V: Period after the Nationalisation of Life Insurance (1956-1960)

I: Period of Early Foundation (1818-1918)

The foundation of modern life insurance in India was completed in hundred years through the constant and untiring efforts of the foreign and Indian promoters. The Europeans were the pioneers in laying the foundation in 1818, when Oriental Life Assurance Company came into existence at Calcutta. This concern ultimately failed and was taken over by the 'New Oriental' in 1834. The period about half a century commencing from the establishment of the 'New Oriental' and ending about 1870 covered the early attempts of foreign interest to start modern scientific insurance in India on the basis of English model. Life insurance was denied to Indians as there was no mortality data available on their lives. The attempts of Indian promoters to start life offices completely failed in early years because of the ignorance and prejudices of the people towards life insurance. Even the Government attempts to start a State Controlled Insurance Company failed because of the absence of mortality data and traditional prejudices of the people towards the industry.

It was only in 1870, that the first Indian Insurance Company, i.e. the Bombay Mutual Life Assurance Society with Indian capital and management came into existence. This was closely followed by the establishment of the 'Oriental Government Security Life Assurance Co. Ltd.,' in 1874. The history of Indian Insurance became inseparably linked with the history of the Oriental. For

nearly 20 years after the formation of the 'Oriental' no new life office was started in India.

The period 1900-12 saw the entry of many foreign offices into India and the establishment of several indigenous concerns. This period also saw for the first time after the mutiny a strong wave of nationalism in India. In the wake of Swadeshi movement several new Indian enterprises came into being. The conditions for the establishment of life insurance also became favourable due to improvement in environmental hygiene and medical facilities, which enhanced the span of life. Besides the last quarter of the nineteenth century brought a large middle class population to the cities, "with poverty as background and government service as their goal." This also gave an impetus to the establishment of new life offices with Indian capital and management, and although the connection of the established foreign offices and their leadership in the business continued, the Indian offices were able to expand their own operations and propagated the need for supporting Indian institutions. By 1905 Indian offices had an estimated business of Rs 12 crores. Life Companies like the Oriental, the Bharat and the Empire of India, which were established in the 19th century, began to expand their organisation. Several new offices were also established. It is estimated that during 12 years period 1900-12 not less than 40 new offices were registered in India. Side by side over 500 Provident Societies were established to cater to the needs of the small income groups. But they failed in consolidating the savings of their constituents.

Thus by 1910, a situation was created which was not good for the future of Indian insurance. The rapid promotion of mushroom Companies had to be curbed and it was clear that the Indian Companies Act, by which insurance offices were governed, could alone give no guarantee of soundness in the promotion of life offices. The tendency to conduct the business on actuarily unsound principles had also to be stopped. This led to the enactment of two Acts in 1912, called the Provident Insurance Societies Act and the Indian Life Assurance Companies Act 1912. They governed only Indian companies and left foreign offices out of their control. There was complete absence of control over the business of general insurance in this first Indian Insurance Act. The act also left the investment of life offices unregulated. Even the mild provision of the Act had healthy influence on the growth of life insurance business in India.

Several of the Indian Companies which conducted schemes based on the principles of "Assessmentism," or on actuarily unsound basis, had either to drop them or modify to conform to actuarial requirements. Many of the companies could not reach the actuarial standard set by the Act and went into liquidation.

The Act also required the companies to submit certain returns in a scheduled form and they were published under the authority of the Government of India. Thus since 1914 authoritative statistical record regarding life insurance business have become available.

The commencement of the Great War in 1914 overshadowed all other activities and a considerable amount of the good effects of the Insurance Act of 1912 was lost. The problem of investments became acute, due to depreciation of Stock Exchange Securities. The new business underwritten by companies also declined and in 1916 touched the lowest figure of Rs 175 lakhs. Since then, however, the new life business written by Indian Companies each year has rapidly increased.
Bank failures during this early period of growth also gave serious jolts to life insurance companies. The influenza epidemic of 1918 also affected the mortality experience of Indian Companies. The fact that Indian life offices successfully survived these crises indicates that the period of early foundation was over.

Period of Steady Progress – 1919-1938

The close of the war saw the flotation of several companies. Amongst them may be mentioned the New India Assurance Co. Ltd., and the Jupiter General Insurance Co. Ltd. Both these companies were floated with huge subscribed and paid-up capital to enable them to inspire confidence in the minds of the public. Thus the number of life offices increased from 42 in 1919 to 196 in 1938. The formation of new companies and amalgamation of smaller units created a favourable climate for life insurance during this period. In spite of the international turmoil, foreign concerns continued to pour in the country, as the post-war prosperity resulted in a rapid increase in the volume of new business. Figure 8 shows that the total new life insurance business affected in India by the Indian and Foreign concerns increased from ₹ 28.6 crores in 1929 to ₹ 51.7 crores in 1938. The total business in force which was ₹ 135.19 crores in 1929 increased to ₹ 278.60 crores in 1938.

The National awakening after the First World War and the public agitation to save the indigenous offices from foreign competition forced the Government to amend the Insurance Act 1912. Thus the Insurance Amended Act of 1928 required the foreign concerns to submit the details of their accounts.

1. As a result of passing of the Act 1928, separate figures of Indian Insurance Companies writing business in India became available as also the particulars relating to the business written by non-Indian companies. Thus Figure 8 shows the growth of life insurance in India since 1929 underwritten by Indian and non-Indian companies.
Growth of New Business, Life Insurance Forfeits & Life Tumid
1929-1955.

Sources: R.B.I. Banking and Monetary Statistics.
and other particulars of their insurance business in India. One of the results of this amendment was that some of the foreign concerns who did not like to submit their accounts to the Government of India ceased to write further business. Besides the Civil Disobedience Movement of 1930 and the intense demand for "Swadeshi," helped the Indian Companies to increase their business much more rapidly than the foreign concerns. Hence the percentage of New Business transacted by the Non-Indian Life offices to total Business declined from 42.7 per cent in 1929 to 16.2 per cent in 1938 and in the total Business in force their share declined from 47.4 per cent to 34 per cent.

Indian life offices succeeded in ousting the foreign life offices but the competition among themselves resulted in the sale of small size of policies. This is evident from the fact that the average size of policies issued by Indian offices in 1929 was only for Rs 1,794 as against Rs 3,092 issued by the Foreign offices. In 1938 the average size of the policies issued by Indian offices fell to Rs 1,451 and that of foreign offices increased to Rs 3,244. This clearly indicates the pressure of competition among Indian life offices.

In fact the enormous growth of life insurance business in India during this period attracted new and small concerns which began to compete with each other for the business. Competition which is the essence of private enterprise maintains efficiency and serves the consumers' interest but when it takes ugly turn such as rate cutting, high rebates, excessive commission, and increased operational expenses, it results into losses and makes the entire industry hollow and wasteful. This becomes more dangerous in the absence of any statutory regulations of the investment of life fund.

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It soon became clear to the big and established insurers in the country that the growth of unsound and inefficient life offices would be detrimental to the insurance industry as a whole. For failures of life offices results into loss of public confidence towards industry and that in a country where social and religious prejudices predominate, it would become still more difficult to motivate the masses. Thus the public agitation on the one hand, pre-assure of the insurer and their association on the other compelled government to pass the Indian Insurance Act 1938. This was the first comprehensive Insurance Act which regulated all types of insurance in India. It differed from the British Act in the sense that it also regulated the investments of life offices.

III: The Period of Boom - 1938-1945:

The new Insurance Act 1938 was a comprehensive piece of legislation governing not only life but also non-life branches of insurance, and provided for a strict type of State control over insurance business. It did not follow the British principle of minimum State control with maximum publicity, which is unsuited to India; but was based on the principle of rigorous control and supervisions by the government of insurance business. The control and supervision was exercised through the Controller of Insurance. The Act regulated various aspects of insurance business in a careful and detailed manner with regard to investments, loans, management, investigation, amalgamation etc. The Act succeeded in eradicating uneconomical offices with the result that the number of life offices fell from 200 in 1938 to 177 in 1941. The figure, however, increased to 198 in 1945. The quality and quantity of the business continued to improve. Indian life offices began to write comparatively larger volume of new business.

Thus during this period, in spite of a fall in the number of life offices, the amount of new business increased from Rs 46.6 crores in 1939 to Rs 144.2 crores in 1946. The total business in force increased from Rs 271.8 crores to Rs 615.25 crores. The average size of the policies issued by the Indian offices increased from Rs 1,473 in 1939 to Rs 2,205 in 1946 and during the same period average size of the policies issued by the Foreign offices increased from Rs 3,716 to Rs 6,114. The remarkable achievement of Indian Offices during this period was the elimination of foreign offices in new business as their share declined from 16.2 per cent in 1939 to 8.9 per cent in 1946 and in case of business in force their share declined from 34 per cent to 16.4 per cent. It is true that the notable increase in life insurance business during this period was due to war time prosperity, but it must be admitted that these years of business prosperity definitely increased the insurance consciousness among the people.

The War-time growth, however, was again responsible for the creation of several unsound concerns. Competition became more and more fierce and various evil practices crept in the business. Financial vizards played with the trust funds of policy holders. The Insurance Act of 1938 was found to be ineffective to control the business in many respects, especially as regards investments, valuation, and expenses etc. A committee under the Chairmanship of Sir Cowasjee Jehangir was appointed in 1945 to enquire into and to recommend measures to check certain trends and undesirable features in the management of insurance companies. The Committee in its report recommended important amendments in the provisions of Insurance Act containing inter-alia: (i) Restrictions on transfer and Acquisition of shares and certain provisions regarding capital structure of Companies (ii) Restrictions on Investments of life insurance funds. (iii) Restrictions on emoluments of Financials or officers of Companies, etc. The
various recommendations of the Committee were incorporated in a Bill which could not be passed due to strong opposition of business interest. It was, however, shelved due to the partition of the country.

IV: An Era of Dynamic Political, Economic and Social Changes -1947-1955:

I have named it an era of dynamic changes not only because India became independent during this period but several economic and social changes occurred which affected the growth of life insurance. The Industrial Policy Statement of 1948 and the launching of the Five Year Plan in 1951, for example, created circumstances which proved conducive to the growth of life insurance. Similarly, the abolition of Zamindari, liquidation of princely States and other measures taken by the Government to remove the inequality in the distribution of wealth for 'a socialist pattern of society' also helped the growth of life insurance.

The partition of the country undoubtedly gave a very serious jolt to the insurance industry. The vast migration of the population affected the location of life offices. The country wide riots resulted in the payment of heavy claims, and the business of insurance was dislocated. The Evacuee Insurance Companies Association was formed to look after the property and business of the Insurers who migrated from Pakistan to India. The government of India appointed a Committee under the Chairmanship of Shri Ranganathan in 1948 to investigate into the effects of the partition on the Indian Insurance. The recommendation of this Committee as well as that of Sir Cowasjee Jehangir

3. According to Indian Insurance Year Book, on 30th September, 1941, the number of head offices of insurance companies in India was 218 and in Pakistan only 21, while their respective figures on 15th November 1947 were 236 and 9. The decrease in the number of insurers in Pakistan was due to their emigration to India.
Committees were incorporated in the Indian Insurance Amendment Act of 1950. The Act removed several discrepancies of the Insurance Act 1938 and strictly regulated the administration and investment aspect of life insurance business in India. It immediately checked the growth of weak and unsound concerns as the valuation requirements became more strict and investment was firmly regulated. The fall in the number of new offices produced healthy effect in the amount of new business. The amount of new business figure which was only Rs 126.4 crores in 1947 increased to Rs 238.3 crores in 1955 and the amount of business in force increased from Rs 649.07 crores to Rs 1,128.76 crores. The average size of the policies issued by Indian offices also increased from Rs 2,177 in 1947 to Rs 2,950 in 1955 and that of the foreign offices increased from Rs 6,114 to Rs 7,889 in 1955. The most remarkable thing to note is the further fall in the business of foreign life offices. From the total new business, the share of the foreign offices further declined from 9.7 per cent in 1947 to 7.2 per cent in 1955; and in the business in force their share went down from 15.7 per cent in 1947 to 12.3 per cent in 1955.

It will thus be seen that the insurance business rapidly increased during this period due to the efforts of Indian insurers. But looking to the internal economic conditions the progress cannot be said to be proportional and satisfactory. This was due to the fact that although big and strong companies were doing good business and favourably competing with foreign enterprises, the matters in smaller companies did not improve appreciably. In more than one concern the funds of policy-holders were misappropriated and value of insurance in general and of life insurance in particular to the individual and the society were endangered. No less than seven prominent insurers were placed under Administrators, in twenty five companies funds of the policy holders were
frittered away and in as many as in 51 companies cases of mismanagement were detected. This shook the confidence of the insuring public and affected the progress of life insurance business in India.

Thus Table No. 12 indicates the sudden decline in business in the decade 1945-1955. The number of new policies which was increasing at a rate of 40.0 per cent per annum in the decade 1925-1935; declined to 19.0 per cent in the decade 1935-1945 and 8.9 per cent in the decade in 1945-1955. The new business which was increasing at an annual rate of 26.4 per cent in the decade 1915-1925; 28.7 per cent in 1925-1935; and 28.9 per cent the decade 1935-1945, declined to 8.0 per cent per annum in the decade 1945-1955. Life insurance force which was increasing at the rate of 21.0 per cent in the decade 1925-1935; 21.5 per cent in the decade 1935-1945, also declined to 11.4 per cent. Consequently the percentage increased per annum of life fund also declined from 22.0 per cent in the decade 1935-1945 to 17.8 per cent in the decade in 1945-1955. From this decline it should not be concluded that any saturation point had been reached in Indian Insurance or it was fastly approaching. In fact the progress achieved during any particular period is a function of multiple factors which do not always remain constant in a dynamic world. The progress achieved during the period of World War II may be associated with war time prosperity while the progress in the decade 1945-1955 might have been obstructed due to the partition of the country and the economic aspect of the Korean war. Yet it was in this period that the favourable climate of the development of life insurance was created through the industrialisation and urbanisation of the country. But the insurers could not fully utilise the opportunity. Thus in the Lok Sabha Mr. Deshmukh, the then Finance Minister stated:

"The industry was not playing the role expected of Insurance in a modern State and efforts at improving the standards by further legislation, we felt, were unlikely to be any more successful than in the past. The concept of trusteeship which should be the cornerstone of life insurance seemed entirely lacking. Indeed most management.

## TABLE 12

**Rate of Expansion of Life Insurance Business of Indian Insurers Per Decade 1915-1935**

<table>
<thead>
<tr>
<th>Decade</th>
<th>1915</th>
<th>1925</th>
<th>1935</th>
<th>1945</th>
<th>1955</th>
</tr>
</thead>
<tbody>
<tr>
<td>1915-25</td>
<td></td>
<td></td>
<td></td>
<td></td>
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<td>1925-35</td>
<td></td>
<td></td>
<td></td>
<td></td>
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<tr>
<td>1935-45</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>1945-55</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

### Growth of Life Insurance:

1. Average size of Policy (In Rs) - 1915 1542 2128 2950
2. No. of New Policies (Lakhs) - 0.4 2.0 5.3 7.5
3. New Insured Amount (Rs Crores) - 2.24 8.15 31.57 122.8 220.8
4. Total business in force (Crores) - 22.83 47.0 145.0 439.4 984.2
5. Life Fund (Rs Crores) - 6.63 12.58 35.23 107.5 299.7
6. Total Assets (Rs Crores) - 8.22 14.66 45.80 138.27 370.6

### Centenary Growth (Percentage):

7. Average Insured Amount (Rs Lakhs) - N.A. -19.6 38.0 38.6
8. No. of New Policies (Lakhs) - 40.0 190.0 293.3
9. New Insured Amount (Rs Crores) - 265.8 287.4 288.9 179.8
10. Business in force (Rs Crores) - 105.6 210.7 214.7 114.0
11. Life Fund (Rs Crores) - 89.7 180.0 205.1 178.8
12. Total Assets (Rs Crores) - 80.8 208.2 302.0 167.9

### Percentage Rate of Growth Per Annum:

13. Average size of Policies (Rs) - -2.0 3.8 3.9
14. No. of New Policies (Lakhs) - 49.0 19.0 2.9
15. New Insured Amount (Rs Crores) - 26.4 28.7 28.9 8.0
16. Life Insurance in force (Rs Crores) - 10.6 21.0 21.5 11.4
17. Life Fund (Rs Crores) - 9.0 18.8 20.5 17.9
18. Assets (Rs Crores) - 8.0 20.8 20.2 16.8

**Sources:** Reserve Bank of India, Banking and Monetary Statistics, Section II, pp 921-24.

N.A. = Not available.
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had no appreciation of the clear and vital distinction that exists between trust moneys and those which belonged to joint stock companies - that is to say, owned by the shareholders themselves.\(^{(1)}\)

It was in fact under these circumstances that the insurance business was nationalised in India and L.I.C. came into existence in September, 1956.

V: Nationalisation of Life Insurance Industry, 1956-1960

The circumstances and considerations which led to nationalisation were briefly discussed above. The reasons for nationalisation incorporated in the statement of Objects and Reasons of the L.I.C. Bill 1956, were:

"To ensure absolute security to the policy-holder in the matter of his life insurance protection, to spread insurance more widely and in particular to the rural areas and as a further step in the direction of more effective mobilisation of public saving."\(^{(2)}\)

Thus the first step towards nationalisation was taken on the 19th January, 1956 by the promulgation of Life Insurance (Emergency Provisions) Ordinance, 1956 whereby pending the passing of a Bill to nationalise such business the management of the life insurance business in India was rested in the Central Government. To replace that Ordinance, the Life Insurance (Emergency Provision) Bill was introduced in the Lok Sabha on the 17th February, 1956. The Life Insurance Corporation Bill, which laid down the permanent arrangements for nationalisation, was introduced in the Lok Sabha on the 19th February, 1956, and came into


As a result of nationalisation the controlled business of 245 different units which had in total assets of about Rs 411 crores, Life Fund amounting to Rs 380.61 crores, over 50 lakh policies assuring a total sum of more than Rs 1,250 crores, nearly 27,000 salaried employees and 216 branches and sub-offices was integrated.

After a transition period which may be called the teething period the Corporation completed the task of its reorganisation in a short time and started its work with new schemes of development. At the end of December 1959, the Corporation had total assets of about Rs 522 crores, Life Fund amounting to Rs 493 crores, about 68.36 lakh policies assuring a total sum of Rs 1,964 crores; 37,341 employees and 345 branches and sub-offices.

The present organisation of the Corporation has been characterised in some quarters as 'monopolistic' and 'monolithic.' Its organisation is broadly laid down in section 18, of the Life Insurance Corporation Act 1956. At present it consists of a central office at Bombay and five zonal offices (Northern, Southern, Central, Eastern, Western) with Head Office at Delhi, Madras, Kanpur, Calcutta, and Bombay respectively. There are a number of divisional and branch offices under each Zone.

The business of the Corporation is required to be carried in accordance with the provisions of section 6 of the Life Insurance Corporation Act 1956. Its principal object is to carry on life insurance business in and outside India, in such a way that it is developed to the best advantage of community.

The Corporation has also been given powers to carry on Capital Redemption

2. Ibid, pp 5-6.
Business, and Annuity and Reinsurance business relating to life insurance.

Since nationalization, life insurance business has made rapid progress.

The comparative figures of new business and business in force transacted during the year preceding nationalization and each of the year 1956 to 1960 are given in the following Table No. 13 and are also illustrated in Figures 9 and 11.

TABLE NO. 13
GROWTH OF LIFE INSURANCE AFTER THE NATIONALISATION OF LIFE INSURANCE IN INDIA

<table>
<thead>
<tr>
<th>Years</th>
<th>New Business</th>
<th>Business in force</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>Average sum</td>
<td>Number of Policies</td>
</tr>
<tr>
<td></td>
<td>per policy</td>
<td>in lakh</td>
</tr>
<tr>
<td>1955</td>
<td>3,021</td>
<td>7.96</td>
</tr>
<tr>
<td>1956</td>
<td>3,416</td>
<td>5.49</td>
</tr>
<tr>
<td>1957</td>
<td>3,424</td>
<td>8.11</td>
</tr>
<tr>
<td>1958</td>
<td>3,551</td>
<td>9.35</td>
</tr>
<tr>
<td>1959</td>
<td>3,671</td>
<td>11.43</td>
</tr>
<tr>
<td>1960</td>
<td>3,903</td>
<td>12.50</td>
</tr>
</tbody>
</table>


Note (1) As the first accounting period of the Corporation covered the 16 months from 1st. September, 1956 to 31st December, 1957, the Corporation did not compile the figures in respect of total business in force in 31st December, 1956.

(2) The figures for 1956 include the new business transacted by provident societies in that year. For the years 1957 onwards, the business under the Janata Policy Scheme has been included.

It would be seen that between the period 1955 and 1960 the number of policies issued by the Corporation in India had increased by 97 per cent and the sum assured by more than 102 per cent. The average sum assured had also
NEW BUSINESS IN INDIA.

Source: L.I.C. Annual Reports and Accounts.
fig.: 9
increased by more than 29 per cent. The life insurance in force has increased by more than 92 per cent. From Figures 19 and 11 it also appears that during the period 1951 to 1960 the life business in force in India has almost trebled. To this remarkable increase the contribution made by the erstwhile insurance companies during the period 1950-55 was Rs 380 crores. During the following five years the increase has been as much as Rs 1,048 crores.

II: Causes of the Growth of Life Insurance:

The historical resume of the life insurance industry in India has shown that during the period 1931 to 1960 life insurance in force has increased from Rs 168.15 crores to Rs 2,176 crores - a thirteen times increase. In the same period the number of policies has increased by eleven times and the average size of the policies has been doubled. It means that of the thirteen times increase in life insurance in force eleven times is due to 'expansive growth' and only twice due to 'intensive growth.' The fundamental causes of the growth of the life insurance industry can be discussed under three heads:

(i) Population growth, (ii) Income growth, (iii) Industrialisation and urbanisation of the country.

(a) The Growth of Population and the Growth of Life Insurance:

The growth of life insurance in India is largely due to increase in population rather than increase in the percentage of the insured population. This is proved by the fact that percentage of the insured population at the

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1. For convenience of analysis, the growth of the life insurance industry may be divided into two parts, expansive growth and intensive growth. By the former is meant selling life insurance to people who did not previously own any. By the latter is meant increasing the average amount of policy holder's coverage. (Porterfield, James J, Life Insurance Stocks as Investments - Business Research Series No. 9, Graduate School of Business, Stanford University, California, 1956, p 4.)
The present over-lap ratio has increased from 0.17 per cent in 1931 to 1.2 per cent in 1960 - a six fold increase while the life insurance in force itself has increased by thirteen times during the period. Obviously the segments of life insurance is largely due to increase in population and secondary from a rising percentage of the population.

The increasing population has facilitated the growth of life insurance in two ways. Firstly, as the Table 14 shows the fall in death rate from 27.4 per cent in 1941-1951 has considerably reduced the ratio of Death Claim to business.

**TABLE NO 14**

<table>
<thead>
<tr>
<th>Period</th>
<th>Birth Rate</th>
<th>Death Rate</th>
<th>Infant Mortality Rate</th>
<th>Expectation of Life at Birth</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>Male</td>
<td>Female</td>
<td>Male</td>
<td>Female</td>
</tr>
<tr>
<td>1941-51</td>
<td>39.9</td>
<td>27.4</td>
<td>0.66</td>
<td>190.0</td>
</tr>
<tr>
<td>1951-56</td>
<td>41.7</td>
<td>25.9</td>
<td>0.47</td>
<td>161.4</td>
</tr>
<tr>
<td>1956-61</td>
<td>40.7</td>
<td>21.6</td>
<td>0.36</td>
<td>142.3</td>
</tr>
</tbody>
</table>

**SOURCES:** Government of India: The Third Five Year Plan, p 682.

1. A census of persons holding life policies has not yet been held in India. From the number of policies issued or in force it can not be inferred that there were 7.14 lakh persons insured in 1931 or 74.56 lakh insured in 1960 because there are persons who have taken more than one policy. However, according to L.I.C. Chairman the policy over-lap ratio in India in 1960 was 2:3 i.e. out of every three persons insuring with L.I.C. two were seeking life insurance protection for the first time. (Indian Express, New Delhi Ed., August 30, 1962). The same ratio has therefore been employed for life insurance in force.

The situation does not improve even if it is assumed that the policy over-lap is zero (a remote possibility). In this case the percentage of the population insured as judged by the number of policies issued has increased from .29 per cent to 1.8 per cent which is again a six times increase only.
in force from 0.66 per cent in the period 1941-1951 to 0.47 per cent in the period 1951 to 1956 and 0.38 per cent in the period 1956-61. The decline in the ratio of death claims to business in force, which is mainly due to fall in crude Death Rate and increase in the expectation of life has created better chances of the survival of business which otherwise would have lapsed due to Death of the policyholders.

Another important factor which has facilitated the growth of life insurance is the changing composition of the population. The decline in the infant mortality rate from 27.4 per thousand to 21.6 per thousand and the improvement in the expectation of life (from 32.45 years at birth in 1941-1951 to 41.68 years in 1956-61 were conducive to the growth of life insurance as both of these groups spell dependency in one form or the other. Presumably this has created more demand for life insurance. Thus the demographic factor had been one of the most important factors in the growth of life insurance in India.

(b) The Increase in Per Capita Income and Redistribution of Income As Causes of Increased Life Insurance

Increased income levels have added the growth of life insurance both expansively and intensively. The per capita income has increased from ₹ 65 in 1931-32. to ₹ 327.3 in 1960. The effect of higher incomes on the one hand have enabled people to purchase life insurance coverage who previously were unable to do so while on the other hand those already owned life insurance policies have increased their coverage as their incomes increased. This is indicated by the improvement in the average size of policy.

1. The Ratio of Death Claims to Life Insurance in force in Table 15 is for the total business in force of Indian Insurers as the separate figures of Death Claim in India are not available. Even then the ratio indicates in broad terms general improvements in mortality experience of Indian Insurers as the foreign business constituted a very insignificant part of the total business. Separate figures for Death Claims in India have become available since 1958. The ratio for 1956-60 is therefore average ratio for three years 1956-60 as the figures for 1956 and 1957 are not available for the 12 months.
Another factor which helped the growth of life insurance savings in recent years is the redistribution effects of progressive taxation and the associated transfer payments. The abolition of Zamindari and princely States have changed the entire social and economic structure of the society. Since saving habits and preferences of upper and lower income groups differ substantially, the redistribution of income has materially altered the channels through which savings find their way into investment and the form in which long term funds are made available. Moreover the increasing burden of Federal Income taxes, and estate and inheritance taxes have profoundly influenced the saving and investment preferences for institutional savings. The rich class whose tax burden has increased since 1922 prefer either tax free government securities or takes a policy in order to enjoy a relief of maximum amount of exempted income.

 הכ Impact of Industrialization, Urbanisation and Diminution of Natural Security as a Cause of the Growth of Life Insurance:

In addition to the growth and age distribution of population and the secular increase in income, industrialization and urbanisation of the country is another important factor which has contributed to the growth of life insurance. Table No. 15 shows that the urban population has increased more rapidly than the rural population during the period 1931 to 1951. The increase in urban population has created more demand for life insurance. In agriculture societies the small or large pieces of land owned by individuals used to serve as the


TABLE 15

GROWTH OF POPULATION IN VILLAGES AND TOWNS

(Figs, in lakhs)

<table>
<thead>
<tr>
<th></th>
<th>1931</th>
<th>1941</th>
<th>1951</th>
</tr>
</thead>
<tbody>
<tr>
<td>POPULATION:</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>(a) Villages</td>
<td>...</td>
<td>2,420</td>
<td>2,710</td>
</tr>
<tr>
<td>(b) Towns</td>
<td>...</td>
<td>334</td>
<td>438</td>
</tr>
<tr>
<td>DECENNIAL GROWTH</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>(a) Villages</td>
<td>...</td>
<td>221</td>
<td>230</td>
</tr>
<tr>
<td>(b) Towns</td>
<td>...</td>
<td>52</td>
<td>104</td>
</tr>
<tr>
<td>RATE OF GROWTH:</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>(a) Villages</td>
<td>...</td>
<td>10.1</td>
<td>12.0</td>
</tr>
<tr>
<td>(b) Towns</td>
<td>...</td>
<td>18.4</td>
<td>34.0</td>
</tr>
</tbody>
</table>


centre of economic security. Under such societies the saving takes the form of reinvestment either in land or in the unincorporated business. Moreover, in villages joint family system and traditional affiliations of the individuals use to provide social security. But the liquidation of the joint family system and the mobilisation of the population from the farm to the cities have created the need for life insurance.

The effect of this factor has been presumably both expansive, "in marshalling new entrants to the institution of life insurance" and intensive in convincing those already owning policies of their need for increased coverage.

While the economic and social changes have created the circumstances which favour the growth of life insurance saving, the promotional activities of the life offices have lagged behind in relation to the population growth and income growth. This is indicated by the fact that the savings affected through life insurance are much less than 1 per cent of the national income as against 3 per cent in United Kingdom and Australia; 3.4 per cent in the United States and 2.8 per cent in Canada. Besides in India only 1.2 per cent of the population is insured as against 70 per cent of the population insured in United States of America. The following Table No. 16 shows that the ratio of life

**TABLE 16**

<table>
<thead>
<tr>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>Argentina</td>
<td>5</td>
<td>5</td>
<td>5</td>
<td>Japan</td>
<td>16</td>
<td>42</td>
<td>59</td>
</tr>
<tr>
<td>Australia</td>
<td>42</td>
<td>62</td>
<td>74</td>
<td>Mexico</td>
<td>6</td>
<td>-</td>
<td>12</td>
</tr>
<tr>
<td>Austria</td>
<td>N.A.</td>
<td>37</td>
<td>8</td>
<td>Netherlands</td>
<td>77</td>
<td>49</td>
<td>94</td>
</tr>
<tr>
<td>Belgium</td>
<td>28</td>
<td>16</td>
<td>43</td>
<td>New Zealand</td>
<td>63</td>
<td>88</td>
<td>102</td>
</tr>
<tr>
<td>Canada</td>
<td>115</td>
<td>146</td>
<td>172</td>
<td>Norway</td>
<td>34</td>
<td>29</td>
<td>35</td>
</tr>
<tr>
<td>Chile</td>
<td>5</td>
<td>-</td>
<td>3</td>
<td>Pakistan</td>
<td>1</td>
<td>-</td>
<td>5</td>
</tr>
<tr>
<td>Colombia</td>
<td>9</td>
<td>18</td>
<td>N.A.</td>
<td>Philippines</td>
<td>10</td>
<td>16</td>
<td>20</td>
</tr>
<tr>
<td>Costa Rica</td>
<td>7</td>
<td>16</td>
<td>22</td>
<td>Portugal</td>
<td>N.A.</td>
<td>-</td>
<td>9</td>
</tr>
<tr>
<td>Denmark</td>
<td>34</td>
<td>34</td>
<td>34</td>
<td>Porto Rico</td>
<td>19</td>
<td>38</td>
<td>48</td>
</tr>
<tr>
<td>Belgium (West)</td>
<td>20</td>
<td>28</td>
<td>30</td>
<td>Spain</td>
<td>9</td>
<td>5</td>
<td>6</td>
</tr>
<tr>
<td>Finland</td>
<td>24</td>
<td>30</td>
<td>42</td>
<td>Sweden</td>
<td>43</td>
<td>52</td>
<td>59</td>
</tr>
<tr>
<td>France</td>
<td>10</td>
<td>16</td>
<td>25</td>
<td>Switzerland</td>
<td>50</td>
<td>-</td>
<td>55</td>
</tr>
<tr>
<td>Germany (West)</td>
<td>58</td>
<td>57</td>
<td>67</td>
<td>United Kingdom</td>
<td>58</td>
<td>57</td>
<td>67</td>
</tr>
<tr>
<td>India</td>
<td>8</td>
<td>9</td>
<td>9</td>
<td>United States</td>
<td>97</td>
<td>126</td>
<td>142</td>
</tr>
<tr>
<td>Israel</td>
<td>9</td>
<td>6</td>
<td>9</td>
<td>Yugoslavia</td>
<td>N.A.</td>
<td>-</td>
<td>2</td>
</tr>
<tr>
<td>Italy</td>
<td>8</td>
<td>13</td>
<td>14</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

**SOURCE:** Life Insurance Fact Book, 1960 and 1962.

1. According to L.I.C. Chairman out of every three persons insuring with the Corporation two were seeking life insurance protection for the first time. I have assumed the same 3:2 ratio of policy ratio in deriving the percentage of the population insured in India - Indian Express (New Delhi Edition), August 30, 1962.
Insurance to national income is only 16 per cent in India as against 172 per cent in Canada; 142 per cent in U.S.A. and 67 per cent in U.K.

The low life insurance standard in India may be due to less-developed economy as "Insurance is largely the product of an advanced society... (It) is the characteristic response of a market civilisation to the universal human search for security. It finally came to full flower only in the complex industrial society of the twentieth century." 1

In less developed countries such as ours, the role of insurance has traditionally been played by other agencies. In India up to recent time various kinship obligation or age-grade loyalties such as Joint family system provided mutual aid, which served to insure the individual against many of the vicissitudes and the uncertainties of life. In western countries the social revolution that accompanied the rise of capitalism, the rapid industrialisation and urbanisation of modern life have destroyed or reduced the effectiveness of many established devices for 'insurance' of the individual and it was on these ashes that the modern life insurance has developed to such an extent in U.K., U.S.A. and Canada. It is striking, however, that the low life insurance standard in India is not only in relation to advanced economies but it is lower than some of the less developed countries such as Columbia and Mexico. Further, it will also be observed that the major improvement in India's position came only in the year 1960 as in the years 1950 and 1957 India had the lowest life insurance standard in the world.

Thus, whereas during the seven year period 1950 to 1957 the ratio of life insurance in force to national income has improved only by 12.5 per cent, it has increased by more than 78 per cent in the period 1957 to 1960. This

indicates that the slow growth of life insurance in the period 1950 to 1957 was not due to the narrowness of the market but due to the organisational and structural weakness of the insurance organisation. This factor should be discussed in order to measure the future potentialities of life insurance in India.

III: Organisational And Structural Weaknesses Of Life Insurance Companies in India:

Even though insurance might be looked on as a response to fundamental psychological urges of the human being, there are several factors that makes insurance successful in the economy. Primarily it depends upon the confidence of the people on the institutions. Secondly, the persuasive activities of the Companies are also important in creating insurance consciousness among the people. Finally, the financial inducement in the form of higher bonus is also an important factor where people purchase insurance not only for protection but also for 'saving'.

It is true that before the nationalisation of life insurance industry some of the big Indian concerns were enjoying great public confidence due to their size and financial administration, but the affairs in small concerns, as it has been shown earlier, were not at all satisfactory. The competition among companies and selling of insurance at very small content of surplus margin in the premium rates has frequently resulted into failure of insurance companies which had shaken the public confidence.

Similarly insurers in India have failed to create insurance consciousness among the people. This would be evident from the Survey conducted by the

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1. For example the surplus content of premium rates sold by Oriental, one of the largest concerns in India before nationalisation was only 2.1 per cent in 1952 and 1954 valuation as against 35.7 per cent of Norwich Union (U.K.) (1945 valuation) and 20 per cent of the Sun Life of Canada. (1945 valuation) The surplus content in the premium rates of other insurers must be lower as Oriental rates were comparatively higher (Agarwala, A.N: Op.cit., p 212).
Institute of Economics Hyderabad of the Low Income group. It indicates that about 15 per cent of the people in the area have shown their ignorance about insurance, and nearly 60 per cent people have religious and traditional prejudices against insurance. Similarly the survey of the Institute of Public opinion shows that "A large majority of the rural householders reported complete ignorance of life insurance. About 80 per cent of the families had no member who had got his life insured. While nearly 1.5 per cent refused to give any answer, only 8.1 per cent of the respondents stated that one or more member of their family had their live covered against death. Most of the members who reported undertaking life insurance were educated, while the number of illiterate people going in for insurance was almost negligible."

This attitude of the people towards life insurance prevail because the long-term operations and principles of life insurance are not easily understood and there is traditional reluctance to contemplate death and its consequences. Such psychological attitude of the people towards industry prevails in almost all traditional societies. For example in America, "In the 1840 when the first serious efforts made to popularise life insurance on the east coast much of the sales effort was directed in refuting religious objections. Elaborate arguments were constructed to show that the purchase of life insurance did not "tempt Providence!" Thus in U.S.A. and Canada, life insurance has made great progress due to the organisation of a proper sales force. Through "aggressive

1. Institute of Economics Hyderabad: An Enquiry into Life Insurance and Provident Fund Problem of Low Income Group in Hyderabad. Secunderabad City Area, p 75.
sales efforts' insurers have been successful in educating and removing traditional objections against life insurance. In India this aspect of life insurance industry has been terribly ignored. The erstwhile insurers recruited part-time agents having 'good social connexion.' The part-time agents were mostly untrained and they under-write business entirely due to their social connexions without creating insurance consciousness among the people.

Technically speaking, there is no harm in recruiting part-time agents for underwriting life insurance as such a practice has been followed in most of the countries of the world where life insurance has made rapid progress. But in India the appointment of part-time agents having no permanent stake in the business is questionable in view of the large size of uneducated population.

Besides, it is one of the distinctive features of life insurance business in other advanced countries that insurance consciousness among the people has been created through the mutual and coordinated efforts of the insurers. In U.S.A. for example, company training courses, training schools, and sales aids of all types have made the salesman more effective. The Life Insurance Agency Management Association, through research, stimulation, and advice, has made a valuable contribution to agency management training and sales promotion. The Institute of Life Insurance, through its advertising and public relations activities, has done much to increase public acceptance of life insurance and life underwriters. The American College of Life Underwriters and the Life Insurance Marketing Schools on College Campuses have helped to improve the professional competence of the sales force. The Joint efforts of the insurers have created a life insurance sales force which is alert, competent and ethical. Indian insurers on the other hand paid scant attention to this aspect of life insurance. Private insurers with the unorganised Sales force

and in competition with each other partly succeeded in mobilising the urban saving and when during the first five year plan there had been gradual shifts in income towards the rural areas they could not mobilise rural savings. In fact the motivation of illiterate population is more difficult and requires heavy procurement cost in the beginning. The inaccessibility of the villages due to lack of proper roads and highways, lack of medical facilities, difficulties of securing adequate proof of age etc. have also discouraged the private insurers to make any attempt to mobilise the rural savings.

These problems could not be solved with individual efforts of the companies. It required that the life offices by some agreement or cooperative effort among themselves should have explored the field. But the erstwhile insurers did not make any attempt in that direction with the result that the rural population which constituted more than 80 per cent of the population of India had no protection. And due to this fact life insurance savings could not keep pace with the rising saving and income which largely originated in the rural areas during the last decade.

The 'Teething Period of L.I.C. 1956 to 1957:

After the nationalisation of life insurance, the Corporation continued to recruit part-time agents and granted Benami agencies. In a developing economy reliance on Benami agency is not desirable as "they cannot fulfil the first obligation of an agent viz. personalised service. Moreover they cannot have the same urge to procure additional or sound business as a regular agent would have done. There is also the likelihood of their being used by the Field Officers of the Corporation for their own benefits."

2. A Benami agency is one where the canvassing and procurement of business is done by some body other than the person in whose name the licence is held.
3. Estimates Committee (1960-61) 139 (Second Lok Sabha), Report on 'The Life Insurance Corporation of India, Bombay, Lok Sabha Secretariat, New Delhi, 1961, p 64.
According to the Estimates Committee the evil of Benami agencies was not only persisting but increasing. An idea of the insincerity of the Benami agents towards the life insurance can be had from the following Table which shows the distribution of business of the Corporation throughout the year.

TABLE 17

DISTRIBUTION OF THE BUSINESS SECURED BY THE CORPORATION DURING THE YEAR 1989 WITH COMPARATIVE FIGURES FOR THE U.S.A.

<table>
<thead>
<tr>
<th>Months</th>
<th>L.I.C. (%)</th>
<th>U.S.A. (%)</th>
</tr>
</thead>
<tbody>
<tr>
<td>January</td>
<td>0.5</td>
<td>6.9</td>
</tr>
<tr>
<td>February</td>
<td>2.5</td>
<td>7.4</td>
</tr>
<tr>
<td>March</td>
<td>4.1</td>
<td>8.5</td>
</tr>
<tr>
<td>April</td>
<td>4.7</td>
<td>8.3</td>
</tr>
<tr>
<td>May</td>
<td>5.1</td>
<td>8.1</td>
</tr>
<tr>
<td>June</td>
<td>5.7</td>
<td>8.8</td>
</tr>
<tr>
<td>July</td>
<td>6.0</td>
<td>7.9</td>
</tr>
<tr>
<td>August</td>
<td>6.1</td>
<td>7.9</td>
</tr>
<tr>
<td>September</td>
<td>6.5</td>
<td>7.7</td>
</tr>
<tr>
<td>October</td>
<td>6.4</td>
<td>8.4</td>
</tr>
<tr>
<td>November</td>
<td>8.0</td>
<td>8.8</td>
</tr>
<tr>
<td>December</td>
<td>44.4</td>
<td>11.3</td>
</tr>
</tbody>
</table>


It would be seen that the over concentration of a major portion of the new business in the last months of the year in India is in striking contrast to the corresponding distribution in the U.S.A. This rush of business towards the end of the year is said to be mainly due to the field staff trying to complete its quota of annual business in the last two months as their increment or continuation of agency depends on it. The present concentration of business towards the end of the year is not desirable as it imposed a severe strain on the
organisation. There is also greater likelihood of unsound business being written during rush period resulting in higher lapse ratio and consequently higher expenses. Further, this concentration of business in the last month of the year also reveals that how much insurance business is concealed in the hands of the field force and what their efforts could add to the growth of life insurance in India.

Moreover, in India the average income per agent is so low that it has not attracted young educated persons. For example it is estimated that the average income of an agent is about ₹350 per annum, without allowing for his working expenses for securing business. A few others who might be whole time, may write a considerable amount of business and have a larger income. On the whole the average remuneration that an agent can get is not sufficient to enable him to work whole-time. This is in great contrast to U.S.A. where only whole-time agents are employed by the Insurance Companies. They are trained for about two to three years before being allowed to work. In India up to very recent time agents were recruited by the untrained Field Officers who were expected to train their field force.

Prompt and efficient service to the policyholders is another important factor in insurance which inspires confidence among the insured population. Such servicing is continuous and varied and includes work relating from the time a policy is issued till its final settlement normally by payment. Immediately after the nationalisation of life insurance the Service Standard of the Corporation sharply deteriorated. There were instances where premium receipts were not issued, loans on policies were granted after six months of the receipt of application and settlement of maturity and death claims have taken more than a year. The public opinion became averse and this made the

2. Estimates Committee, p 71.
task of field force still more difficult in motivating the people to purchase life insurance. The deterioration in the service standard was due to the reorganisation of the business of about 243 life offices. Although it was a temporary phase, yet in life insurance it should be remembered that the public opinion counts much as Knowlton has pointed out that if "90,000 people are dissatisfied and the claim is that they are, then it only takes ten years to get 900,000 dissatisfied people." In fact the business of L.I.C. as distinct from other public concern is much more sensitive to the public opinion. Life insurance office flourishes with favourable public opinion. It means that the corporation should have taken special care in serving the policy holders and in the management of the funds. But there had been lapses both in providing the service to the policyholders and in the investment of funds where the public confidence had been shaken.

Another cause of the low life insurance standard is the composition of life business of the Corporation. In India with profit policies constitute 80 per cent of the total policies issued by the Corporation. And Figure 10 will also show that the percentage of endowment policy to total insurance in 1960 was approximately 65 per cent. This can be compared with 59 per cent of endowment insurance in England. It is, however, in contrast to Canada and U.S.A. In Canada, for example, in 1960 endowment is only 13 per cent; whole life 50 per cent and term or temporary insurance 37 per cent. In U.S.A. endowment insurance is only 8 per cent; whole life 40 per cent and term and miscellaneous insurance is 53 per cent. A higher composition of whole-life policies indicate that insurance in those countries is purchased for the purpose of social security.


2. Estimates Committee Report, p 73.
PLANS OF ASSURANCES.

1960

Source: I.I.C. Annual Reports and Accounts.

8.96% Whole Life Assurances.
6.56% Joint Life Assurances.
66.17% Endowment Assurances.
10.48% Miscellaneous
7.83% Children's Assurances.

Fig.: 10
Since the premium rates of such policies are low it would mean a higher insurance cover for the same amount of premium paid. Thus the higher per capita insurance cover in U.S.A. and in some other countries is to an important extent due to relatively larger volume of premium paid for pure insurance. In contrast to this the high composition of with-profit policies especially of endowment indicates that in India life insurance is considered as the media of saving and not as a measure of social security alone.

The composition of the business also shows that in a country where the life insurance is taken for income, the persuasive activities of the Corporation would bear very little fruit unless they are backed by financial inducement. This is important as Lewis has pointed out that:

"In addition (to the persuasive efforts of the institution) the financial incentives for saving should be adequate, in the sense that the rate of interest should be attractive. (This is more important)...If the community is also using inflation for the purpose of capital formation, with the result that the value of money is falling, there is something to be said for guaranteeing the real value of small savings; otherwise small savers are discriminated against (since the value of other assets rises as prices rise), and small savings are discouraged."(1)

The life insurance companies in India completely ignored this aspect in the investment of their funds. They continued to follow a defensive investment policy which did not earn much credit as Prof. Agarwala has pointed out:

"The investment policy pursued by them (Indian Insurers) during the 42 years of their existence did not show any pronounced degree of elasticity and flexibility. On the other hand, it proved to be rigid and obstinate in its adherence to Government securities which continued to constitute a major part of total assets..."(2)

In pursuing a defensive and unenterprising investment policy the insurance companies have no doubt earned adequate interest to meet their contractual obligations but they did not make the earnest endeavour to earn a higher rate on investments. After the nationalisation of life insurance even the L.I.C. ignored this aspect in the investment of its funds and did not make any genuine

2. Ibid. p 368.
II. 30

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2. Ibid. p 368.
attempt to serve the policyholders by earning a higher income on investments.

In contrast to the investment policy of the insurers, the small saving drive of the Government of India introduced many new features in the scheme. Through the National Saving Organisation the Government launched its selling campaign to make its sales programme effective, the Government introduced many new features in the schemes such as exemption from Income Tax, etc. It also designed various types of bonds to suit the requirements of different classes of the savers. In addition the rate of interest on these bonds continued to increase to attract the people to invest in Small Saving Scheme. Life Insurance Investment Policy, on the other hand, remained unmindful to these changes in the capital market. This was an important reason for keeping down the rate of growth of life insurance saving in relation to the Small Savings (Postal Savings) during the Period 1950-51 - 1959-60.

Absence of State's Support in Stimulating Demand for Life Insurance in India:

The role of the Government in creating the 'insurance consciousness' among the people is not the least important, in advanced countries. For example in most of the western countries, government's compulsory life insurance scheme has worked as an ignite in spreading insurance habit among the people. Similarly, during the second World War, the introduction of War Risk Insurance Schemes tended to make property insurance popular in India. The habit once acquired and the utility of insurance once recognised gives continued fillip to the insurance. In case of life insurance the Central Government has no compulsory life insurance schemes for its 20 lakh employees. The introduction of compulsory insurance scheme could have been an important factor in creating insurance consciousness among the people. It is all the more surprising that the scheme has not been introduced by the Central Government when it is possible

1. Infra, p VII-17
2. See pages III-15 to III-16.
for a number of States Government to do so.

Apart from this the Government can also give incentive to its employees to insure by providing the facility of the payment of premium from the Salary or the Provident Fund. Collection of premia at source from the salaries of the insured Government servant is a facility which has undeniable advantages: It not only stimulates the demand for insurance but it also makes lapses almost impossible, reduce collection expenses and is generally appreciated by the insured. Such a facility is provided under the Postal Life Insurance Department but is not available to the Government servants insured with L.I.C. Despite the recommendations of various bodies and committees the Government has denied this opportunity to the L.I.C. due to administrative and accounting difficulties. In view of the fact that the Government has recently extended this facility for small saving scheme, I can safely recommend that in the larger interest of the society, our Government should see the feasibility of introducing the payment of policy premium from the salaries of its employees.


While the very fact of nationalisation of life insurance is having a salutary effect on the public mind, the Corporation has taken several steps to popularise life insurance in the country in recent years. The efforts of the Corporation in this connection could be discussed under the following heads:

1. Administrative Improvements in order to (a) Sale more insurance and (b) to serve effectively those who are already insured; (2) intensive and extensive derive in urban and rural areas.

1. In India the States of Andhra Pradesh, Kerala, Mysore, Madhya Pradesh, Uttar Pradesh, Rajasthan and Jammu and Kashmir have compulsory insurance schemes (Estimates Committee, p 28.)

Administrative Reforms:

To improve administrative efficiency and to ensure that a large number of decisions are taken at lower level the Corporation has embarked upon a programme of progressive decentralisation. It has also posted higher grade officers to some of the important divisional offices with larger powers. The divisional offices are being gradually provided with the machinery necessary to maintain policyholders services at an efficient level. For the purpose of effective sales and service of the policyholders the Corporation has opened several Divisional and Branch Offices not merely to procure new business but to absorb and service its ever increasing business. Thus in 1956 the Corporation had only 33 Divisional Offices and 216 Branch Offices or sub-offices, at the end of 1960, it had in addition to the Central and Zonal Offices, 35 Divisional Offices, 267 Branch Offices, 144 sub-offices and 130 Development Centres. In this way the Corporation has a total of 596 servicing centres in 1960 as against 219 with which it started.

Organisation of Field Force:

Next to the establishment of offices, the organisation of Field Personnel is of prime importance for the promotion of life insurance. The Corporation adopted a pattern of field officers and agents working under the branch officer. The Corporation has introduced sufficient incentives both for supervising personnel and for the agent to encourage them to give of their best. To increase the efficiency of the sale and servicing of life insurance of its field force the Corporation arranged for their training.

The training in the field of administration, is today imparted through instructors posted at the divisional offices. For training of the administrative staff, supervising staff and officers there is the Administrative Staff College at Nagpur. Development training is given through 8 centres at present. The Institute has so far imparted training to 536 officers and 1 Supervisory Staff, 5214 field officers and 4844 agents.

(a) Sales Efforts in the Urban Areas:

The Corporation intensified its sales activities by the Liberalisation of policy conditions, introduction of Group Insurance and Superannuation Schemes and Salary Saving Scheme. A brief review of the new schemes the Corporation has introduced, would indicate the steps which it has taken in popularising life insurance in urban areas.

After an intensive and expert scrutiny of the basis of underwriting, a thorough modification has been made so that people with service limitations and sub-standard lives such as diabetic could now be insured. Although policy liberalisation would increase the sale of L.I.C. yet the Corporation should make a very careful assessment of the possibility for it could result into huge losses. It would be desirable if the Corporation proceeds in this connection after revising the Mortality Data which has become out of date with the improvement in the general health of population since 1935.

Group Insurance and Superannuation Schemes:

For the first time in the history of life insurance in India, L.I.C. made the mass approach in the form of group insurance. This form of insurance has

been popular in U.S.A. and other industrialised countries but in India the Corporation has introduced it only in 1957. It constitutes nearly 1.5 per cent of the total business in India as against 33 per cent of total business inforce in U.S.A. The total sum insured in group insurance in 1958 was 8.75 crores against 206 lives, increased to 12.170 lakhs against 7,046 lives in 1960.

**Salary Saving Scheme:**

The Corporation introduced the Salary Saving scheme in the middle of the year 1957. This scheme is intended to help salaried employees in paying their premiums regularly. In terms of this scheme, the employers agree to deduct premiums from salaries and remit them to the Corporation. The Corporation on its part not only waives the usual monthly extra but also gives yearly rebate on the tabular premiums. As many as about 7000 firms and institution introduced the salary savings scheme for the benefit of the staff during the years 1957 to 1960. The sum assured under the Salary Saving Scheme increased from Rs 14.43 crores in 1958 to Rs 27.20 crores in 1960, while the number of policies increased from 54,873 in 1958 to 1,03,849 in 1960.

**b) Sales Efforts in Rural Areas:**

Intensive development of business in rural areas being one of the primary objectives of nationalisation, the Corporation's development plans includes in measures designed to extend the organisation and its selling programmes in rural areas.

The work of the Corporation in the absence of any experience of rural lives became more difficult. However, the Corporation took bold step in propagating the message of life insurance for the first time in rural areas. The Corporation

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1. Life Insurance issued usually without any medical examination on a group of persons under a master policy is called Group Insurance. It is usually issued to an employer for the benefit of employees. The individual members of the group hold certificates as evidence of their insurance. (Gregg, Davis, W Group Life Insurance - Richard D. Irwin, Inc., Homewood, 1960, p 4.)
was fully convinced that the slow and steady shift in income from the urban middle class to skilled and semi-skilled labour, village artisans, small-scale manufacturers and agriculture becoming more pronounced. Rural saving if properly harnessed, can produce significant and remarkable results for the L.I.C. As a pilot project, therefore, the Corporation undertook life insurance in intensified form in selected community development blocks in Rajasthan and Bihar, using rural panchayats as agents. Some of the measures that have been taken to develop rural areas are given in the following paragraphs.

As a first step in building up an organisation, field officers were given exclusive territories with the responsibility for the intensive development of business from all parts of the area. They were asked to recruit local agents, train them and motivate them to write the largest volume of business possible.

A few field officers have been authorised to collect renewal premiums, this responsibility may also be given to selected agents in the future. Lack of facilities for regular payment premium is the handicap of rural development and the Corporation is alive to the need to evolve some permanent plan.

In 1958, the Ajmer Divisional Office introduced a scheme for intensive development of rural areas with active assistance from community development officers. All help was given by Block Development and Extensive Officers attached to community development blocks and village panchayats. An interesting feature of the scheme was that the village panchayats were benefited financially by way of commission which they could utilise towards the development programmes. The success of the scheme in Rajasthan induced other States to take an active interest.

Recently, the Ministry of Community Development and Co-operation proposed a new scheme of development of life insurance in rural areas through
Panchayats. The scheme was submitted to the Corporation for comments and together with the views of the Corporation was circulated by the Central Government to all States Government for implementation. Under the scheme Field Officers of the Corporation will work in close cooperation with Block Development, National Extension Service and Village Panchayat Officers. The Panchayats will be responsible for not only development of business in the areas under their control but also for the collection of premiums on the policies issued to the people in the Panchayat areas.

Increased publicity is being organised through printed literature posters etc., in regional languages, films, broad-casting and participation in local fairs and exhibitions.

Janata Policy:

The Corporation introduced Janata Policy in 1956 to cater the small savers. Because of proportionately greater expenditure involved in their sale they have been discontinued in 1960. In 1960 therefore only 23,919 policies were sold for Rs 1.82 crores as against 28,705 policies for Rs 2.01 crores in 1959.

Non-Medical Insurance:

As a further step to reach the 'virgin rural areas' the L.I.C. has decided to extend life insurance without medical examination to selected rural areas where the facilities for medical examination were poor. The new scheme was introduced where qualified doctors were not available within the radius of about ten miles. The maximum sum for which one or more policies can be taken out under the scheme was initially limited to Rs 2,000 but it was subsequently raised to Rs 5,000 in 1960. The policies are issued only to persons up to 45 years of age. The maximum term of insurance is 25 years and the maximum premium closing age or maturity is 60 years.
It may be pointed out here that the maintenance of proper health is the basis on which non-medical insurance has been developed in most of the advanced countries. But there is hardly any such basis in the rural areas of India. To some extent L.I.C. would be justified in extending the non-medical insurance to employees in Government or Quasi-Government services or in the services of reputed firms for assured sums ranging from Rs 300 to Rs 5,000. Such employees can be assumed to have a standard of living and also facilities for medical treatment within a radius of ten miles. With these facilities life insurance on a non-medical basis can be built up, but to offer it without such facilities at the rates applicable to medically examined urban policy holders seems to be carrying things too far. Presumably, the actuarial experts of L.I.C. are of the views that non-medical insurance on a mass scale can pay for itself. Even so it will be a gamble and not a calculated risk. Over the years as the Corporation gains sufficient experience of non-medical insurance, it will perhaps be able to process the premium rates to be charged for such insurance on the basis of collected data and statistics. For the present, this venture in an unchartered field can only be at the expense of the medically examined urban policy holders.

The hope that the urban insurance will subsidise the heavier costs in the rural areas may not be agreeable to urban policyholders. They might feel that they are being deprived of returns from their investment because of the L.I.C.'s costly venture. Yet there is no escape if the L.I.C. is to persist in its rural insurance policy. Equity demands that it keeps the two accounts separate as far as possible and ensure over the years a separate valuation of the results of the two sections. That will enable both urban and rural people to find out the actuarial returns they get from their investments. Moreover, steps taken by L.I.C. for rural development are providing increasingly fruitful results as
can be deduced from the figures of new business of rural branches from the following Table. The Table shows that the rural business which was 37 per cent of the total business in 1957 increased to 45 per cent in 1960.

### TABLE 18

**RURAL AND URBAN NEW BUSINESS OF L.I.C. (Rs Crores)**

<table>
<thead>
<tr>
<th>Year</th>
<th>Total New Business</th>
<th>Urban New Business</th>
<th>Rural New Business</th>
<th>Percentage of 3 to 2</th>
<th>Percentage of 3 to 2</th>
</tr>
</thead>
<tbody>
<tr>
<td>1957</td>
<td>276.50</td>
<td>174.36</td>
<td>102.14</td>
<td>63</td>
<td>37</td>
</tr>
<tr>
<td>1958</td>
<td>337.45</td>
<td>209.05</td>
<td>128.40</td>
<td>62</td>
<td>35</td>
</tr>
<tr>
<td>1959</td>
<td>417.28</td>
<td>238.29</td>
<td>179.59</td>
<td>57</td>
<td>43</td>
</tr>
<tr>
<td>1960</td>
<td>486.02</td>
<td>261.45</td>
<td>224.56</td>
<td>54</td>
<td>45</td>
</tr>
</tbody>
</table>


The Effect of the Efforts of the Corporation on the Quality and Volume of Life Insurance Business underwritten in India (1956-60):

The measures adopted have resulted into all round efficiency in service and sales standard of the Corporation and spectacular increase in the new business during the last two years of our enquiry are briefly discussed below.

1. It is important to note here that the Corporation classified the business procured through branches located in cities with a population of one lakh or more as urban and from branches at other centres as rural. This differs from the Census classification where a population of 5,000 or below are considered as rural. In my opinion, the Corporation should adopt the Census definition and the figures of rural business may, accordingly be compiled and published separately in its Annual Reports. This would provide a better opportunity to judge the results of its efforts.
The Corporation, by administrative reforms, has brought down the renewal expense ratio from 15.46 per cent in 1958 to 12.90 per cent in 1960. The expense ratio has fallen from 29.2 per cent in 1958 to 28.4 per cent in 1960. By the improvement in the quality of the business underwritten and through prompt service it has also brought down lapse ratio from 9.1 per cent in 1956 to 6.0 per cent in 1960. By the vigorous sales drive in urban and rural areas the business of the Corporation has also increased. The new business transacted by the Corporation in 1960 was higher than the peak business done by the insurers in 1955 which was only ₹240.51 crores. The business in 1959 was 22 per cent more than in 1957. In 1959 the Corporation registered an increase of 25 per cent over previous years figures and in 1960 it registered an increase of 18 per cent over preceding figures. The increase in sum assured in 1960 is thus 75.4 per cent over 1957 figures. The number of new policies issued has also steadily increased to 12.6 lakh in 1960 which is about 54.1 per cent more than the number issued in 1957.

The average sum assured per policy in India has risen steadily from ₹3424 in 1957 to ₹3903 in 1960. The period has also witnessed a spectacular increase in Total Business in force. The total business in force on 31st December, 1960 was ₹2176 crores under 74.56 lakhs policies. In this short period, therefore, the business in force has increased from ₹1128 crores in 1955 (last year of Private Enterprise) to ₹2176 crores in 1960. An increase of more than 93 per cent.

The rapid growth of life insurance during the last three years, 1957-1960 has important affect in raising the life insurance standard of the country. Table No. 19 shows that the percentage of life insurance in force to National Income; Premium Income to National Income; Percentage of the population insured and the per capita population insured has made much more rapid progress in the last two years than in any other previous years.
## TABLE 19

**IMPROVEMENT OF LIFE INSURANCE STANDARD IN INDIA**

<table>
<thead>
<tr>
<th>Years</th>
<th>Percentage of Life Insurance in force to National Income</th>
<th>Percentage of Life Insurance Premium to National Income</th>
<th>Per capita Life Insurance in force</th>
<th>Percentage of Population insured</th>
</tr>
</thead>
<tbody>
<tr>
<td>1951</td>
<td>7.9</td>
<td>0.40</td>
<td>23</td>
<td>0.6</td>
</tr>
<tr>
<td>1952</td>
<td>9.4</td>
<td>0.45</td>
<td>25</td>
<td>0.7</td>
</tr>
<tr>
<td>1953</td>
<td>9.3</td>
<td>0.47</td>
<td>26</td>
<td>0.7</td>
</tr>
<tr>
<td>1954</td>
<td>11.4</td>
<td>0.52</td>
<td>29</td>
<td>0.8</td>
</tr>
<tr>
<td>1955</td>
<td>11.3</td>
<td>0.51</td>
<td>30</td>
<td>0.8</td>
</tr>
<tr>
<td>1956</td>
<td>N.A.</td>
<td>N.A.</td>
<td>N.A.</td>
<td>N.A.</td>
</tr>
<tr>
<td>1957</td>
<td>N.A.</td>
<td>N.A.</td>
<td>N.A.</td>
<td>N.A.</td>
</tr>
<tr>
<td>1958</td>
<td>12.6</td>
<td>0.55</td>
<td>40</td>
<td>1.0</td>
</tr>
<tr>
<td>1959</td>
<td>14.3</td>
<td>0.62</td>
<td>46</td>
<td>1.1</td>
</tr>
<tr>
<td>1960</td>
<td>15.3</td>
<td>0.65</td>
<td>53</td>
<td>1.2</td>
</tr>
</tbody>
</table>

**Percentage increase between:**

<table>
<thead>
<tr>
<th>Period</th>
<th>Increase</th>
<th>Life Insurance Premium</th>
<th>Life Insurance in force</th>
<th>Population insured</th>
</tr>
</thead>
<tbody>
<tr>
<td>1951-55</td>
<td>43.0</td>
<td>27.5</td>
<td>20.4</td>
<td>33.3</td>
</tr>
<tr>
<td>1955-60</td>
<td>21.4</td>
<td>18.2</td>
<td>32.5</td>
<td>33.5</td>
</tr>
<tr>
<td>1951-60</td>
<td>93.7</td>
<td>62.5</td>
<td>130.4</td>
<td>100.0</td>
</tr>
</tbody>
</table>

**SOURCE:**

U.N.O: Demographic Year Book - 1960, p 137.
L.I.C: Annual Reports and Accounts; Controller of Insurers:
Insurance Year Books, Reserve Bank of India: Banking and
Monetary Statistics.

**Note:**

2. Per capita Life Insurance and Percentage of population insured for 1951 is on the basis of Census figures. For other years it is based on the mid-year population estimates in U.N.O. Demographic Year Book.
3. Policy overlap has been assumed 2:3. See also Note on page II.17
4. As figures of Life Insurance in force and Premium Income for 1956 are available for eight months and for 1957 for 16 months they have not been used.
5. The figures do not include the comparatively small amounts of business on the books of postal department and a few State Governments
6. N.A. = Not Available.
The increasing life insurance consciousness in India and the growth of life insurance in force led to the accumulation of huge life fund. This is shown in Figure 12. The Corporation's Life Fund has registered a significant increase from Rs 495 crores in 1959 to Rs 560 crores in 1960. In the period 1951 to 1960 the life fund has increased by about Rs 304 crores. In the total life fund of Rs 560 crores in 1960, the life fund in India was Rs 519.7 crores as against Rs 457.5 crores in 1959. These trends in the volume of new business and the growth of life insurance in force and life fund indicates that in future L.I.C. will be custodian of enormous national resources. This will be clear from the study in the following chapter.

Summary and Conclusion:

The causes of the slow growth of life insurance savings in India have been explained in the historical background of life insurance industry in this Chapter. It has been pointed out that the growth of life insurance in India is largely due to natural causes such as population growth, income growth and industrialisation and urbanisation of the country. While the natural factors have created the circumstances which favour the growth of life insurance, the persuasive efforts of the insurers failed to create insurance consciousness among the people. This is evident from the low percentage of the population insured in India and the low ratio of life insurance in force to national income. Judged from any criteria India has the lowest life insurance standard in the world. This was mainly due to organisational and structural weaknesses of insurance offices in India. The Sales technique, the service standard and the investment policy adopted by the insurers failed to motivate the people. The erstwhile insurers did not make any attempt to mobilise the rural savings due to high cost involved in motivating the rural population.
Thus in 1956 the Government of India decided to nationalise the life insurance with a view to mobilise the urban and rural savings. After the nationalisation of life insurance, L.I.C. improved the sales and service standard of life insurance business. It introduced several types of policies to cater to the needs of the urban population. It also explored the rural field for the first time in the history of life insurance in India. In this connection the Corporation introduced Non-Medical Insurance and has been working in close association with the Rural Panchayats. In view of the lack of medical facilities and extra cost involved in procuring rural business, it has been suggested that in the interest of the medically insured urban population, L.I.C. should keep the two accounts separately.

It has also been observed that the administrative improvements and the Training Schemes of Field force have healthy influence on the growth of life insurance in India. This can be seen from the fact that the amount of new business figure increased from Rs 240.61 crores in 1955 to Rs 487.84 crores in 1960. During the ten years - 1950-1960 - the life business in force has trebled. To this remarkable increase, the contribution made by the private sector companies during 1950-55 was Rs 380 crores. During the following five years, the increase has been as much as Rs 1,048 crores. Expressed as a percentage of the national income, life business in force has increased in the country from 11 per cent in 1955 to 15 per cent in 1960. The trends in the growth of life insurance also indicates that if the Corporation continues to play its cards well, it will mobilise huge volume of personal savings in future. Some idea of its potential resources can be had from the study in Chapter III.