CHAPTER III

FUTURE OF LIFE INSURANCE SAVINGS VIS-A-VIS POTENTIAL RESOURCES OF L.I.C.
(a) Population trends and the Future of Life Insurance:

It was pointed out in Chapter II that demographic factor has greatly contributed to the growth of life insurance. As compared to 70 per cent of the population insured in U.S.A. the ratio of insured population is very low in India. There is, therefore, sufficient scope for the improvement in the percentage of the population insured. Besides, expansive growth of life insurance may still occur even if the proportion of the population insured remained constant provided the population itself increases. Here in my opinion is the principal avenue through which future expansive growth may be anticipated.

The future projection of the growth of the population have been prepared by numerous authorities such as the Planning Commission, U.N.O., C.S.O and National Council of Applied Economic Research. These estimates vary with each other but all indicate that due to sharp decline in crude Death Rate and increase in crude Birth Rate, India is bound to experience further rise in population. The following Table indicates that the growth rate of population

| TABLE 20 |
|----------------------|-------------------------------|-------------------------------|-------------------------------|-------------------------------|
| Per 1000 per annum   | 1956-61                        | 1961-66                        | 1966-71                        | 1971-76                        |
| Birth Rate           | 40.7                           | 39.6                           | 32.9                           | 27.3                           |
| Death Rate           | 21.6                           | 18.2                           | 13.9                           | 12.8                           |
| Growth Rate          | 19.1                           | 21.4                           | 19.0                           | 14.7                           |

SOURCE: Third Five Year Plan Draft Outline, p 5.

would increase up to the end of the Third Five Year Plan. From the Fourth Five Year Plan the growth rate is likely to decline because of late marriages and the Family Planning methods adopted during the Second and Third Five Year Plans. The increase in number of people would enable L.I.C. to expand its business. Moreover, a population which is growing rapidly due to excess of crude Birth Rate over crude Death Rate has an age distribution which is more favourable to life insurance. The decline in infant mortality and increase in the expectancy of life would create dependency at both ends of life and in this way the demand for life insurance would increase. Table 21 shows these changes in the composition of population. The increase in the age group 15-59 which is regarded as Working Age in India and in which insurers are also interested would provide ample opportunity to L.I.C. to expand its sales.

TABLE 21

AGE COMPOSITION OF ESTIMATED POPULATION
1961-76

<table>
<thead>
<tr>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>0 - 14</td>
<td>17.6</td>
<td>20.33</td>
<td>23.04</td>
<td>25.72</td>
</tr>
<tr>
<td>15 - 59</td>
<td>23.9</td>
<td>26.10</td>
<td>29.20</td>
<td>33.06</td>
</tr>
<tr>
<td>60 - 69</td>
<td>1.6</td>
<td>1.85</td>
<td>2.15</td>
<td>2.47</td>
</tr>
<tr>
<td>70 and over</td>
<td>0.7</td>
<td>0.87</td>
<td>1.04</td>
<td>1.26</td>
</tr>
<tr>
<td>All Ages</td>
<td>43.8</td>
<td>49.15</td>
<td>55.47</td>
<td>62.51</td>
</tr>
</tbody>
</table>

Percentage of 0 - 14 age Group to Total: 40.1, 41.4, 41.6, 41.1
Percentage of 15 - 59 to total: 54.6, 53.1, 52.7, 52.9
Percentage of 60 - 69 to total: 3.7, 3.8, 3.8, 4.0
Percentage of above 70 to total: 1.6, 1.7, 1.9, 2.0

100.0  100.0  100.0  100.0

SOURCES: The Third Five Year Plan, p 751.

A factor of outstanding benefit to the life insurance industry has been that of medical advancement and rising health standards in India. In the Third Five Year Plan increased emphasis will be laid on preventive public health services. As in the Second Plan, specific programmes have been formulated for the Third Plan for improvement of environmental sanitation, specially rural and urban water supply, control of communicable diseases, organisation of institutional facilities for providing health services and for training of medical and health personnel, and provision of services such as maternal and child welfare, health education and nutrition. The Third Five Year Plan also involves a total outlay of about Rs 342 crores, as against outlays of Rs 140 and Rs 225 crores in the First and Second Plans respectively for the improvement of the health of population. These measures would considerably reduce the Death Rate and would be beneficial to the life insurance industry. Moreover, life insurance policy holders comprise a selected group within the entire population. Their ownership of life insurance usually implies the possession of certain superior moral qualities. An even more important factor is that policy holders constitute a medically selected group, because of their need to pass medical examinations. It is not surprising, therefore, that the proportion of Death Claim to total business in force would considerably decline in India.

In summation, the outlook for continued health improvement and gains in mortality appears to be good. L.I.C. and its policy holders should benefit

1. Ibid, p 651.
2. The mortality experience of non-medical policies will depend upon the underwriting performance of L.I.C. which is likely to improve due to general health of the population.
accordingly. Reductions in premium rates to reflect at least a portion of mortality savings may be expected on new policies. However, conservatism would suggest retention of a part of such savings and some lag in the adjustment of rates. Moreover, rates on existing policies are fixed by contract and cannot be changed. Hence, full savings from mortality improvement will be realised on these policies and life fund would have a steady growth.

(b) Secular Trend in Income and the Future of Life Insurance Savings:

Another measure of life insurance potential lies in the growth of per capita income. The increase in per capita income of the people would enable them to enhance the insurance protection. This would be reflected in the increase in the number of policies as well as by the improvement in the average size of policy.

A synoptic view of the future increase in national income and per capita national income can be had from the following table.

TABLE 22

PROJECTED GROWTH OF NATIONAL INCOME AND PER CAPITA INCOME
1951-56 to 1971-76

<table>
<thead>
<tr>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>National Income (Rs Crores)</td>
<td>10,800</td>
<td>14,500</td>
<td>19,000</td>
<td>25,000</td>
<td>33,000 - 34,000</td>
</tr>
<tr>
<td>Per Capita Income</td>
<td>281</td>
<td>330</td>
<td>385</td>
<td>450</td>
<td>530</td>
</tr>
</tbody>
</table>

Source: The Third Five Year Plan, p 28.

Note: Figures of Per Capita Income are on the basis of 1961 census of population and revised estimates of Population growth.

1. The precise determination of the increase earning from this cause is a complex actuarial problem, which is beyond the scope of this study.
It is evident from the preceding table that life insurance business would substantially increase in future even at the present ratio of life insurance in force to national income along with the rise in income.

However, in a developing economy, where the per capita income is estimated to improve from Rs 227.3 in 1960-61 to Rs 530 in the period 1961-66 to Rs 450 in 1966-71 and Rs 530 in the period 1971-76, it can be assumed that the per capita life insurance and percentage of life insurance to national income would considerably increase. Thus apart from the growth through expansion of the number of policyholders, there are indications that life insurance business is capable of further growth through intensifying its coverage in the market.

This assumption seems to be reasonable as the present low life insurance standard in the country is due to poverty, prejudices and ignorance of the people. They are bound to be removed along with the increase in income, through education and persuasive activities of the Corporation.

However, some uncertainty will remain in the future growth of life insurance due to the peculiar characteristics of a developing economy. The inflationary methods of financing economic development erode saving margin of the people. The fiscal measure adopted by the State to finance development schemes and to remove the inequality of wealth are also important factors which influence the desire and ability to save. Besides, the State Borrowing programme and the social security programmes are also competing agencies which influence life insurance. I have discussed the implications of these factors on the future growth of life insurance in the following pages.

(1) Effect of Inflationary Finance of Economic Development on Life Insurance Saving:

The inflationary methods of financing economic development which have been adopted in India affect life insurance savings in three ways:
In the first instance a constant rise in prices of the consumer goods affects the ability of the people to save and make payment of premium difficult. This often results (although as a last resort) increase in lapse ratio, policy loans and surrenders. During the Second Plan period, for example, the general price level is estimated to have increased by 30 per cent and the working class cost of living index by 24 per cent. Inflationary pressures thus generated have begun to be reflected in the net lapse ratio of the Corporation. The lapse ratio which was 5.1 per cent in 1958, increased to 6 per cent in 1960. There are also certain other disquieting signs which show that some policyholders with fixed income and increasing commitments are finding it difficult to save enough to keep their policies alive. Loans to policyholders, which used to increase by roughly Rs 1 crore per year till 1959, increased by Rs 3 crores in 1960. Outstanding premiums, which similarly used to increase by Rs 1 crore per year have increased in 1960 by Rs 2.5 crores.

Looking to these trends the L.I.C. Chairman has rightly pointed out:

"If inflationary pressures increase during the period of the Third Five Year Plan, it is bound to accentuate these tendencies and make it extremely difficult for the Corporation to keep down its lapse ratio." (1)

Besides affecting the ability of the people to save, inflation also influence the desire to save in the form of life insurance. The fear of future loss of purchasing power discourages the 'rational savers' to save in such long-term contracts as life insurance. Moreover, inflation also affect the life insurance industry by increasing the cost of insurance and it may compel the Corporation to revise its premium rates. This will further affect the desire of the people to save in the form of life insurance. The increase in premium rates would, therefore, affect new business and hence income of the Corporation. But this tendency as well as the fear of the future loss of

money value could be compensated by pursuing a dynamic investment policy. In fact investment policy should continuously strive to balance these depressing forces of a developing economy. In future, there will be more pressure on the investment management to aid the sales activities of the Corporation.

**Effects of Taxation on Life Insurance Savings:**

The increasing fiscal measures also erode the saving margin of the people. An idea of the increasing ratio of taxation can be had from the fact that the additional taxation target accepted initially in the Second Plan was Rs. 540 crores, but it was subsequently raised to Rs. 1052 crores. In the Third Five Year Plan it is proposed to mobilise the resources through additional taxation to the extent of Rs. 1710 crores. In this manner the percentage of tax revenue to national income would increase from about 9.9 per cent at the end of Second Plan (7.5 per cent at the beginning of the Plan) to 11.4 per cent by the end of the Third Five Year Plan. It is difficult to forecast the trends in the form of additional taxation but from recent trends it can be said that the proportion of direct taxes on higher income brackets will be comparatively more than the proportion of indirect taxes. This is supported by the fact that one of the accepted objectives of fiscal measures in India is to remove the inequality of wealth. It is also difficult to

1. Infra, P VIII-17.
   Also the Third Five Year Plan, p 16.
measure the impact of such policy on production in general and on saving in particular, but the redistribution methods adopted by the State in the forms of taxation may be conducive to life insurance at least in two respects. Firstly, the progressive rate of taxation is likely to induce the persons at higher income brackets to use life insurance premium as a rebate from income tax; Estate Duty and Death Duty. Secondly, due to redistribution of income, the savings of the middle income groups will be so small that they could not be invested directly in housing or in corporate securities. In such circumstances the preference of the individual for life insurance and other institutional savings would increase. The prospect for life insurance are better as it is both a method of protection as well as a media of saving.

From the foregoing discussion it is clear that the monetary and fiscal measure adopted by the Government to finance economic development would affect life insurance in one form or the other. Some of the effects could be mitigated by following a judicious investment policy by the Corporation. In other respects life insurance would suffer along with other forms of saving. In a planned economy, however, it can be said that the state would make use of these devices carefully so as to leave sufficient margin for voluntary saving among the people. It can be concluded, therefore, that the new Employment opportunities to be provided to the middle class during the Third and subsequent Five Year Plans would raise an eternal desire among this income group to make provision for their future in the form of life insurance. This seems reasonable to assume as the world's highest standard of living is in the North America where the institution of life insurance has experienced widest public acceptance.
(c) Industrialisation and Urbanisation and Trends in Social and Institutionally supplied Security and the Future of Life Insurance Savings:

The industrialisation and urbanisation which have been described as a potent factor of the growth of life insurance would continue at still a higher speed than hitherto attained. The recent indices of industrial production and shifts in population show that in future India shall witness a comparatively larger and greater urban population. For example in the paper entitled unemployment in Urban Areas in India a included in the collection 'Out-Look and Employment' published by the Planning Commission as a Joint Study of the Ministry of Labour and Employment and the Labour and Employment Division of the Commission, the estimated growth of the rural and urban population between 1961 and 1966 will be from 295 to 353 millions and from 62 to 104 millions respectively. The urban percentage will rise from 17.5 per cent to 22.7 per cent. The growing urban population would require more insurance/disintegration of Joint families.

From these trends it should not be assumed that L.I.C. would have a non-competing field. In fact a part of social security will also be provided by the State. Besides the various savings propagated by banks and Government have to be taken into consideration before the business can become readily available to L.I.C. An analysis of the influence of these factors is important to estimate the potential resources of L.I.C.


2. Some idea of the future growth of urban population can also be had from the following estimates of Britton Harris.

<table>
<thead>
<tr>
<th>Census Year</th>
<th>Total</th>
<th>Urban</th>
<th>Non-urban</th>
<th>Decennial urban Increase</th>
</tr>
</thead>
<tbody>
<tr>
<td>1951</td>
<td>360</td>
<td>63</td>
<td>297</td>
<td></td>
</tr>
<tr>
<td>1961</td>
<td>420</td>
<td>90</td>
<td>330</td>
<td>27</td>
</tr>
<tr>
<td>1971</td>
<td>500</td>
<td>130</td>
<td>370</td>
<td>40</td>
</tr>
<tr>
<td>1981</td>
<td>600</td>
<td>180</td>
<td>420</td>
<td>50</td>
</tr>
</tbody>
</table>

(The Economic Weekly, Special Number, June, 1960, p. 875).
Impact of Social Security Programme on Life Insurance Savings:

The financial needs created by younger marriages, more children, increased dependency at both ends of life and increased longevity give us the basis for incentive for increased savings. This suggests that as economic development proceeds, social security and insurance will come to have high priority in State programmes. The first important step in this direction by the Government of India has already been taken. Besides a number of States also have compulsory State Insurance Schemes. In the course of the Third Five Year Plan, the Government of India also proposes to increase the scope of the existing two schemes and to introduce a scheme of employment assistance for industrial workers and to make a small start with relief and assistance for destitute persons, orphans and physically handicapped persons without means of support of livelihood.

These social service and social security programme are the essential and integral part of economic development and the State will gradually provide the people much desired social security. The important question that concerns us here is its impact on life insurance. The importance of this question can be gauged from the fact that even with its limited scope the number of insured in the Employees State Insurance Corporation has exceeded the number insured for life insurance on voluntary basis. In fact the affect of Social Security programme on voluntary savings (of which life insurance is an important category) is not clear. In some respects the social security programme can be regarded as a substitute for life insurance, and on the other hand the same social security

1. Government of India has started two Social Security Programmes, through the Employees State Corporation and Employees Provident Fund Act, 1952.

programme of the Government or Compulsory State Insurance Schemes can also be used so as to provide a base to stimulate life insurance savings. The effect of social security on the life insurance can be discussed in the light of the experience of the advanced economies where Social Security programmes and life insurance savings have made simultaneous progress.

In U.K. where a social security scheme embracing the whole population from the 'dustman to the millionaire' introduced towards the end of the World War II fostered the growth of life insurance which increased several times. This is indicated by the simultaneous growth of life insurance since the World War II. Similarly in U.S.A. there is strong evidence to show that Old Age Social Insurance Programme has operated without any affect on life insurance. Thus from American experience, Porterfield writes:

"Social Security benefits serve chiefly as a base upon which adequate protection may be constructed. It seems probable that they have given a glimpse of possible future security and independence to millions who might not otherwise have considered the problem, or who had been reconciled to support by their children or charity in their declining years. The incentive to supplement basic social security benefits with additional coverage of the types provided by life companies has unquestionably been considerable. Life insurance companies have not been slow to see the possibilities of this and to utilise it as a potent selling aid. Therefore, it appears that up to the present social security has probably not hindered seriously the progress of the private life insurance industry. It may actually have aided this progress to some extent. This conclusion is supported by the evidence of the outstanding growth of the life insurance industry in the years since the Social Security programme was initiated."

Likewise the experience of Canada and Japan suggests that the introduction of Social security programme has not hampered the growth of life insurance.


The underlying features in Social Security programme which stimulate the growth of life insurance are the improvement in the health standard of the insured population and creation of insurance consciousness among the people. The programme of compulsory insurance, as pointed out earlier, also makes the people 'habitual saver' which is the first and foremost condition of keeping the life policy alive.

In addition to the above factors, a programme of the social security even in the most advanced societies of the World does not cover all types of people and all types of risks. A large number of the people and a great number of risks of life remains unserved in social security and this leaves sufficient room for the expansion of life insurance. However, in India, the uncertainty regarding the effect of Social Security programme will remain. If the Government of India eventually reach at the decision where it guarantees 'eradle to grave security' for all or most of the population, the market for private life insurance may have been substantially pre-empted. For if the head of a family can be assured that the needs and wants of his dependants will more or less fully met by governmental benefits after his death or retirement his incentive to purchase life insurance protection for this purpose would unquestionably be lessened.

Will such an expansion of social security activities come to pass? One would require the qualities of a political seer to answer this question with confidence. It is clear that the trend of the past decade has unmistakably in the direction of the assumption of larger and broader social responsibility by the federal government. This trend seems unlikely to be reversed. However, even though in a Socialist pattern of Society, State will make every effort to provide social security to the largest number of the people yet its activity for the provision of social security benefit will be limited
by the resources. These resources remarkably fall short in the process of growth. Within the foreseeable future (and in this regard one’s vision is necessarily limited) it does not appear that Government of India will be in a position to provide ‘cradle to Grave’ security to all the members of the society. Thus in India the Social Security benefits have been aimed chiefly at meeting the minimum needs of retired or disabled workers and survivors are entitled only to (i) Sickness benefit, (ii) maternity benefit, (iii) disablement benefit, dependant benefit, and medical benefit. Hence in view of the limited scope the need for additional protection from other sources such as life insurance will remain. It is clear therefore that the social security measures taken by the Government will raise the standard of living of the people and improve the health of the population. This would open a new and extensive vista for life insurance among a section of the population which is so far either due to indifference or lack of the capacity or inclination to save had been taking very little interest in life insurance.

Moreover, under the Employees State Insurance Scheme and the Provident Fund Act while no worker is permitted to take loans from his contribution for the purpose of day to day needs or for expenditure on wedding and celebrations, advances are permitted for the payment of insurance premium. This will be sufficient inducement to take life insurance.

It will thus be seen that although the social security measure will in due course provide the basic needs of individuals yet the urge to supplement them by life insurance will continue as long as private property and its inheritance remains. In the immediate foreseeable future, a society based on the socialist pattern, which will provide increased employment and high standard of living, has no idea to abolish the right vested in private property. When the development schemes come to fruition in the near future the scope in the development of life insurance will pari passu have considerably widened as with the rise of standard of living there will inevitably...
come an awareness and a desire on the part of each individual to see that his children are ensured at least the same standard of living that it is as good as his good fortune to enjoy.

However, the possibility exists that at some future time governmental provisions for individual security may have become so complete that the need for private life insurance would substantially diminished. This is one of the major uncertainties in the longer range out-look for the life insurance industry. Even if it is assumed that the State will grant much desired social security to its citizen in near future, life insurance will continue to enjoy a privileged position in any scheme of social security in India. Since the life insurance business is also nationalised in this country an integrated system, although there will be separate funds and administration in consonance with types of benefits covered, will be conducive to economy and simplicity. The integration of various States compulsory Insurance Schemes may also be considered under the nationalised life insurance in the country.

Impact of the Government of India Small Savings Drive on Life Insurance Savings:

The contribution of small savings to the success of the First Five Year Plan may be judged from the fact that collections have increased from Rs 33 crores in 1950-51 to 65 crores in 1955-56. The total collections in the First Five Year Plan amounted to Rs 241 crores. At the end of Second Five Year Plan the total collections were about Rs 390 crores. The Third Five Year Plan target for the collection of Savings under the Small Saving Scheme is Rs 600 crores.

The increase in the Small Savings brought about in the last few years is attributed partly to the vigorous Sales Drive of the Government through
the National Saving Organisation and partly by the financial inducements provided to investors by the Government of India. For instance, the rates of interest on the various types of small savings securities are quite high. Further, a variety of Bonds to cater to the needs of various types of people have been devised. Many new features have been added in these bonds to bring them on par with the life insurance policy. For example, the contributions made to the 10 and 15 year certificates will be entitled to earn a rebate on income-tax as in the case of life insurance premia and contributions to recognized provident funds, subject to the overall limit of Rs 10,000 or 1/4 of the total taxable income, whichever is less.

The 10 and 15 years accounts of the cumulative time deposit scheme have more or less been placed on par with the payments for life insurance premia and contributions to provident funds for purposes of earning a rebate on income-tax. These concessions will enable self-employed persons or employees not eligible to contribute to any recognized provident funds or persons who cannot undertake life insurance to claim rebate on income-tax. Thus the net return on the investment of life insurance fund is only 3.55 per cent; while some of the State Sponsored Small Saving Schemes such as 10 and 15 years Cumulative would on maturity earn a return of 3.8 and 4.3 per cent respectively. Furthermore the introduction of so many varieties of bonds with attractive terms has made the Government of India’s Small Saving drive a close rival of life insurance. It is, therefore, pointed out that in future the Corporation would not have an easy task especially because Small Saving Scheme has all the privileges of the Government Stewardship (such as deduction of the contribution from Salary of the Government employees) while life insurance has been deprived. The fear is partly corfruit.
But it should be remembered that the capital market is highly imperfect where the rational saver would make sharp distinction between the facilities offered to him by different Saving Institutions. The distinctive character of life insurance as was pointed out earlier is that it is not only a media of saving but a method of protection. The Government Small Saving Scheme in spite of the fact that they provide a better return with security do not have the 'tontine' feature. Life Insurance Savings will therefore be 'differentiated' on the basis of their specific character as Schwemm has pointed out:

"Saving Institutions other than life insurance talk about protecting one's future life; talk about providing funds for education, providing for old age etc. They use life insurance slogans without giving life insurance protection. Nevertheless, these institutions will obtain millions of savings dollars, not because their product does the job as well as life insurance but because they have asked the people to save and have made definite selling efforts to obtain the available funds. If our men would only see more people and explain to them the miracles of life insurance we would get a much larger share of available savings."(1)

Schwemm, further gives the supremacy of life insurance over other forms of savings in the following words:

"...because these types of savings (Savings, Accounts, Federal Saving, Bonds etc.) truly have only the element of saving plus interest whereas life insurance, in addition to the matter of saving plus interest also makes available to the buyer: the immediate creation of an estate, the inclusion of income option which guaranteed principal and interest, the granting of trust service to the beneficiary without charge, an unbreakable will as far as the insured is concerned, his ability to transfer property by contract rather than by will and thus eliminating Probate costs and State Inheritance Tax plus freedom from attachment by creditors etc...Therefore, life insurance is not subject to comparison with any other forms of saving and investment."(2)

It is true that life insurance characteristically differs from other forms of savings and its persuasive methods appeal to masses but it will be difficult

---


2. Ibid, p 317.
to convince the 'income motivated saver' entirely by arguments. In times when other saving agencies are developing their sales activity with sufficient financial inducement it will be special responsibility on the investment management of the L.I.C. to support the persuasive activities of the Corporation by providing sufficient financial inducement. Thus both in competition with other saving agencies as well as in affecting the desire to save among the people it will be important for the L.I.C. to rationalise its investment policy with a view to provide 'protection' as cheap as possible and to satisfy the income motive of the people. In fact, as will be shown in Chapter VIII within its present liability characteristic and legal frame work L.I.C. could direct its policy in that regard and can successfully compete with other saving institutions on this account. Thus if the L.I.C. also rationalise its investment policy as suggested in this thesis the growth of postal saving with the state drive will not have any adverse affect on the growth of life insurance.

IV: Salesmanship and the Future-Life Insurance

It was shown in Chapter I that where the 'products' are differentiated the ability of saving institution to mobilise the saving depends upon their 'Sales efforts. Although all the three factors vis. Population growth, Income growth and Industrialisation and Urbanisation of the country are favourable and conducive to the growth of life insurance, the actual growth will depend on the effort and technique developed by L.I.C. in selling its own 'product'. If L.I.C. fails in developing a proper agency force; life insurance will again lag behind in relation to other forms of personal savings.

The recent trend in the L.I.C. training of its agents and field force indicates that L.I.C. is aware of the simple truth, that life insurance is a type of product which is sold and not voluntarily bought by the people. For
example to spread the message of life insurance throughout the country and in order to reach its target of new business, L.I.C. is taking steps to strengthen the field organisation by recruiting more agents and appointing additional field officers and development officers. Agent's training has been organised in all divisions which are equipped with trained instructors. Field Officers both confirmed and newly recruited are being imparted training at the various Training Centres. Training has been organised at the L.I.C. officers Training College at Nagpur. More and more offices are opened particularly in mofussil centres.

The more efficient servicing of business would be ensured through:

(i) A net work of offices all over the country.
(ii) A gradual decentralisation of functions such as underwriting, advances of loans, revival of policies, settlement of claims etc.
(iii) The use of regional languages in forms and correspondence wherever possible.
(iv) The equipping of Branch Offices with necessary machines like Adwara etc.

These efforts of L.I.C. are bound to create insurance consciousness among the people. Besides, the spread of education and literacy among the people would ease the task of L.I.C.

Moreover, the nationalisation of life insurance and the guarantee by the Central Government of the payment in cash of claims under the life policies has created more confidence among the people. The prospective policy holder has been relieved of the trouble of having to choose a proper life office to insure. Equally, the salesman is no longer worried about convincing his clients of the wisdom of the office he represents in preference to others. He can now concentrate his efforts in bringing home to his clients the advantage of life insurance, its suitability as a medium of family security and its effectiveness as an instrument of small savings. The experience of the sales staff since
nationalisation indicates that the procurement of new business is now easier and resistance to sales is far less than before. This may not be due entirely to the security provided by the guarantee of the Central Government. It may be due to the increased popularity of insurance as well. It is confidently hoped that the Corporation will be able to write an increasing volume of business year after year, and that its new offices, when they settle down to executive smoothly the tasks entrusted to them, will be able to render efficient and satisfactory service to policyholders.

**Conclusion:**

In this section the future prospects of the growth of life insurance savings have been examined with reference to the factor that have facilitated its growth vis. population growth, income growth, increasing trends in industrialisation, urbanisation and decline in natural form of security. It has been observed that although the inflationary methods of financing economic development and the State borrowing programme will affect the volume of life insurance but the urge of the people to save their future from being worse off will be so strong at the latter stages of industrialisation that life insurance saving will not be affected considerably.

Similarly it has been maintained that the Social Security Programmes which will be provided in due course of time will not affect the growth of life insurance as both of them have different fields of operation.

The inevitable conclusion is that life insurance has tremendous opportunities of growth in future. The potential resources of L.I.C. could now be computed in the next section.
PROJECTED GROWTH OF LIFE INSURANCE IN INDIA - 1961-1975

The economic prospects of life insurance industry have been discussed and potential of life insurance savings in the economy have been examined in the previous section. In the background of the last section and in the historical background of life insurance industry given in Chapter II, I have computed the life insurance savings in the economy for the period 1961-1975.

The main assumption under which these estimates have been prepared are those made by the Planning Commission regarding the future growth of population, increase in per capita income and industrialisation and urbanisation of the country. By applying these influences upon current trends of life insurance business, the following figures emerge:

(1) The ratio of life insurance in force to national income is likely to increase from 15-16 per cent in 1960 to 25 per cent at the end of Third Five Year Plan, 43 per cent at the end of Fourth Five Year Plan and 85 per cent at the end of Fifth Five Year Plan.

(2) The contribution of life insurance savings (gross premium income) in the total saving would increase from 8.7 per cent in 1965 to 11.1 per cent in 1970 and 16.1 per cent at the end of 1975. During the same period the ratio of premium income to national income is likely to be 1.4 per cent; 1.7 per cent and 2.9 per cent respectively.

(3) The per capita life insurance would increase from Rs 53 in 1960 to Rs 97 in 1965; Rs 195 in 1970 and Rs 456 in 1975.

Main Assumption Made in the Estimates:

The estimates of New Business, life insurance in force; premium income and life fund have been prepared on the basis of the Projected Growth of the Economy.
given in the First Five Year Plan and as modified in the Second and Third Five Year Plans. While the basis is the Planning Commission's estimates of Population, National Income, Saving and Investment in the Economy, the following features of life insurance industry observed in Chapter II have been given special consideration.

The development and active merchandising of new forms of insurance have contributed greatly to the progress of insurance since nationalisation and have broadened the scope of the insurance services made available to the public. Examples are group life insurance, non-medical insurance, the extension of the field of insurable risks, family income and other combinations of term insurance with permanent forms of life insurance. Thus innovation and experience drawn on the part of the L.I.C. will undoubtedly continue to make for further expansion in the amount and variety of insurance protection. It is presumed, therefore, that a very substantial increase in life insurance will come through the development of new forms of insurance and extensive and intensive sales efforts of L.I.C.

Method of Computation:

(a) Number of New Policies:

In the computation of New Business only male population of the working age group 15-59 years has been taken into consideration. Children below the age of 15 years have been excluded. Since L.I.C. is interested in children lives for Deferred Assurance and also for some extent for Endowment Assurance, therefore children from 15 to 18 years have been included. Similarly L.I.C.

1. Working Force is defined as all male population of the age group 15-59 and half of the number of females of the same age group living at any time in the country (Wattal, P.K., Op. cit., p. 92).
is not interested in the lives of 60 or above 60 years of age, therefore, they have been excluded. Besides the Corporation does not insure female lives except under special circumstances, they have, therefore, been excluded from the estimates.

A reference to Appendix B-II will show that the male population of age group 15-59 would be 12.59 crores in 1961, 13.46 crores in 1965, 15.07 crores in 1970 and 16.99 crores in 1975. Out of this increase in population it will not be possible for L.I.C. to insure all in one year, since some of the increased members in this age group will not require insurance at all, some of them will not be insurable, others might not be having necessary saving margin. Also it will not be feasible for L.I.C. to approach effectively in one year to all the persons. It is, however, assumed that at the end of each Plan period the Corporation could motivate increasing number of the people. Thus during the Third Five Year Plan it is assumed that L.I.C. will be in a position to mobilise the saving of 1.2 per cent to 1.8 per cent of the male population within the age group 15-59. The number of new policies issued by L.I.C. would be about 24.23 lakh in 1965.

After the Third Five Year Plan the rate of increase shall be comparatively higher. The vigorous sales drive in the Urban and Rural areas during the Third Five Year Plan would bring more business to L.I.C. It is, therefore, assumed that during the Fourth Five Year Plan L.I.C. would be in a position to mobilise the saving of 2 to 3 per cent of the male population of the age group 15-59. The number of new policies issued during the Fourth Five Year Plan would therefore increase from 27.56 lakh in 1966 to 45.21 lakh in 1970.

During the Fifth Five Year Plan it is estimated by the Planning Commission

2. Figures for 1961 have been assumed for 1960 and Figures for 1966 for 1965 and so on for other years.
that our economy would be at 'Self-sustain' level. People would have sufficient saving margin. Many of the prejudices against life insurance would die by education. The task of the Corporation would become easier. The huge urban population and disintegration in rural lives would present ample scope to L.I.C. to expand its sales. At this 'self-sustain' level of our economy it has been assumed that L.I.C. would be in a position to motivate 3.3 per cent to 5.5 per cent of the 15-59 age group male population of India. The number of new policies will therefore increase from 54.08 lakh in 1971 to 93.85 lakh in 1975.

On the basis of the above assumption the rate of increase in the number of new policies issued by L.I.C. is in conformity with the rate of growth achieved during the period 1956-60. The following table shows the rate of growth of number of policies during the period 1956-60 to 1970-1975.

<table>
<thead>
<tr>
<th>TABLE No. 23</th>
</tr>
</thead>
<tbody>
<tr>
<td>RATE OF GROWTH OF NUMBER OF NEW POLICIES</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>100 per cent</td>
<td>60 Per cent</td>
<td>64 Per cent</td>
<td>73 Per cent</td>
<td></td>
</tr>
</tbody>
</table>

SOURCE: Appendix D-II

Note 1. The figures of new business in 1956 were depressed due to nationalisation. The rate has, therefore, been calculated on the basis of 1955 figures. The high rate of growth in this period is due to the fact that this period estimates the growth of six years instead of five years in other periods.

(b) Average Size of Policies:

It has been observed that the increase in average size of policies is slow than the increase in the number of policies. It is, therefore, assumed that the
improvement in the average size of policies during the period 1961-1965 will not be more than Rs 150 per year. The average size of policies shall be about Rs 4650 at the end of Third Five Year Plan. The increase will be more rapid during the Fourth Five Year Plan and Fifth Five Year Plan. It is assumed that in the period 1965-70 the average size of policy will increase from Rs 200 to Rs 250 per year and in the period 1971-75 the increase will be from Rs 325 to Rs 525 per year. On this basis the average size of policy issued shall be Rs 4650 at the end of Third Five Year Plan, Rs 5775 at the end of Fourth Five Year Plan and Rs 7900 at the end of Fifth Five Year Plan. The rate of growth is shown in the following Table:

**TABLE 24**

**GROWTH RATE OF AVERAGE SIZE OF POLICIES**

<table>
<thead>
<tr>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>Rate</td>
<td>14 per cent</td>
<td>15 per cent</td>
<td>20 per cent</td>
<td>30 per cent</td>
</tr>
</tbody>
</table>

**SOURCE:** As for table 23

(c) **Amount of New Business:**

The amount of new business has been computed by multiplying the number of new policies with the average size of policies issued during the period. The new business of L.I.C. will be Rs 1127 crores in 1965; Rs 2611 crores in 1970 and Rs 7383 crores in 1975. The following table shows the rate of growth is in line with the growth rate attained during the period 1956 to 1960.

**TABLE 25**

**GROWTH RATE OF NEW BUSINESS - 1956-1975**

<table>
<thead>
<tr>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>Rate</td>
<td>102 per cent</td>
<td>84 per cent</td>
<td>96 per cent</td>
<td>124 per cent</td>
</tr>
</tbody>
</table>

**SOURCE:** As per table 23

**Note:** As per table 23
(d) **Business in Force:**

The amount of Life Insurance in force has been estimated on the basis of new business. In any one year the entire amount of business written in that year does not add to the insurance in force but a part is lapsed or wasted due to variety of reasons. Besides a part also goes off the books as death claims, maturity claims and surrenders each year. The experience of the last three years suggests that of the total business in force in the beginning of any year 9 per cent goes off the books as lapse, surrender death claims and maturity.

The prospects of any improvement in the surviving of business due to the improvement in mortality rates (fall in death claims) has been assumed to be partly balanced by the introduction of non-medical insurance and liberalisation of policy conditions by L.I.C. Similarly the introduction of Group Insurance; Salary Saving Schemes would considerably reduce the lapse ratio. But the possibility of the increase due to 'aggressive sales' efforts and spread of insurance in rural areas where the lapse ratio is considerably high is also foreseen.

It is therefore assumed that 10 per cent of the insurance in force at the beginning of any year would go off the books as Death Claims, Surrenders and lapses. The net addition to life insurance in force on this assumption will be Rs 722 crores in 1965; Rs 1700 crores in 1970 and Rs 5035 crores in 1970. The business in force will thus be Rs 4770 crores; Rs 10807 crores and Rs 28810 crores at the end of Third, Fourth and Fifth Five Year Plans respectively. The estimated rate of growth shall be as follows:

<table>
<thead>
<tr>
<th>TABLE 26</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>ESTIMATED RATE OF GROWTH OF LIFE INSURANCE IN FORCE</strong></td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th></th>
<th></th>
<th></th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>92 per cent</td>
<td>86 per cent</td>
<td>92 per cent</td>
<td>119 per cent</td>
</tr>
</tbody>
</table>

**Source:** As per table 23

**Note:** See note of table 23.

(e) Estimated Premium Income:

Without analysing the future trend of development in greater details, it is not possible to estimate with much precision the probable annual premium income required to support Rs 4,770 crores business in force in 1965, and Rs 10,807 crores in 1970, and Rs 28,510 crores in 1975. If the idea is to extend life insurance cover among a wide section of the population, as part of social security programme, emphasis will be on whole life assurance, because they provide maximum protection for a given premium. In such a case the ratio of premium income to sum assured would be well below 4 per cent, such a distribution of sum assured in whole life assurances form an important proportion, would be similar to the distribution in the United States and in Canada. On the other hand if saving aspect is to be stressed, endowment assurances would form a substantial portion of the sum assured and the distribution would be closer to the United Kingdom. The ratio of annual premium to sum assured in this case would be nearly 5 per cent.

The present composition of the business shows that the Endowment Insurance forms the greater proportion of total business but it is gradually giving way to the whole life. Since in future L.I.C. is planning for a mass approach in the form of group insurance and the Corporation is also intensifying its activities to sale whole-life policies it is possible that the composition of the business might change in future. But the change will not be all of a sudden as the Table No. 27 on the following page indicates that the proportion of Endowment policies to total business has not materially changed since 1914. However for the last few years it is observed that L.I.C. is making all attempts to popularise the sales of whole-life policies.

TABLE 27

TYPES OF POLICIES ISSUED BY INDIAN OFFICES
1914-1960

<table>
<thead>
<tr>
<th></th>
<th>1914</th>
<th>1929</th>
<th>1960</th>
</tr>
</thead>
<tbody>
<tr>
<td>Endowment</td>
<td>76.8</td>
<td>72.4</td>
<td>66.17</td>
</tr>
<tr>
<td>Whole-life</td>
<td>12.5</td>
<td>8.3</td>
<td>8.96</td>
</tr>
<tr>
<td>Limited Payment Whole-life</td>
<td>7.1</td>
<td>6.7</td>
<td></td>
</tr>
<tr>
<td>Children's Endowment</td>
<td>1.7</td>
<td>0.2</td>
<td>7.83</td>
</tr>
<tr>
<td>Joint Life Assurance</td>
<td></td>
<td></td>
<td>6.56</td>
</tr>
<tr>
<td>Other classes</td>
<td>1.9</td>
<td>12.4</td>
<td>10.48</td>
</tr>
<tr>
<td></td>
<td>100.0</td>
<td>100.0</td>
<td>100.0</td>
</tr>
</tbody>
</table>

SOURCE: (1) Reserve Bank of India: Monetary and Banking Statistics.

An idea of the L.I.C.'s efforts in recent years to encourage the sales of whole life policies which contains the greater proportion of 'insurance protection' can be had from the fact that in its All India New Business competition for Agents Puro Endowment was not taken into consideration while emphasis was laid on whole life policies. The ratio of endowment policies to total business has therefore declined from 69.45 per cent in 1958 to 66.17 per cent in 1960. The ratio of premium income to Life Insurance in force has consequently fallen from 4.5 per cent in 1958 to 4.2 per cent in 1960. The Corporation schemes to spread insurance much more widely and cheaply would thus be an important factor in changing the composition of business but it will not result into sudden changes as the choice of the policy largely depends upon the preference of the consumers. It is therefore assumed in the following estimates that

during the Third and Fourth Five Year Plans the ratio of premium income to life insurance in force shall be about 4 per cent. In the Fifth Five Year Plan the insurance would largely spread through group insurance. Besides increase in consciousness among the people would also raise the proportion of whole-life policies. I have, therefore assumed that the ratio of premium income to life insurance in force would fall to 3.5 per cent during the Fifth Five Year Plan. This seems to be a reasonable assumption because in U.S.A. and Canada where life insurance has spread much more widely, the ratio of premium income to life insurance in force is only 2 per cent.

I have also assumed in the estimates that the with-profit policies which constitute more than 80 per cent of the L.I.C. policyholders will continue to dominate the business of the Corporation. Life insurance would be combined both as a method of protection as well as saving. It is therefore estimated that by the end of Third Five Year Plan L.I.C.'s premium income shall be Rs 191 crores; Rs 652 crores at the end of Fourth Five Year Plan and Rs 998 crores at the end of Fifth Five Year Plan.

(f) Estimated Growth: Life Fund:

The computation of life fund depends upon the assumption of large number of actuarial factors. The consideration of these factors is beyond the scope of this enquiry. In general it can be said that the accumulation of life fund depends upon the saving from the assumed mortality rate, expenses, loading and assumed rate of interest on investment of the funds. The surplus on account of the mortality rate of the Corporation will be balanced partly by the introduction of non-medical insurance and liberalization of policy conditions and partly it will accrue to the Corporation. Surplus from the expenses ratio might increase

due to mechanisation and rationalisation of the offices but this is likely to be balanced by the increasing administration cost due to inflationary tendencies. The demand of the Staff of the Corporation for the improvement of Pay Scale and more amenities are also increasing. This will exert considerable pressure on the expense ratio of the Corporation. Besides the launching of vigorous scales drive in the virgin rural areas requires heavy expenditures. The savings from this account are likely to fall and in some cases it will be negligible.

Under the above circumstances the main pressure shall be on the investment policy of the L.I.C. This in turn has sufficient scope for rationalisation and improvement. As suggested in Chapter VIII, L.I.C. could considerably increase its savings on this account. Besides different types of policies have different saving elements. Changes in the composition of business would also influence the accumulation of funds. These factors would affect the ratio of life fund to life insurance in force. The average ratio of life fund to life insurance in force for the period 1957 to 1960 is 25.2 per cent. I have assumed that together with the change in the composition of business and change in the premium income of the Corporation, the ratio of life fund to life insurance in force would be 25 per cent. It is, therefore, estimated that the life fund shall be Rs 1193 crores at the end of Third Five Year Plan; Rs 2702 crores at the end of Fourth Five Year Plan and Rs 6272 crores at the end of Fifth Five Year Plan.

(g) Estimated Growth of Assets:

The growth of assets depends upon the accumulation of life fund. Since the ratio of life fund to life insurance in force has been assumed to diminish the the ratio of total assets to life insurance in force would also decline.

1. The actual amount and the growth rate of life fund will depend upon the composition of business as different policies while registering the same amount of life insurance in force have different saving element (Cf. p I.12).
Thus from the period 1957 to 1960 due to the changes discussed above the ratio of total assets to life insurance in force has fallen from 30.2 per cent in 1957 to 27.3 per cent in 1960. The average ratio for the period is approximately 29 per cent. I have assumed that during the Third, Fourth, and Fifth Five Year Plans the ratio would be near about 28 per cent.

It is, therefore, estimated that the total assets of the Corporation would be Rs 1336 crores in 1943; Rs 3026 crores in 1970 and Rs 7128 crores in 1975.

A Comparative Study of the Estimated Growth of Life Insurance with the Private Insurance Targets and L.I.C. Targets:

It is important at this stage to compare the above estimated growth of life insurance with the targets fixed by the private insurers before the nationalisation of life insurance and the targets fixed by L.I.C. after the nationalisation of insurance.

(1) Private Insurers Targets:

Before the Nationalisation of life insurance in India in 1955 the New India Assurance Company Ltd, fixed on an ad hoc ten year target of Rs 8,000 crores sum assured, as a possible national objective, to be realised in 1966.

The assumptions made were as follows:

"There are nearly 8 crores of families in India, with an average income of about Rs 1,325. If on an average, a life insurance policy is taken out for only Rs 1,000 by each family, the total life insurance in India should reach a figure of Rs 8,000 crores. This is by no means an Utopian idea, when it is realised that the cost of Rs 1,000 life policy is only about Rs 50 per annum, which is even less than 4 per cent of the average annual income of the family. It is not suggested that this business target is achieved in a year or two. It is, however, an objective, which is not unattainable within a decade." (2)

1. The ratio of life fund to life insurance in force has declined from 27.8 per cent to 24.5 per cent.

The target of Rs 8,000 crores business in force in 1966 was not only beyond the ability of the Indian insurers but it was inconsistent with the degree of economic development of the country. An idea of the over estimates of business potential in the target can be had by comparing the planned new business required to reach the above figures with the actual business underwritten during the period 1957 to 1960. Mr. Patel of L.I.C. has worked out the following figures of new business which would be required to reach the target of Rs 8,000 business in force in 1966.

**TABLE 28**

**NEW BUSINESS POTENTIAL COMPARED WITH PATHEL'S ESTIMATES**

<table>
<thead>
<tr>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>1957</td>
<td>300</td>
<td>278</td>
<td></td>
<td>+ 22</td>
</tr>
<tr>
<td>1958</td>
<td>450</td>
<td>339</td>
<td></td>
<td>+ 111</td>
</tr>
<tr>
<td>1959</td>
<td>625</td>
<td>420</td>
<td></td>
<td>+ 205</td>
</tr>
<tr>
<td>1960</td>
<td>775</td>
<td>488</td>
<td></td>
<td>+ 287</td>
</tr>
<tr>
<td>1961</td>
<td>875</td>
<td>612</td>
<td></td>
<td>+ 263</td>
</tr>
<tr>
<td>1962</td>
<td>925</td>
<td>699</td>
<td></td>
<td>+ 226</td>
</tr>
<tr>
<td>1963</td>
<td>975</td>
<td>793</td>
<td></td>
<td>+ 182</td>
</tr>
<tr>
<td>1964</td>
<td>1000</td>
<td>894</td>
<td></td>
<td>+ 106</td>
</tr>
<tr>
<td>1965</td>
<td>1025</td>
<td>1127</td>
<td></td>
<td>+ 102</td>
</tr>
<tr>
<td>1966</td>
<td>1050</td>
<td>1380</td>
<td></td>
<td>- 280</td>
</tr>
</tbody>
</table>

**SOURCES:**
2. L.I.C. Annual Reports and Accounts.
3. Appendix – B-II.

The difference in computed business and actual business clearly indicates over estimates in the target. An interesting aspect of Mr. Patel's estimates is that he has assumed a diminishing rate of increase. The rate of increase in
new business figures according to Patel's estimates shall be only 2 per cent between 1965-66 as against 50 per cent in 1957-58. My own estimates, it will be seen, assumes an increasing rate because of gradual rise in population; per capita income and other factors conducive to life insurance discussed in Section 1.

At the end of Third Five Year Plan it will be seen that my estimated figures becomes very close to Mr. Patel’s estimates. The only difference is that Mr. Patel has estimated new business of Rs 1,000 in 1964 while according to my own estimates L.I.C. would reach to this objective only a year later.

(ii) L.I.C. Target:

The Corporation has drawn up a tentative Five Year Plan of phased development of business covering the period 1959-63 with a view to reach by 1963 to an annual new business target of Rs 1,000 crores. Annual target of new business were also fixed for the year 1957 and 1958. The target fixed each year for new business upto 1963 are given in the Table below. These targets were fixed on an ad hoc basis, keeping in view past performance strength and quality of field force available and potentiality for life insurance business in the country.

**TABLE 29**

L.I.C. Five Year Plan

<table>
<thead>
<tr>
<th>Year</th>
<th>New Business Target</th>
<th>Percentage of Increase</th>
<th>Estimated Business in force</th>
<th>Estimated Premium</th>
</tr>
</thead>
<tbody>
<tr>
<td>1959</td>
<td>415</td>
<td>21.00</td>
<td>1810</td>
<td>78</td>
</tr>
<tr>
<td>1960</td>
<td>525</td>
<td>26.55</td>
<td>2160</td>
<td>92</td>
</tr>
<tr>
<td>1961</td>
<td>665</td>
<td>26.70</td>
<td>2470</td>
<td>106</td>
</tr>
<tr>
<td>1962</td>
<td>820</td>
<td>23.31</td>
<td>2855</td>
<td>121</td>
</tr>
<tr>
<td>1963</td>
<td>1000</td>
<td>21.95</td>
<td>3320</td>
<td>140</td>
</tr>
</tbody>
</table>

| Estimated Income | 141 % | 83.4 | 79.5 |

**SOURCES:** Yogakshama, Vol. 5, No. 8-9, August-September, 1961, p 26.
It will be observed from the previous table that during the five year period, L.I.C. Plans to expand its new business target to increase by 141 per cent; business in force by 83.4 per cent and premium income by approximately 80 per cent. The rate of increase visualised for the increase in life insurance in force and premium income is very close to my own estimates of the growth of life insurance in force of 86 per cent and premium income of 85 per cent for the whole Third Five Year Plan. There is difference in the rate of increase of new business figure target fixed by L.I.C. and my own estimates. L.I.C. fixed the target to increase its new business by about 141 per cent while my own estimates shows a moderate increase of about 84 per cent. A comparison of the actual business with L.I.C. target would indicate over estimates regarding new business. Table No. 30 shows that the corporation exceeded the targets of new business during the first three years of its working but its business fell short of the target by about Rs 37 crores in the year 1960. The target of increase from 1960 to 1961 is Rs 130 crores and from 1961 to 1962 Rs 165 crores and from

<table>
<thead>
<tr>
<th>Year</th>
<th>New Business Target.</th>
<th>New Business Written.</th>
<th>Excess or Decrease over Targets</th>
</tr>
</thead>
<tbody>
<tr>
<td>1957</td>
<td>260</td>
<td>283.07</td>
<td>+ 23.07</td>
</tr>
<tr>
<td>1958</td>
<td>325</td>
<td>344.68</td>
<td>+ 19.68</td>
</tr>
<tr>
<td>Five Year Plan</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>1959</td>
<td>415</td>
<td>429.17</td>
<td>+ 14.17</td>
</tr>
<tr>
<td>1960</td>
<td>525</td>
<td>487.84</td>
<td>+ 37.16</td>
</tr>
<tr>
<td>1961</td>
<td>655</td>
<td>612.00 *</td>
<td>+ 43.00 *</td>
</tr>
<tr>
<td>1962</td>
<td>820</td>
<td>699.00 *</td>
<td>-121.00 *</td>
</tr>
<tr>
<td>1963</td>
<td>1000</td>
<td>795.00 *</td>
<td>-207.00 *</td>
</tr>
</tbody>
</table>

**TABLE 30**

L.I.C. TARGET AND ACTUAL PERFORMANCE

**SOURCE:** Estimate Committee, p 16.

**Note:** *Estimated as per Appendix B.II*
1962 to 1963 it is Rs 180 crores. This on an average for the three years works out to Rs 158 crores per year. The actual increase for the previous three years 1957 to 1960 has been Rs 59 crores per year on an average, that is nearly a third of the anticipated average increase in the next three years. In my opinion, unless the corporation improves on its present performance in securing new business by about three times, the target of business fixed for 1963 can not be fulfilled. This is also pointed out by the Estimates Committee as follows:

"...Unless Corporation improves on its present performance in securing new business by about 3 times, the target of business fixed for 1963 can not be fulfilled. The likelihood of the Life Insurance Corporation even bettering this target, as indicated by the Finance Minister seems rather doubtful. (1) The Committee hopes that the target of new business under the Five Year Development Plans will not have to be substantially revised and suitable steps will be taken to review it after analysing the reasons for short fall in 1960 and over-coming them."(2)

If the figure of Rs 1,000 crores new business per year is to be achieved in 1963, revolutionary changes, both in the social structure and in life insurance technique would appear to be imminent. However, at the completion of Third Five Year Plan, L.I.C. would find conducive environment to develop its new business by more than Rs 1,000 crores per year.

According to the Chairman of the L.I.C. the objective of mobilisation of saving contemplated at the time of nationalisation of life insurance, would be achieved when the Corporation has Rs 10,000 crores of business in force. My estimates show that L.I.C. would reach 1/6 this objective at the end of Fourth Five Year Plan.

1. During the discussion on the First Annual Report of the Corporation in the Lok Sabha on 6th August, 1959, the Finance Minister (Shri Morarji Desai) stated as follows: "I have even told the L.I.C. that even though the work is better, I am not quite satisfied. I should like to have it in a greater volume and we should like to reach the figure of Rs 1000 crores in average as early as possible. They have an idea of doing it within five years. Well, it is good for them, but I would say that it can be even bettered." I doubt this statement in the light of my own estimates as well as the observations of Estimates Committee.

Future Growth of Life Insurance in Relation to Future Growth of National Income, Investment and Saving in the Economy

Figure 12 shows the absolute growth and Table No. 31 shows the relative growth of National Income, Investment, Saving, life insurance in force, life fund, total assets in the Indian economy for the period 1960-1975. It will be seen that the ratio of life insurance in force to National Income would increase from 15 per cent in 1960 to 25 per cent at the end of Third Five Year Plan and 43 per cent at the end of Fourth Five Year Plan and 85 per cent at the end of the Fifth Five Year Plan.

TABLE 31

ESTIMATED GROWTH OF INCOME, SAVING, INVESTMENT AND LIFE INSURANCE (1965-1975)

<table>
<thead>
<tr>
<th></th>
<th>At the end of Third Five Year Plan, 1965</th>
<th>At the end of Fourth Five Year Plan, 1970</th>
<th>At the end of Fifth Five Year Plan, 1975</th>
</tr>
</thead>
<tbody>
<tr>
<td>National Income</td>
<td>19,000</td>
<td>25,000</td>
<td>33,000 - 34,000</td>
</tr>
<tr>
<td>Gross Investment</td>
<td>10,600</td>
<td>17,000</td>
<td>25,000</td>
</tr>
<tr>
<td>Domestic Saving</td>
<td>2,185</td>
<td>3,875</td>
<td>6,198</td>
</tr>
<tr>
<td>Population</td>
<td>49.2</td>
<td>55.3</td>
<td>62.5</td>
</tr>
<tr>
<td>Life Insurance in force</td>
<td>4,770</td>
<td>10,807</td>
<td>28,510</td>
</tr>
<tr>
<td>Premium Income</td>
<td>191</td>
<td>432</td>
<td>998</td>
</tr>
<tr>
<td>Life Insurance Fund</td>
<td>1,193</td>
<td>2,702</td>
<td>6,272</td>
</tr>
<tr>
<td>Life Insurance Assets</td>
<td>1,336</td>
<td>3,026</td>
<td>7,128</td>
</tr>
<tr>
<td>Ratio of Domestic Saving to National Income</td>
<td>11.5 (15.5)</td>
<td>18-19</td>
<td></td>
</tr>
<tr>
<td>Ratio of Life Insurance in force to National Income</td>
<td>25</td>
<td>43</td>
<td>85</td>
</tr>
<tr>
<td>Ratio of Premium Income to National Income</td>
<td>1.0</td>
<td>1.7</td>
<td>2.9</td>
</tr>
<tr>
<td>Ratio of Premium Income to Saving</td>
<td>8.7</td>
<td>11.1</td>
<td>16.1</td>
</tr>
<tr>
<td>Per capita Income</td>
<td>385</td>
<td>450</td>
<td>530</td>
</tr>
<tr>
<td>Per capita Insurance</td>
<td>97</td>
<td>196.5</td>
<td>456</td>
</tr>
</tbody>
</table>

SOURCES: (1) Government of India: The Third Five Year Plan, p 27.
(2) Appendix B-II
Note: Figures for 1966 have been assumed for 1965 similarly for other years.

Source: As for Table. 51
From the present ratio of 15 per cent of life insurance in force to National Income the figure of 85 per cent appears a staggering figure. But it should be remembered that by the "end of the Fifth Plan the economy will be strong enough to develop at a satisfactory pace without being dependent on external assistance."

At this 'self sustained stage' it is estimated that life insurance would be widely accepted both as a method of protection as well as a media of saving. Besides the figure is still well below of 172 per cent in Canada and 142 per cent in U.S.A.

After fifteen years India would reach to the life insurance ratio of National income which is now enjoyed by U.K., (67 per cent) and Australia (74 per cent). Besides the per capita life insurance of Rs 456 in 1975 will be well below the per capita insurance of Rs 1553 in U.S.A.; Rs 13,885 in Canada and Rs 3699 in U.K. Similarly the percentage of the premium income to national income would increase to 1.0 per cent at the end of the Third Five Year Plan; 1.7 per cent at the end of Fourth Five Year Plan and 2.9 per cent at the end of the Fifth Five Year Plan. The figure is still below the existing ratio of 3.79 per cent in U.S.A.

In the estimated domestic saving the share of life insurance would increase from 8.7 per cent at the end of 1965; 11.0 per cent at the end of 1970 and 16.0 per cent at the end of 1975. This is well below the present level of 28 per cent of life insurance saving to total personal saving in Canada. The increasing share of life insurance saving in the total domestic saving will affect both the form and volume of personal savings. Thus with this increasing share of life insurance savings in the total domestic savings, L.I.C. would...
accumulate huge amount of life fund. The life fund which amounted to Rs. 519.7 crores in 1960 in India, will grow at an annual rate of Rs. 135 crores per year during the Third Five Year Plan; approximately Rs. 300 crores per year during the Fourth Five Year Plan and about Rs. 700 crores per year during the Fifth Five Year Plan. With a fund of this magnitude, it is little wonder that the influence of the L.I.C. in some sectors of the capital market is often considered to be dominant, while for the classes of security of which this is not thought to be already true, the rate of increase of life funds would seem to suggest a rapidly growing significance.

In order to determine whether such presumption as these have any basis in fact, I have described the capital market activity of L.I.C. in the following chapter.

Summary and Conclusion:

The potential resources of L.I.C. have been computed in this Chapter in the background of the Planning Commission's estimates of the future growth of the Indian economy. It has been shown that the increasing population, and per capita income accompanied with increasing degree of industrialisation and urbanisation of the country will be conducive to the future growth of life insurance savings. It is therefore estimated that the share of L.I.C. in the domestic saving as judged by the premium income would increase from 8.2 per cent at the end of Third Five Year Plan to 11.1 per cent at the end of Fourth Five Year Plan and 16.1 per cent at the end of Fifth Five Year. The increasing ratio of life insurance savings would effect both the volume and form of savings in the Indian economy. The substantial growth of life fund will also have considerable influence on the volume of capital formation. In fact life insurance which is determined by the economic development of the country is itself an important factor in influencing the pace of economic
growth. Both are interdependent and inseparable. The investment decisions of L.I.C. have a profound effect on the rate of capital formation. This will be evident from the following study of the capital market activity of L.I.C.