1.1 Concept and Origin of Life Insurance

Sharing of losses of a few amongst many is the very basis of insurance and this act of sharing is performed by the insurance companies through contract between the insurer and the insured. As per the insurance contract, the insured pays premium and the insurer agrees to provide partial or full protection against any loss the insured may suffer due to the operation of an insured peril. The early history of insurance may be traced from the period of ancient civilization. The Sanskrit term ‘Yogakhema’, mentioned in the Rig Veda, implies well-being through collective co-operation similar to the concept of insurance, which was practised by the Aryan tribes in India nearly 3000 years ago.

The modern concept of life insurance has actually two principal origins. The first is marine insurance in which under the traditional trade practice the proprietor of the vessel found that the life of captain was equally important as his vessel sent to sea on a voyage. As a result, to provide that very importance, the loss of the vessel as well as the captain’s life was insured against marine perils which were incidental to such voyage. The second origin is the craft guilds. From early days, people engaged in similar jobs and bartering common interests, tied themselves together in friendly association. They served each other during sickness, at old age and even burials were arranged at times of death of any member. This made it customary to seek charitable donations on behalf of the families, which grew into claim for money. The surviving family members of the deceased received an estimated fixed sum for the death. In some cases, the contributions were made particular and the collected amount was divided among the beneficiaries. The modern concept of life insurance emerged from these practices. Apart from insuring
life of a person (partially, i.e., equal to the contractual amount) against unexpected early death, life insurance also covers the risk of unexpected longevity of a person through the insurance of pension plans and annuities, at present.

1.2 Needs of Life Insurance

The need to protect various forms of property by means of insurance is well accepted and now well organized. The paramount importance of the life insurance as a measure of social security in general and family security in particular arises from the fact that it provides protection of earning ability asset of a bread-winner. The theoretical basis of life insurance is the economic value of human life. This can be termed as the capitalised value of individual’s ability to earn an income. Now-a-days with the advancement of medical facilities, life insurance also performs the duty of social security by covering the risk of unexpected longevity of a person through the insured pension plans and annuities.

The per capita income of a developing country (like India) is low and considerable number of people are living below the poverty line. Further, a major portion of working group (specially in primary and low paid service sector) has no sufficient income even to meet the primary needs. This does not imply that these households are not in need of insurance protection. Equally strong is their need for savings. Economically unsound families do not have adequate assets to overcome the adverse contingencies. Hence for these families as well as for others there is a definite need for suitable life insurance policies coupled with saving arrangements.

People are inspired in frugality and savings of income because of certain reliefs of income tax allowed by the Income Tax Act. The insurance premiums paid by an individual act as a tax relief, subject to some limits specified by the Finance Act with change in time.

Life Insurance policies even can activate as an aid to security or a collateral security for commercial loans and housing loans. Loans can be
raised within the surrender value of the policy which helps twofold needs: (i) the immediate financial need and (ii) the need of insurance protection.

One of the basic characteristics of an underdeveloped economy is the prevalence of chronic unemployment and underemployment due to the deficiency of "Social Overhead Capital" and "Direct Productive Asset". The Indian economy also does not find sufficient fund to improve its infrastructural facilities and productive investments to such an extent that the unemployed youths are absorbed. Life insurance being a sound organized and efficient sector may create large amount of direct and indirect employment opportunity in front of the depressed and bewildered educated youths. This sector may also help to supply sufficient capital for infrastructural as well as direct industrial development in the country.

Apart from these main roles, a well-developed insurance sector promotes economic growth by encouraging risk taking activity and has great potential as a mobilizer of long-term contractual savings in the form of life insurance. The latter would help to assist for capital formation required for all round development of the economy. So the necessity of a vibrant and efficient life insurance sector cannot be ignored.

1.3 Choice of The Study

During the pre-nationalisation period it was found that a number of private Indian insurance companies and foreign insurance companies were established like the growth of mushrooms on the land. Many of them discontinued their operations and some of them tried to survive through amalgamation with other companies. This happened due to disappearance of capital or life fund of most of the private insurance companies resulting from the deployment of investible funds in risky and speculative areas and faulty actuarial valuation and loss assessment for doing insurance business properly. Further, it was the common phenomenon of private insurance companies during pre-nationalisation period that the insurance companies did their business mainly in metropolitan cities and in urban areas, neglecting the vast
area of rural India. To increase the depth and to avoid the discontinuity and frequent liquidation of life insurance companies, 154 Indian and 16 non-Indian life offices and 75 provident fund societies which were operating at that time, were nationalised with the formation of a single corporation, named Life Insurance Corporation of India.

It was the intention of the Government of India to make Life Insurance Corporation one of the major Public Undertakings in India and thought that its objective would be to serve the individual as well as the state. With this background, the Corporation set out eight objectives which are detailed below:

1) To spread life insurance much more widely and in particular to the rural areas and to the socially and economically backward classes with a view to reaching all insurable persons in the country and providing them adequate financial cover against death at a reasonable cost.

2) To maximise mobilisation of people’s savings by making insurance-linked savings adequately attractive.

3) To bear in mind that in the investment of funds, the primary obligation is to its policy-holders, whose money it holds in trust without losing sight of the interest of the community as a whole; the funds to be deployed to the best advantage of the investors as well as the community as a whole, keeping in view national priorities and obligations of attractive return.

4) To conduct business with utmost economy and with full realisation that the money belongs to the policy-holders.

5) To act as trustee of the insured public in their individual and collective capacities.

6) To meet various life insurance needs of the community that may crop up in the changing social and economic environment.

7) To involve all people working in the Corporation to the best of their capacity in furthering the interests of the insured public by providing efficient service with courtesy.
8) To promote amongst all agents and employees of the corporation a sense of participation, pride and job satisfaction through discharge of their duties with dedication towards achievement of corporate objectives.

For proper functioning of LICI and for the fulfillment of these pre-determined objectives of nationalisation, different committees have been formed from time-to-time. Notable among them are the Estimates Committee of Parliament (1960-61), the Committee on Public Undertakings (1964-65), the Committee on Expenses [also known as Morarka Committee (1969)], the Era Sezhiyan Committee regarding review of the working of LICI (1979-80) and the Malhotra Committee on Reforms (1994). The major recommendations of these committees are enunciated one by one below:

The Estimates Committee recommended that as in the case of LICI no comparative standards for measuring efficiency in performance were readily available, the Corporation should be split up into some semiautonomous zonal corporations with exclusive jurisdiction. There should also exist competition among zones, divisions, branch offices, field officers and agents. As per the clarification of the Government, Profit and Loss Account of the Corporation is to be worked out for the LICI as a whole (as investment decisions are centralized at the central offices of the Corporation).

The major recommendations of the committee on Public Undertakings (1965) were as follows:

1) The service rendered by the corporation to its policy-holders was far from satisfactory and the committee opined that to improve service to the policy-holders and for expanding business the existing zones had to be completely independent.

2) It also suggested for more vigorous penetration in the rural segments.

3) The Chairman and Managing Director of the Corporation should have longer tenure and they should not be changed frequently.

4) It urged to the Government to introduce salary savings scheme in the Central, State and Public Sector Undertakings.
The Morarka Committee recommended a series of measures to stabilise expenditure and to ensure some savings. The Committee also expressed the view against the proposal for splitting up of LICI into autonomous bodies as it was of the opinion that no case could be made out of this that would contribute to economy and efficiency.

The main recommendations of Era Sezhiyan Committee (1979 – 80) are pointed out below:

(I) The Committee recommended for the introduction of new plans of insurance to meet the needs of the rural population.

(a) As the rural population generally do not have regular income, special plans for rural population should be introduced that permit variations in premium from year to year. To meet this particular problem, the committee suggested that the LIC should consider issuing single premium endowment policies under which the risk cover would be of double amount payable on maturity.

(b) In rural areas, there are often periods which may extend from one to three years when the policy-holders are unable to pay the premiums because of draught or other natural calamities. The LIC should, therefore, consider issuing an ordinary endowment policy under which a small term insurance premium would be collected along with the first premium which would provide risk for a period upto three years in case the policy-holder is unable to pay the premium for some time after the payment of initial two years’ premium.

(II) Recommendations put forward by the committee regarding the operation of approved pension funds are mentioned below:

(a) The LIC Act should be ammended so that exemption is granted to all pension funds from the operation of the LIC Act at par, with the exemption granted to all pension funds existing as on 01.09.1956 under Section 44 (f) of the LIC Act, subject to their working being supervised by the Controller of insurance.
(b) The LICI should urgently re-examine its present pattern of working of pension schemes and introduce the managed fund concept, so that it is able to offer terms which are competitive with those that can be offered to their members by privately managed pension funds.

(III) The committee made the following recommendations with regard to the marketing organization for the expansion of the group business of LICI and its administration

(a) The decision already taken by the LICI to set up full-fledged Group and Superannuation Department in all the divisions should be implemented at an early date.

(b) The officers and staff posted in the proposed development-cum-servicing centres should also be given training in the special problems of development of group business in the rural areas, so that they can take the initiative in developing group business in the rural areas.

(c) As regards the overall targets for the branches, divisions and the LICI as a whole, the committee recommended that those targets should be fixed not in terms of new business, but in terms of the increase in the business in-force as represented by the number of lives covered, sum assured and premium income and also in terms of the increase in the number of 'effective' agents.

(IV) The committee submitted the following recommendations for consideration of the government

(a) Approved trust funds, like provident fund and gratuity funds are required to invest only 40% of their total investments (instead of 50% at present) in government and other approved marketable securities.

(b) In respect of 25% of the investible funds presently invested in socially oriented sector by offering different rates of interest, the committee was of the view that this distinction was unjustifiable and
it recommended that all such loans should be granted at the market rates of interest applicable to the term loans. At best, a differential of half a percent might be retained for loans to government and also to semi-government guarantee. As regards the balance of the funds, it recommended to consider increasing its investment in the housing field subject to the condition that the net rate of return should not be less than that obtained from socially oriented sector.

(V) The committee also suggested the following recommendations for consideration:

(a) Cost of servicing a policy with half yearly mode of payment is substantially higher than that of a policy with quarterly or monthly mode. The committee, therefore, suggested that a rebate for yearly mode, which was Re. 0.75 per Rs. 1000 sum assured should be increased to at least Re. 1 per Rs. 1000 sum assured and suitable extras be charged for premiums paid quarterly or monthly.

(b) As regards the ordinary life insurance fund, the share of surplus to be allocated to the policy-holders should be increased from 95% to 97.5%.

(c) Out of the 2.5% share of valuation surplus, not more than Rs. 1 crore should be paid over to the government which would give a 20% return on the paid up capital of the LICI provided by the government. The balance should be set apart to constitute a reserve fund which would be utilised for the development of life insurance business and allocation among the policy-holders from the low income group.

It is observed from the gravity and depth of the recommendations submitted by the various committees formed up to the year 1979 – 80, that the recommendations of Era Sezhiyan Committee most probably made a major break through in the functioning of LICI from the year of their implementation, 1980-81.
In 1993, the Government set up another important committee for structural reforms in the insurance sector (under the chairmanship of R.N. Malhotra) in continuance of the general economic reforms prescribed by the then Finance Minister, Manmohan Singh. By examining the then structure of the insurance industry, the committee made different recommendations to make the insurance industry efficient and competitive. The major recommendations of this committee were that:

(i) The private sector should be allowed to enter in the insurance industry. The number of new entrants should be controlled and the minimum paid up capital of a new entrant should be Rs. 100 crore.

(ii) Postal life insurance should permit to transact life insurance business in the rural areas among the general public.

(iii) Pension schemes needed to be popularised especially in the unorganised sector for which there remained substantial untapped potential.

(iv) The surplus staff at central and zonal offices arising out of the restructuring should be redeployed preferably to the branches where the impact of growth of business would be immediately felt.

(v) The ownership pattern of LICI and also of GIC and its four subsidiary companies should be changed by reducing Government’s shareholding to 50%. To give effect of recommendation as regards to ownership pattern, it would be necessary to convert LICI from its present position of statutory corporation into a company registered under the Companies Act. The present capital of Rs. 5 crores of LICI contributed entirely by central government should be raised to Rs. 200 crores with the government holding 50% thereof and the remainder being held by the public at large, reserving a suitable portion for LICI’s employees.

(vi) The existing insurance laws, rules and regulations should be amended for the structural reforms and opening up of the insurance sector.
On the basis of the recommendations of Malhotra Committee on reforms in the insurance sector, the Government set up an interim Insurance Regulatory Authority (IRA) in January 1996. IRA was established with objectives of prescribing healthy regulations, promotion and orderly growth of insurance market protecting the interest of customers, etc. The Government of India decided to make the Authority a statutory body and accordingly introduced the Insurance Regulatory Authority Bill, 1998 to the Parliament on December 15, 1998. But due to the pressure of opposition political parties, trade unions and academicians the government was not able to implement the recommendations of the insurance reforms committee. Actually insurance sector has been opened up in India since 2000 after the enactment of IRDA bill (on April 19, 2000). Max New York Life was the first company to apply for license under IRDA. Other notable private players who enter into the Indian insurance market are - CIGNA, Royal & Sun Alliance, Prudential Corporation, Standard Life Allianz AG, Mitsui Marine, SWISS Re, CGU, Birla Sun Life Insurance, Tata AIG, etc.

In the light of the needs of life insurance (pointed out in the earlier section) and the set out objectives of nationalization and recommendations of different review and reforms committees, one may be curious to know

(i) whether there is any uniformity in the performance of LICI throughout the period after its nationalisation,

(ii) whether there is any effect of the implementation of the recommendations of the Era Sezhiyan committee on the performance of LICI because, as mentioned earlier, these recommendations had a distinctive character,

(iii) further, whether there is any change of performance of LICI due to the potential threat of competition that started from the year of adopting the general economic policies of liberalisation, privatisation and globalisation,
(iv) the strength and base of LICI in life insurance business in Indian economy and whether it will be capable of facing future challenges of competition or alternatively whether there is any lacuna in the performance of LICI which should be covered, to face the future challenges,

(v) whether market potentialities of insurance business remain untouched as identified by the Malhotra Committee.

All these necessitate to make an in-depth study on the assessment of the performance of LICI over time after nationalisation and also over different sub-periods under reform policies in the Indian life insurance sector whose relevance at present is unquestionable.

1.4 Objectives of the Study

The broad objective of our study is to enquire the necessity of opening up of the life insurance sector in India. To fulfil this broad objective our study has been confined on the following pivot factors for consideration:

(i) At the very outset of the study, over time performance of LICI in terms of number of policies, sum assured and premium incomes in new business and business in-force (both in individual business and group business) have been assessed. The nature of portfolio management of LICI's investment has also been studied over time in measuring its performance.

(ii) In the prenationalisation era, life insurance was largely an urban phenomenon. It became the responsibility of the nationalised life insurance sector to bring life insurance to every nook and corner of the country. In this study, an attempt has been made to visualise the rural thrust of life insurance business in India from the information in respect of the sale of new policies in rural areas.

(iii) From the general economic scenario, it is evident that the economic development in different states of India has not taken place evenly. Due to the uneven distribution of financial assistance, improper economic
planning of the central and state governments and due to other
economic and non-economic reasons, few states (viz. Gujarat, U.P.,
Maharashtra, Hariyana, Punjab, Tamilnadu, Karnataka, etc.) are more
developed than other states in India. One of the important objectives of
the study is to find out whether there is any association between
uneven spatial socio-economic development and progress of zonal
business of LICI.

(iv) It should be the first and foremost objective of Life Insurance
Corporation of India to spread life insurance in the country at a
reasonable cost. Therefore, the responsibility of LICI's management is to
work in such a way that its management expenditure lies at a
reasonable level. It should not expend huge amount in paying staff
salary, agents' commission and other management expenditure like
other public sector undertakings in India. In these considerations, the
objective of our study is to examine the trend of management
expenditure of LICI after few years since nationalisation to 1999-2000.
Here we have tried to find out the lacunas, if any, in managing LICI and
the ways by which such lacunas can be waived out. Along with
expenses, different components of income of LICI have also been
examined to assess its strength also as a commercial organisation, which
is necessary in a competitive environment.

(v) Another goal of this research study is to be aware of the nature of
flourishing of individual pension and annuity products of LICI during
the era of gradual reduction of secured public sector employment
opportunities and emerging nuclear families in the Indian society.

(vi) It is well known to all that customers' service is not up to the mark in
most of the public sector undertakings in India. In regard to this very
aspect, we have examined the quality of customers' service rendered by
the LICI to its customers. Claim settlement service is the main
customers' service in the field of insurance business, so here we have
given much emphasis in knowing the trend of claim settlement of Life Insurance Corporation of India during the period under study.

(vii) Life insurance business in a country is evaluated with the help of some well recognised ratios and standards. Through this study we have examined the comparative performance and position of LIC in terms of those ratios and standards.

(viii) In addition to their feature of risk coverage, life insurance products issued by Life Insurance Corporation of India may also be treated as the saving instruments by the policy-holders. To enquire the possibility of this sort of treatment by the policy-holders, a comparative study has been made by examining the relationship between life insurance business and total savings in the country and also in terms of their comparable average rates of return.

(ix) Life insurance premium paid by a person to effect or to keep in force an insurance (life policy or endowment policy) or payment made by the employers to the Central Government Employes’ Group Scheme and policy taken and premium paid by any member of H.U.F. are qualified for rebate under section 88 of the Income-tax Act. Here the aim of the study is to enquire how tax-rebate encourages the taxpayers to take life insurance policies. Alternatively, we have examined whether the life insurance policies are mainly considered as the tax saving devices in India.

(x) Last but not the least objective of our study is to examine the effect of different socio-economic determinants (e.g., GDP, GDS, literacy rate, proportion of able-bodied person to total population, etc.) and also the policy of insurance reforms on the progress of life insurance business in India.
1.5 Hypotheses of the Study

The testable hypotheses of our study are as follows:

(i) After nationalisation the LICI has grown remarkably in every sphere. But the growth rates have not been even in different related components of insurance business in different regions of the country and over different sub-periods.

(ii) LICI has made significant progress during the reform period (i.e., during 1990s) and LICI having strong base and strong financial fundamentals will be capable of meeting future competition and challenges.

(iii) The administrative expenses and other expenses per unit of business of LICI decrease over time.

(iv) The different components of real income, surplus and life fund of LICI have significantly increased during the period under study.

(v) Internally measured accounting ratios signify that the liquidity, efficiency and net income (i.e., total income minus total outgo) of LICI have improved significantly over time, specially after 1990-91.

(vi) Globally recognised insurance ratios have also moved in positive direction in case of LICI and not much market potentially in life insurance sector remains untouched in India under the existing economic conditions.

(vii) The share of the rural market in LICI business is much less than that of the urban market. However, social insurance by LICI has made remarkable progress.

(viii) Inter-period and inter-spatial differences in the growth of life insurance business in India significantly depend on the selected indicators of socio-economic developments and pattern of income distribution.
(ix) Life insurance in India is mainly considered as tax-saving instrument. The premiums collected during the months of January, February and March are much higher than those collected during the other months of a year as the number of new policy-holders during this period of the year is more from the tax payers than from the non-tax-payers.

(x) Rate of return from LICI's investment increases over time due to the increase of the share of stock exchange investment in total investment and all these lead to increase in the bonus rate of the policies offered by LICI.

(xi) Bonus rate, moreover, positively affects the expansion of life insurance business.

(xii) Due to its relatively broad market-base, the LICI has comparative advantage to compete with the new entrants in this sector.

All these hypotheses of the study have been tested by applying the appropriate statistical and econometric tools on the collected database.

1.6 Plan of the Study

The study has been organised in eight chapters. Apart from this introductory chapter (Chapter I), the brief history of life insurance business in India before 1956 has been discussed in Chapter II. Review of the past studies in this field is presented in Chapter III. In that chapter also the weaknesses of these studies have been identified. In Chapter IV the database and methodology of the study have been analysed. The parameters of growth rates, mean levels and instabilities of performance indicators of Life Insurance Corporation of India during the period of 1962-63 to 1999-2000 have been examined in Chapter V. Chapter V also deals with these analyses of growth, mean level and instability for two sub-periods (taking 1980 as the break year) and for four decades (i.e., 1960s, 1970s, 1980s and 1990s). The performance
appraisal of LIC through ratio analysis has been taken into consideration in Chapter VI. For this analysis different internal accounting ratios and globally recognised external ratios related to life insurance business in India have been computed and compared over time. Chapter VII has been devoted to analyse the socio-economic determinants of life insurance business in India. Emerging impact of insurance reforms has also been analysed in this chapter. The last chapter (Chapter VIII) is confined to summarise the major findings of the study and to draw conclusions and policy prescriptions from the study for further improvement in the performance of LIC.