Chapter 3

Formation and Development of Life Insurance Corporation of India (LIC)
# Chapter 3 - Formation and Development of Life Insurance Corporation of India (LIC)

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Chapter 3
Formation and Development of Life Insurance Corporation of India (LIC)

3.1 Introduction
In 2003, the Indian insurance market ranked 19th globally and was the fifth largest in Asia. Although it accounts for only 2.5% of premiums in Asia, it has the potential to become one of the biggest insurance markets in the region. A combination of factors underpins further strong growth in the market, including sound economic fundamentals, rising household wealth and a further improvement in the regulatory framework.

“The insurance industry in India has come a long way since the time when businesses were tightly regulated and concentrated in the hands of a few public sector insurers. Following the passage of the Insurance Regulatory and Development Authority Act in 1999, India abandoned public sector exclusivity in the insurance industry in favor of market-driven competition. This shift has brought about major changes to the industry. The inauguration of a new era of insurance development has seen the entry of international insurers, the proliferation of innovative products and distribution channels, and the raising of supervisory standards.

By mid-2004, the number of insurers in India had been augmented by the entry of new private-sector players to a total of 28, up from five before liberalization. A range of new products had been launched to cater to different segments of the market, while traditional agents were supplemented by other channels including the Internet and bank branches. These developments were instrumental in propelling business growth, in real terms, of 19% in life premiums and 11.1% in non-life premiums between 1999 and 2003. There are good reasons to expect that the growth momentum can be sustained. In particular, there is huge untapped potential in various segments of the market. While the nation is heavily exposed to natural catastrophes, insurance to mitigate the negative financial consequences of these adverse events is underdeveloped. The same is true for both pension and health insurance, where insurers can play a critical role in bridging demand and supply gaps. Major changes in both national economic policies and insurance regulations will highlight the prospects of these segments going forward.”

The awareness about insurance is quite high in India. “Around 78 per cent households are aware of insurance products. However, ownership of insurance
products is low - only 24 per cent households in the country own a life insurance cover. Those households owning life insurance tend to be more prosperous, more educated, and own more consumer durables than those that do not own life insurance. It is the salaried class that tends to buy the most life insurance, followed by the businessmen. Predictably, it is the married who tend to buy life insurance more. At the all-India level, for all households, while the average sum assured of a life insurance policy in the country is Rs 27,951, the average premium paid is Rs 1,227 and this represents 4 per cent of the household disposable income. If, however, the insured households alone are considered, their average premium payments work out to Rs 5,007, with the sum assured of Rs 114,450.”

Government of India has set out a goal where it would be in 2020 in different dimensions. “India has professed to commit itself to a long term goal: a quadrupling the real Gross Domestic Product by the year 2020 (Planning Commission, 2003). To make this vision a reality, simple arithmetic shows that it requires a 7%-8% growth in real GDP over a period of 17 years (2004-2020).

The proponents of this vision are quite positive about this vision. They write, “The compounded effect of achieving the targeted annual GDP growth rate of 8.5 to 9 per cent over the next 20 years would result in a quadrupling of the real per capita income and almost eliminating the percentage of Indians living below the poverty line. This will raise India’s rank from around 11th today to 4th from the top in 2020 among 207 countries given in the World Development Report in terms of GDP. Further, in terms of per capita GDP measured in India’s rank will rise by a minimum of 53 ranks from the present 153 to 100. This will mean, India will move from a low income country to an upper middle income country. This is a very real possibility for us to seize upon and realize.

In general, when various components of the insurance market develop, insurance sector takes on a bigger share of the GDS and of the GDP. Sinha (2004b) has examined the relation between insurance and GDP in India. A tentative conclusion is that a rise of one percent of real GDP leads to a rise of two percent of rise insurance demand in the context of India. Thus, rough estimates would suggest that quadrupling of GDP in India by 2020 will lead to an eight-fold rise in insurance demand. Of course, this rise in demand will not be spread equally across different segments of the market. For example, there will be bigger impact on the life and pension markets.
This effect will be tempered by a smaller rise in fire, auto, marine and fire insurance sub-sectors.”

In recent times, there has been growing awareness about life insurance products and the various benefits they offer to individuals. Offerings like unit linked insurance plans (ULIPs) have done their bit to draw individuals towards the insurance segment. Also tax benefits, presently under Section 80C of the Income Tax Act, have contributed to their allure and helped in popularizing insurance products. Conversely, there are products like medical insurance as it is commonly referred to, which can add value to an individual’s insurance portfolio, but are relatively lesser known.

An insurance policy is primarily meant to protect the income of the family’s breadwinners. “The idea is if any one or both die, their dependents may heretofore continue to live comfortably. The circle of life begins at birth, followed by education, marriage and eventually, after a lifetime of work, we look forward to a life of retirement. Our finances too tend to change as we go through the various phases of our life. In the first twenty years of our life, we are financially and emotionally dependent on our parents and there are no financial commitments to be met. In the next twenty years, we gain financial independence and provide for our families. This is also the stage when our income may be insufficient to meet the growing expenses of a young household. In the following twenty years, as our children grow and become financially independent, we see our savings grow, a nest egg put away for life after retirement. The final twenty years of life, post retirement is the time to reap the rewards of our hard work. It is important to remember that with time, our needs and aspirations tend to change and we have to ensure that we have a suitably dynamic financial plan.”

3.2 Insurance Business

Risk is found everywhere in our society. It cannot be eliminated altogether, only it can be minimized. “Human life is full of many types of risk. There is a risk when a man walks on the road, travels in a bus, train or an airplane and when he is engaged in trade, profession or business. Also, there is a risk when property is destroyed by fire, flood, earthquake, etc. Thus, the involvement of risk is inescapable in our life. Insurance is a method by which we can spread over the risk upon whole society. It is a way of reducing uncertainty of occurrence of an event. Insurance is entirely a method of co-operative Endeavour wherein the loss caused by a particular risk is
spread over among a large section of persons. Insurance is a process in which a large number of persons collect their small contributions, called the premium, in a pool and out of these losses are paid to the suffering persons."5

3.2.1 Definitions of Insurance

Insurance is a co-operative device to spread the loss caused by a particular risk over a number of persons who are exposed to it and who agree to insure themselves against that risk. The definitions of insurance, from our study point of view, can be divided into following two categories:

I. Functional Definitions
II. Contractual Definitions

I. Functional Definitions:

A functional definition of insurance must have the following ingredients:

(i) It should be based on co-operative system.
(ii) The system should be such that it spread the risk over a large number of persons, who are insured against the risk.
(iii) The method to provide security to the insured person against the probable loss.

The definitions involving these ingredients have been given by the following learned authors:

1. "Insurance is a device for the transfer of an insurer of certain risks of economic loss that would otherwise be borne by the insured." - Alien L. Mayerson
2. "Insurance is a contract by which one party for a compensation called in the premium assumes particular risks of the other party and promises to pay to him or his nominee a certain or ascertainable sum of money on a specified contingency." - E.W. Fitterson

II. Contractual Definitions:

The following are the ingredients of a contractual definition of insurance:

The insurance is a contract whereby one party agrees to pay a certain specified sum, on the happening of a particular event, to the other party, who in turn agrees to pay a sum in the form of premium for its consideration. Thus, according to the contractual definitions of insurance there must be:
(i) An agreement,
(ii) A consideration, and
(iii) The happening of a particular event.

The following authors have given the contractual definition of the insurance:
1. "Insurance is the process by which a company (the insurance company) for a fee (the insurance premium) agrees to pay another firm or individual (the insured) a sum of money stated in a written contract (the policy) if a loss occurs."
   - Boom and Kurtz
2. "In its legal aspect it is a contract, the insurer agreeing to make good any financial loss the insured may suffer within the scope of the contract and the insured agreeing to pay a consideration (the premium)."
   - Riegal and Miller

### 3.2.2 Characteristics of Insurance

Insurance has some characteristics. The important characteristics of insurance are as under:

1. A Co-operative Device
2. Insurance is a Contract
3. Consideration
4. Protection against the Risk
5. A Device to Spread the Risk
6. Based upon Certain Principles
7. It is a Social Device
8. It is regulated by Law
9. Insurance is not a Wagering

### 3.2.3 Functions of Insurance

Insurance has functions like protection, certainty, progress of a country and foreign trade. The important functions of insurance can be divided into the following three categories:

1. Primary functions,
2. Secondary functions,
3. Indirect functions.
1. Primary Functions:

(A) **To Give Protection:** The most important function of the insurance is to provide protection against the probable risk of loss. It is a kind of guarantee that insurance will make good the loss suffered by an individual. Insurance cannot check the happening of the events but it certainly gives indemnity in such events.

(B) **To Provide Certainty:** Future is uncertain. Any misfortune can happen at any time. Amount of loss is also uncertain in such misfortunes. It is true that uncertainty of loss can be reduced by better planning and administration. But it requires special attention, knowledge and determination. Insurance relieves man from such difficult task and provides certainty of payment at the uncertainty of such losses. Of course, premium is charged for giving such certainty.

(C) **Distribution of Risk:** This is another important function of the insurance contract. The distribution of risk among several insured persons is a method to spread over the losses

2. Secondary Functions:

(A) **It helps in the Economic Progress of the Country:** Insurance contract plays an important role in the development of industries and commerce and thus helps in the economic development of a country. It develops a sense of security among the industrialists of country. They know that in case of happening of an unfortunate event their losses will be compensated. This provides initiative to work hard which is essential for the economic progress of the country.

Insurance helps in establishment of big industrial units also by giving protection against different types of business risks.

(B) **It Prevents Losses:** Insurance contract plays an important role in reduction of losses. It encourages reducing loss in many ways. Insurers give incentives for reducing loss by lowering premium. For example, in fire insurance, discounts are allowed for improvement in risk, e.g., fire extinguishing appliances and extra rates are charged for inferior construction. 'No Claim Discount' in case of motor insurance is also a loss reduction provision. Reduction of losses causes lesser payment to the assureds and more savings to insurers, which ultimately results in reduction in premium and increase in insurance business. Thus, the insurance assist financially to health organization, fire brigade, educational institutions and other organizations and agencies engaged in loss prevention works. Some important such agencies in India are:
(i) Loss Prevention Association of India,
(ii) The Salvage Corps of Loss Prevention Association of India.
(iii) Survey and Inspection of Risks, etc.

3. **Indirect Functions:**

   (A) **A Forced Saving:** Life insurance contract is a method of saving. The premium paid is accumulated and is returned to the assured if he survives at the date of maturity. There are certain relief in Income-tax, allowed by the Income-tax Act to encourage the habit of thrift and savings among the people. Payment of life insurance premiums becomes habit and in effect brings about compulsory savings.

   (B) **It Promotes Foreign Trade:** Foreign trade depends entirely on insurance contract. The bankers will not discount the marine trade bills unless the cargo is fully insured. In our country insurance has been made compulsory for foreign trade. It relieves entrepreneurs from the uncertainties of foreign trade.

   (C) **Others:** Insurance contract creates confidence in the general public, provides source of investment and thus helps trade and commerce to develop at a faster rate.

### 3.2.4 Assurance and Insurance

In the insurance business, the terms, Assurance and Insurance are used synonymously. “Literally, there are no different opinions and intonations in the use of the terminology. According to them, 'Assurance' is a term used where an event is bound to happen, i.e., death in the case of Life insurance, and the only uncertainty is the date of its occurrence. The term 'Insurance' is used where the event may or may not happen as in the case of a fire or burglary insurance contract. According to Mr. N.D. Basu, the word 'Assurance' is very old and has been used since 16th century in respect of all classes of insurances. But in practice it is said that the word' Assurance' has been used only for life insurance since 1826 and the term 'Insurance' for other classes of insurance.
### Table 3.1
Differences between Assurance and Insurance

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<th>Basic</th>
<th>Assurance</th>
<th>Insurance</th>
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<td>Use of the word</td>
<td>The term assurance is used for life insurance contract.</td>
<td>The term insurance is used for other classes of insurance as fire or burglary.</td>
</tr>
<tr>
<td>Risk</td>
<td>Here the risk is bound to happen i.e., death</td>
<td>Risk is uncertain. It may or may not happen.</td>
</tr>
<tr>
<td>Sum Assured</td>
<td>Here sum assured is bound to be paid by the insurer. For example, in life case either on death or at maturity.</td>
<td>Here the sum assured is paid only if the insured event happens, otherwise not.</td>
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Source: B.L. Saini (2011) Life Insurance (Modern Trends and Techniques), Shree Niwaz Publications, Jaipur India, PP. 99 to 100

However, the term 'Assurance', 'assuror' and 'assured' are alternative by used with precisely the same meaning as 'insurance', 'insurer', and 'insured' respectively.”6

### 3.3 History of insurance development in India
Insurance in its modern form first arrived in India through a British company called the Oriental Life Insurance Company in 1818, followed by the Bombay Assurance Company in 1823, and the Madras Equitable Life Insurance Society in 1829. “They insured the lives of Europeans living in India. The first company that sold policies to Indians with “fair value” was the Bombay Mutual Life Assurance Society starting in 1871. The first general insurance company, Triton Insurance Company Limited, was established in 1850. For the next hundred years, both life and non-life insurance were confined mostly to the wealthy living in large metropolitan areas.

Pioneering efforts of reformers and social workers like Raja Ram mohan Ray, Dwarakanath Tagore, Ramatam Lahiri, Rustomji Cowasji and others led to entry of Indians in insurance business. First Indian insurance company under the name “Bombay life insurance Society” started its operation in 1870, and started covering Indian lives at standard rates.

Later “Oriental Government Security life insurance Company”, was established in 1874, with Sir Phirozshah Mehta as one of its founder directors and later emerged as a leading Indian insurance company under the name “Bombay Life Assurance Society” started its operations in 1870.”7
Insurance has a long history in India. Life Insurance in its current form was introduced in 1818 when Oriental Life Insurance Company began its operations in India. General Insurance was however a comparatively late entrant in 1850 when Triton Insurance Company set up its base in Kolkata. History of Insurance in India can be broadly bifurcated into three eras:

a) Pre Nationalization
b) Nationalization
c) Post Nationalization.

Life Insurance was the first to be nationalized in 1956. Life Insurance Corporation of India was formed by consolidating the operations of various insurance companies. General Insurance followed suit and was nationalized in 1973. General Insurance Corporation of India was set up as the controlling body with New India, United India, National and Oriental as its subsidiaries. The process of opening up the insurance sector was initiated against the background of Economic Reform process which commenced from 1991. For this purpose Malhotra Committee was formed during this year who submitted their report in 1994 and Insurance Regulatory Development Act (IRDA) was passed in 1999. Resultantly Indian Insurance was opened for private companies and Private Insurance Company effectively started operations from 2001.”

8. “India had the nineteenth largest insurance market in the world in 2003. Strong economic growth in the last decade combined with a population of over a billion makes it one of the potentially largest markets in the future.”

3.4 Current Scenario of Insurance Industry

There are opportunities in the pensions sector where regulations are being framed. “Less than 10 percent of Indians above the age of 60 receive pensions. The IRDA has issued the first license for a standalone health company in the country as many more players wait to enter. The health of insurance sector has tremendous growth potential, and as it matures and new players enter, product innovation and enhancement will increase. The deepening of the health database over time will also allow players to develop and price products for larger segments of society.”

10 “After opening up of insurance to private sector, seventeen new players have entered in the field of insurance both life and non-life business. Some of these are Tata-AIG, Birla Sun life, HDFC Standard Life Insurance, Kotak Mahindra Old Mutual Life
Insurance, Reliance General Insurance, ICICI Prudential Life Insurance, Royal Sundaram Alliance Insurance, Bajaj Auto Alliance, IFFCO Tokyo General Insurance, INA Vysya Life Insurance, SBI Life Insurance, Dabur CJU Life Insurance, Max New York Life. SBI Life Insurance has launched three products-Sanjeevan, Sukhjeevan and Young Sanjeevan and so far it has sold more than 300 policies under its plan. Various insurance companies have tied up with banks to market their products. For example, HDFC Standard life has tied up with Indian Bank and UCO Bank in the eastern region. It has also entered into MOU with Peerless Bank as the corporate branches will help a rural reach for insurance company. Proposed joint venture Dabur CJU Life Insurance where Dabur group holds 74 per cent and U.K.-based CJU life's 26 per cent stake would be started with an equity capital of Rs. 110 crores. CGNU group being U.K's largest insurer and world's sixth larger insurer with assets worth $300 bn under its management and Dabur being India's leading FMCG Company, this venture may emerge as a leading player in insurance industry. Kotak Mahindra is likely to get approval for two more products which include term insurance and equity link policy in a bid to offer wider range of products.”

India with about 200 million middle class household shows a huge untapped potential for players in the insurance industry. Saturation of markets in many developed economies has made the Indian market even more attractive for global insurance majors. The insurance sector in India has come to a position of very high potential and competitiveness in the market. Indians, have always seen life insurance as a tax saving device, are now suddenly turning to the private sector that are providing them new products and variety for their choice. Consumers remain the most important centre of the insurance sector. After the entry of the foreign players the industry is seeing a lot of competition and thus improvement of the customer service in the industry. Computerization of operations and updating of technology has become imperative in the current scenario. Foreign players are bringing in international best practices in service through use of latest technologies. The insurance agents still remain the main source through which insurance products are sold. “The concept is very well established in the country like India but still the increasing use of other sources is imperative. At present the distribution channels that are available in the market are listed below.

- Direct selling
• Corporate agents
• Group selling
• Brokers and cooperative societies
• Bancassurance

Customers have tremendous choice from a large variety of products from pure term (risk) insurance to unit-linked investment products. Customers are offered unbundled products with a variety of benefits as riders from which they can choose. More customers are buying products and services based on their true needs and not just traditional money back policies, which is not considered very appropriate for long-term protection and savings. There is lots of saving and investment plans in the market. However, there are still some key new products yet to be introduced - e.g. health products.

The rural consumer is now exhibiting an increasing propensity for insurance products. A research conducted exhibited that the rural consumers are willing to dole out anything between Rs 3,500 and Rs 2,900 as premium each year. In the insurance the awareness level for life insurance is the highest in rural India, but the consumers are also aware about motor, accidents and cattle insurance. In a study, the results showed that nearly one third said that they had purchased some kind of insurance with the maximum penetration skewed in favor of life insurance. The private companies have huge task to play in creating awareness and credibility among the rural populace. The perceived benefits of buying a life policy range from security of income bulk return in future, daughter's marriage, children's education and good return on savings, in that order, the study adds.”

3.4.1 Low Level of Insurance Penetration

Despite the growth of gross domestic premium by 47 times between 1973 to 1999-2000, “the insurance penetration (insurance premium as share of gross domestic product) was only 0.56 percent in case of non-life business and 1.39 percent in the case of life insurance. This is much lower not only comparison to developed countries but even developing countries.”
3.4.2 Low Level of Insurance Density

The available data shows that “in India insurance density for non-life business was US $ 2.2 per capita, while for life business it was US $ 5.4. This is incredibly low in comparison to most of the developed and developing country. Share in World Market is also pathetic to say the least. Presently it is only 0.42 percent of total world insurance market. One of the feature as well as the cause behind number of other problems in insurance sector in India is the lack of innovation in terms of product design, services, capturing of new sectors/markets, etc. As already mentioned only around 175 products are on office while really in demand product are barely 40 to 50. This needs immediate improvement.”

3.4.3 Recent Development in Indian Insurance

The basic factor behind most of the shortcomings pointed out in Indian insurance sector, has been supposed to be lack of competition in Indian insurance market. The nationalized insurance companies perceive themselves to be extension of government and accordingly function in bureaucratic manner without giving regard to emerging requirement of the economy. This is reflected in their lack of innovation with regard to designing of products. Appreciating these concerns and realizing the utmost need of vibrant insurance industry Government of India decided to liberalize the industry.

Accordingly, Insurance Regulatory and Development Authority Act, 1999 (hereafter it is called as IRDA.) was enacted. The IRDA has been assigned basically three functions:

- The protection of consumer’s interests;
- To ensure financial soundness of the insurance industry; and
- To ensure healthy growth of the insurance market.

In pursuance of its mandate, the IRDA acted with enthusiasm and announced draft guidelines for insurance brokers and agents for the first time differentiating the role of an insurance agent from that of a broker. In July 2000, the IRDA announced guidelines outlining the investment norms for private insurance companies, besides segregating the holding of foreign institutional investors (FIIs) from the purview of the 26 percent equally cap in insurance joint venture. IRDA has also started issuing licenses to private players in insurance sector. The IRDA guidelines for private players have stipulated specific norms regarding
rural coverage, foreign investment, and reinsurance.

For instance, in the life insurance segment, as much as 5 percent of the policies would, have to sold in rural sector, while for the general insurance sector this limit has been kept at 2 percent. Subsequently these limits will go up to 15 percent and 6 percent in case of life and non-life respectively.

Foreign investment has been limited to 26 percent of equity of the insurance firm. However, Foreign Institutional Insurers (FIIs) are kept outside this limit of 26 percent. On reinsurance, IRDA has been rather strict towards new entrants: It has ensured that the role of GIC will remain unhindered as national reinsurer. The guidelines of IRDA have started showing results with the entry of number of new private insurance companies in the field. Their true impact will take some time to show an impact and it is too early to pass remark at this point of time.”

3.5 A brief profile of IRDA

The forms of controls and regulations exercised over insurance industry have differed from country to country. “The nature and pattern of controls in a country are shaped by its political and economical philosophy, economic and social compulsions, pressure different countries have evolved their own regulatory mechanism being applicable on insurance industry. Some of the countries have and healthy competition amongst them, while other has encouraged self control mechanism through greater role being assigned to services grew as early as in 16th century. The sector was practically without government control and intervention till 1870 , when Life Insurance Act was passed .The act as such did not imposed any companies to disclose their financial and other details to the public and get their financers evaluated by an actuary. The companies were required to be transparent in their dealings and make their accounts and valuation report available to the Board of Trade. It may be pertinent to mentain that to power were delegated to the board to political philosophy of UK, which believed in the policy of laissez-faire. In contrast, the controls exercised in USA, Continental Europe and Japan were more serve and widespread in nature.

The Indian insurance industry is governed by Insurance Act, 1938, General Insurance Business Act, 1972, Life Insurance Corporation Act, 1956 and Insurance Regulatory Development Authority Act, 1999. General Insurance Industry is guided by all the above acts except the Life Insurance Corporation Act, 1956, which is specially meant for Life Insurance. Indian insurance industry has recently been
opened up for private companies, both domestic and foreign. The opening of the insurance sector has been facilitated through IRDA.

The Government of India realized the necessities of setting-up Insurance Regulatory and Development Authority (IRDA) in 1999. The IRDA was set-up to provide for the establishment of an Authority for protecting the interests of holders of insurance policies, to regulate, promote and insure orderly growth of the insurance industry and for matters connected there with or incidental thereto. With the birth of IRDA, the Government amended the Insurance Act, 1938 the Life Insurance Corporation Act, 1956 and the General Insurance Business (Nationalization) Act, 1972 for the sake of proper control at apex level.

Insurance Regulatory and Development Authority (IRDA) exercise the supervisory control or insurance companies and these powers flow from Insurance Act, 1938 as well as from IRDA Act, 1999. IRDA Act, 1999 states:

“Subject to the provisions of this Act and any other law for the time being in force, the Authority shall have the duty to regulate promote and ensure orderly growth of insurance business and reinsurance business”

3.6 Factors Leading to Nationalization
Factors leading to nationalization would be discussed in;

a) Before nationalization

By 1956, as many as 154 Indian insurers, 16 non Indian insurers and 75 provident societies (in all, 245 entities) had entered the life insurance business in India. However, the geographical spread and the number of lives covered were rather small. In fact, insurance companies, small and large, were governed by short-term considerations and consequently, the business was confined mainly to cities and the more affluent segments of society. Offering insurance policies to people with small incomes, to snit their income and financial position had not even been attempted. “During this period a number of malpractices occurred in the industry causing loss to the unsuspecting public. There were also some instances of mismanagement and misutilization of the funds collected. An objectionable and harmful development was that the business houses which promoted these companies were, in fact, diverting large funds for their other concerns, with no consideration for prudence of doing so. Often, such large diversions of funds led to a situation where the insurance companies were not in
a position to honor their commitment to their own customers. Winding up of companies was also not totally unknown. This process gathered momentum especially after the First World War, and between 1914 and 1920, many insurance companies were closed down causing large losses for the small investors.

The Union Government's efforts at regulating the industry through various legislative measures were not very effective. The Farmer Finance Minister, Dr. CD. Deshmukh said in Parliament, during the debate on the Life Insurance (Emergency Provisions) Bill, 1956 that The Industry was not playing the role expected of insurance in a modern state and efforts at improving the standard by further legislation we felt, were unlikely to be more successful than in the past. The concept of trusteeship which should be the corner stone of life insurance seemed entirely lacking. Indeed, most management had no appreciation of the clear and vital distinction that exists between trust moneys and those which belong to joint stock companies.

b) Nationalization of life insurance

In the light of these developments, the demand for stricter government control of the industry gathered momentum and called for nationalization of the insurance business-which almost became a foregone conclusion. Again, quoting Dr. CD. Deshmukh, 'Misuse of power, position and privilege that we have reasons to believe occurs under existing conditions is one of the most compelling reasons that have influenced us in deciding to nationalize life insurance. Although that was the immediate cause of nationalization, Dr. CD. Deshmukh argued that the principal point about nationalization was that the state did not have to make out a case that the private sector had failed. Nationalization is justified on many other grounds of ideology, philosophy and the objective of a welfare state. It was necessary in order that the interest of the insuring public and the industry could be safeguarded, the country's economy promoted and more funds provided for economic development. These were the considerations which persuaded the Government of India to opt for nationalization of this industry.”

“The Government of India took the decision to nationalize the life business in India and an Ordinance was promulgated on 19th January, 1956 taking the management and control of all 245 existing insurance companies of our country. However, the companies continued to exist as separate entities and the ownership also continued
with the respective shareholders until the Life Insurance Act came into force as on 1.9.1956. It will be appropriate to quote the words of the then Finance Minister, Shri C.D. Deshmukh from the broadcast to the nation on the eve of the promulgation of the Insurance (emergency provision) Ordinance, 1956. He said "The nationalization of life insurance business will be another milestone on the road country has chosen in order to reach its goal of a socialistic pattern of society. In the implementation of the second five year plan it is bound to give material assistance, into the lives of millions in the rural areas, it will introduce a new sense of awareness of the building for the future in the spirit of calm confidence which insurance business alone can give. It is a measure conceived in a genuine spirit of service to the people. It will be for the people to respond, confound the doubts and make it a resounding success.” It is worthwhile to mention that our country was the first in the whole world to nationalize the life insurance business.”

c) Impact of Act of Governmental Reforms of 2000
“The Government having tried various models for the insurance industry such as privatization with negligible regulation (pre 1956) and nationalization (1956-2000) and having observed sub-optimal performance of the sector, resorted to adopting a hybrid model of both these, resulting in privatization of the sector with an efficient regulatory mechanism (post 2000).”

3.7 Objectives of Nationalization of Life Insurance Business
Nationalization of life insurance had some objectives. The following were the main objects of the nationalization of life insurance business:

1. To achieve the goal of the socialistic pattern of society.
2. To spread life insurance business much more widely particularly to the rural areas and to the socially and economically weaker section of the society.
3. To give complete security to the policy-holders in respect of the money they have paid towards premium. The fund to be deployed in the best advantage of the investors as well as the community as a whole.
4. To mobilise people's savings to finance our five year plans.
5. To avoid wasteful efforts in competition in life insurance.
6. To conduct the life insurance business with utmost economy and with the realization that the money belong to the policyholders.
7. To avoid mal-practices being adopted by the management of some life
insurance companies before nationalization, misuse of powers, their positions.

8. To regulate the insurance business on scientific basis.

9. To save dividend paid to the shareholders of the life insurance company.

3.8 Progress since Nationalization

The following is a brief account of the several developments that took place after the life insurance business was nationalized. The positive as well as the negative points are highlighted so as to serve as a backdrop to the current discussion on the subject, especially the one relating to reforms in this sector.

The task before the LIC immediately after nationalization was formidable since even as it dealt with a multitude of problems, it was called upon to build an imposing edifice on the foundations recently laid. The task had to be completed very carefully and after the Mundhra scandal. The Parliament was also watching its performance with great vigil. The LIC had to chalk up policies on different fronts simultaneously. As was to be expected, the first five years of its existence were devoted to integration and consolidation work. Of these, the first few years were devoted to the framing of rules and regulations, setting up other administrative procedures and streamlining the accounting procedures. Concurrently, there was a vast expansion of its network during this period. In addition to the structural reorganization and decentralization, human resource development was an important item in working out a new strategy, in which training was organized on a large scale.

In the period immediately after nationalization, unfortunately, new business was actually adversely affected and saw some fall in terms of the number of policies and the sum assured. This arose mainly on account of the fact that the process of restructuring the divisional and branch offices had not been completed and there were inadequate technical and experienced staff. Some of the branch offices did not even have the full complement of personnel assigned for them. The agents had not yet become accustomed to the new set up, the procedures and methods of the corporation. A particularly difficult year was 1957, during which the money position in the economy was tight, investors were shy and the common man was affected because of a steady rise in the cost of living. Agriculture was also affected by famine conditions. In these adverse circumstances, LIC's performance during that period should be considered as
reasonably good.

In 2010, payment to policyholders had a growth of 50.48 percent in comparison with 2009 and a great rise of 179.84 percent in comparison with 2005. The figure in 2010 was 8013419.77 and it reached 5325036.86 and 2863574.7 in 2009 and 2005 respectively.

After this initial difficult period, LIC, over the years, made commendable progress. The total new business of the 245 erstwhile insurance companies was around two billion rupees of sum assured. From a 'new' business of Rs 3.2808 billion sum assured under 0.932 million policies procured in India during the period of 16 months between September 1, 1956 to December 31, 1957, LIC progressed to a business of Rs 434775.24 Crore sum assured under 3.88 Crore policies on individual lives, in 2009-2010. The first year premium received during 2009-2010 reached 18933.96 Crore from Rs 130.6 million in the 16-month period ending December 31, 1957.

Similarly it has grown from a level of Rs 137.5 million sum assured under 5.4 million policies to Rs 20637.91 billion under 226158870 policies as on March 31, 2010. The total premium, written, which represents Lie’s annual mobilization of funds and which was Rs 820 million in 1957, now exceeds Rs 1859.8591 billion. Group insurance business written in India, which was 50 million rupees sum assured and Rs 2.1 million annuity per annum at the time of nationalization, has, as on March 31, 2010, grown to 125019 schemes in force, on 764.22 lakhs lives which carry an insurance cover of Rs 4579.1861 billion. In addition, there are 5974 superannuation schemes in force on 7 million lives with annuities payable amounting to Rs 5197.96 billion per annum. The number of new lives covered during 2009-2010. The total income of LIC during 2010 was a substantial Rs 2617.7302 billion, in which income from investments was as large as Rs 671.9789 billion.

The life insurance business has thus seen a rising curve of growth. Its growth rate in 2009-2010 was the best in the decade in all respects, such as policy growth rate, sum assured, premium growth rate, and investment income. The total life fund increased from Rs 3,857.9121 billion in 2005, to Rs 9,995.1759 billion, as on March 31, 2010, which translates into a healthy 159.08 per cent growth rate. It thus almost trebled during this period. LIC has also acquired a significant presence in the rural sector.
In its effort to include more people under the umbrella of life insurance, LIC has endeavored to provide insurance coverage to a larger number of individuals who have no previous insurance on their lives. During 2009-2010, 34.52 million individuals were insured for the first time for a sum assured of Rs 1,893.396 billion as against 22.25 million individuals for a sum assured of Rs 137.9181 billion in the previous year.

Through its vast network of 2,048 branches, 109 divisions, 1004 satellite offices and 8 zonal offices spread over the country; its marketing force of 23,634 development officers and 1,402,807 full-time and part-time agents (of which 1,340,067 were active agents); “LIC has reached various corners of the country and provides sales and service of life insurance to the Indian public at their doorsteps. LIC has also been able to reach illiterate people, those living in interior rural areas, and even people in the marginal income group or below the poverty line. Side by side, as seen above, group insurance activities have been expanded through an increasing number of pensions and group superannuation units. They not only cover the organized sector under various group schemes but also, through some group insurance schemes, cover the unorganized sector. Although, LIC's reach should be considered in the background of the poverty level, literacy problems, lack of insurance awareness, prevailing social customs and problems of communication to the deep rural areas, the fact remains that a lot of ground is yet to be covered. At this stage, it is worth noting that although LIC has virtually a monopoly over the life insurance business, there are some other very small players viz. Postal Life Insurance, Army Group Insurance Fund and Naval and Air Force Life Insurance Funds. Some of the state governments also have insurance schemes for their employees. A few pension funds are also in operation though reliable data about these small businesses are not easily available. Additionally, 20 new players have entered the market since October 2000, but naturally, they have yet to gather substantial enough business.”

After Independence, the Government came to the conclusion that a strong public sector under its direct control is necessary to meet national objectives of growth, equity, and employment generation. The financial sector was construed as one of the strategic sectors capable of mobilizing resources and placing it at the disposal of the Government for being developed as per the national priorities. In pursuance of the above objectives, life insurance was nationalized in 1956, major commercial bank in

3.9 Indian Insurance Business: Towards Competition

The public sector monopoly of insurance business was ended with the enactment of the Insurance Regulatory and Development Act, 1999. “The insurance business was thrown open for private participation (including foreign equity participation up to 26 percent of the paid-up capital). Further, the Insurance Regulatory and Development Authority (IRDA) Act, was enacted in 1999 and a separate Insurance Regulatory and Development Authority was set up. In order to ensure solvency of insurers and protection of policyholders’ interests, the IRDA Act stipulates prudential norms for investments and service obligations in the less-lucrative rural sector. Following this, the Insurance Regulatory and Development Authority (IRDA) was set up on April 19, 2000. Its major functions include (a) regulation of investment funds by insurance companies, (b) adjudication of disputes between insurers and intermediaries and (c) supervision of Tariff Advisory Committee. The IRDA has been notifying regulations, from time to time, which, inter alia, pertain to registration of Indian insurance companies, insurance advertisements and disclosures, licensing of insurance agents and intermediaries, reinsurance, and obligation of insurers to rural and social sectors. The insurance industry was opened up to the private sector in August 2000.

The primary objective of liberalization in the insurance sector was to deepen insurance penetration by enlarging consumer choices through product innovation. The increased competition in the insurance sector has led to product innovations for catering to the diverse requirements of various segments of the population.

Commercial banks and non-banking financial companies satisfying the prescribed criteria have also been printed to enter the insurance business with prior approval of the Reserve Bank of India. The avowed objective of IRDA Act is to provide for an authority to protect the interests of policyholders, to regulate, to promote and to ensure orderly growth of the insurance business in India. The opening of the life insurance industry has benefited consumers in a number of ways: There has been an explosion in the choice of products, service levels have improved and price wars have brought down term insurance rates and administration charges in unit-linked policies. Indian insurance industry remained a state-owned monopoly for more than 40 years in the case of life and not less than 25 years in the case of non-life. It remained in a
cloistered world of its own the reasons then prevailing which Prompted the state ownership are no longer valid in view of the rapidly changing global as well as local milieu.”22

3.10 The world Insurance Scenario and India’s Place in it

That the Indian insurance market is far behind many countries and has still to make up a lot of leeway in the global context, is clear from the information presented below. “In 1999, insurance companies wrote US $2,324 billion in premiums worldwide, an increase of 7.3 per cent over the previous year and 4.5 per cent after adjustment for inflation of the total, US $912 billion was generated by non-life business, an increase of 1.2 per cent after inflation; and US $1,412 billion was from life premiums, an increase of 6.9 per cent after inflation.”23

In 2010, “the figures were US $2443.7 billion, made up of US $1,521.3 in the life segment and US $922.4 in the non-life segment. This represented a growth of 9.1 per cent and 2.7 per cent respectively. However, the development of the insurance market demonstrates wide regional disparities. The global insurance business is concentrated in the industrial countries of North America, western Europe, Japan and Oceania. Together these countries account for 91.3 per cent of global premiums. On a global average, the equivalent of 7.5 per cent of the gross domestic product is spent on insurance. At US $3,103 per capita, the outlay for life insurance is the highest in Japan, while the Swiss spend the most on non-life insurance, namely US $1,729.”24

In 2010, “the above mentioned developed countries accounted for 90.7 per cent of global premiums. Again, with a per capita premium of US $3,165 the Japanese continued to be the highest savers of life insurance and the Swiss with US $1,571 per capita, were the biggest spenders on non-life insurance premiums.

In most countries, the non-life business registered either a negative or only modest growth, mainly because of the downward trend in commercial growth. Life insurance has grown more than non-life with a growth rate of 6.9 per cent. Its premium income registered a stronger increase both over the previous year and over the long-term average trend of the last 10 years. In fact, life insurance experienced a boom outside Asia. It was appreciably higher than global economic growth. This has not been on account of low interest rates. Rather,
concern about the state pension provision has increasingly proved to be an important growth engine in private life insurance.

At a global level, the premiums in North America and Europe expanded at a rate that was above the average of the previous 10 years, while the emerging markets generally developed at a slower pace than the long-term trend. The positive developments in North America and Europe can be attributed to the boom in life insurance. Japan, in contrast, had to contend with a renewed setback. The reasons for this are to be found not only in economic stagnation, but also in declining consumer confidence triggered by insolvencies and the guaranteed interest rate.

The drivers of growth of life insurance business were private pension provisions in the USA and Western Europe along with index linked policies buoyed by the stock market rallies up to mid-2000. The upswing is also attributable to a dramatic rise in the single premium business since the year 1995. The volatility of single premium business is likely to introduce capriciousness in the otherwise steadily growing life insurance industry.

Although growth in the emerging markets since 1980 has been subject to greater fluctuations than in the industrialized countries, it has also been significantly higher (9.8 percent compared to 4.9 per cent). In the emerging markets, the fastest growing were south and East Asia, where more than half of the premium volume in the emerging markets was generated in 2010.

In absolute terms, the industrialized countries continue to clearly dominate the global insurance market with a share of premiums in life and non-life insurance business far exceeds their 15 per cent share of the global popular on or 77 per cent share of the gross domestic product (GDP).

Insurance density (premium per capita) is markedly lower in most emerging markets compared to industrialized countries, being around US $40 on average. There are, nevertheless, great differences between the markets, with premiums per capita at between US $100 to $400 in half of the countries. Hong Kong, Israel, South Korea, and Singapore constitute exceptions amongst the emerging markets. These four countries recorded a premium expenditure of over US $1,000 per capita and were thus comparable to industrialized countries.

That India occupies a very low place in this scenario is seen from the figures presented below. The present per capita spending on insurance (life and non-life
put together) in India is $8.5 (2.4 non-life and 6.1 for life) per year as against $68.6 (56.7 and 11.8) in Brazil; Chile $163.0 (48.7 and 114.3); UK $3,244.3 (741.5 and 2,502.8); Japan $3,908.9 (805 and 3,103.4); South Korea $1,022.8 (262.3 and 760.5); China $13.3 (5.0 and 8.3); Malaysia $140.4 (62.3 and 78); and South Africa $490.9 (77.9 and 413.0). It will thus be seen that India is way behind many other countries in this respect also.

Taking into account the fact that incomes in emerging markets are much lower than in the industrialized countries, the insurance industry still continues to be at a rudimentary stage of development. Expenditure on insurance services expressed as a percentage of GDP (insurance penetration) is significantly lower than in the industrialized countries. This is indicative of the significance of the insurance industry in relation to country’s economic productivity. That overall penetration in India is low can be seen from the fact that for life insurance it is 4.00 per cent of GDP, and for non-life is 0.6 per cent. Malaysia, on the other hand, has 3.10 and 1.50 per cent respectively. Figures for other countries are: Brazil 1.4 and 1.6; Hong Kong 10.6 and 10.2; South Africa 12.50 and 2.8; Australia 3.8 and 3.0; and World level 4.4 and 3.1 per cent.”

3.11 Where will the Indian market be in 2020?

Vision 2020 identified the following factors as the engines of economic growth in India: “Rising education level, rates of technological innovation, cheaper and faster communication, availability of information, and globalization. It makes no mention of the financial sector. Economic growth does not take place in vacuum. There are two critical ingredients needed. First, there has to be a well-defined legal environment. Legal framework has big impact on the development of the financial sector. As a result, it also has a huge impact on economic growth. Second, there has to be a well functioning financial market.

Vision 2020 document mentions “insurance” eight times in the 108 pages. On the other hand, it mentions banking only once! Given that services sector will become the largest in India, both insurance and banking will play a critical role along with the stock market. This document does, however, contain a paragraph about a particular area of insurance: health insurance. “Health insurance can play an invaluable role in improving the overall health care system. The insurable population in India has been assessed at 250 million and this number will increase rapidly in the coming two
decades. This should be supplemented by innovative insurance products and programmes by panchayats with reinsurance backup by companies and government to extend coverage to much larger sections of the population.” (Planning Commission, 2003, page 55). At present, health insurance is not being discussed much. But, Indians spend close to 5% of their income out of pocket for health related issues. Thus, it is easy to see why this is an easy pick. So is the pension market. At present, private pension is its infancy in India. It will not remain so in the coming decades.

The question is where the Indian market might be in 2020. First, let us follow an extremely conservative projection: insurance demand goes exactly in line with income. In this case, we are assuming that in 2020, even in the face of rising income, the penetration of insurance (premium/GDP) stays exactly the same as in 2002. In that case, we will simply multiply the current premium volume figure four-fold. In Sigma 8/2003, such figures are available for 2002 for India. In such a case, the premium volume will be USD 67 billion.

Of course, evidence from other countries show that rising income below certain threshold has a nonlinear impact on insurance demand (the so-called S curve of insurance demand).

So, insurance penetration is not likely to stay at 3.2% for India (the figure for 2002) in 2020. If the penetration rises to 5% (more plausible if we believe in the S curve), then the premium volume will rise to USD 105 billion. If it rises to 6%, then the premium volume would rise to USD 121 billion. This thought experiment above does not even address the two future potential growth drivers: private pensions and health insurance. Given that Indians are already spending 5% of their income out of pocket for health care, this could easily add another USD 30 to 40 billion by 2020. This will raise the premium volume to USD 135 to USD 160 region by 2020.”
3.12 Potential of Life Insurance Business in India
There are 21 Life Insurance Companies in India.

<table>
<thead>
<tr>
<th>Sl. No</th>
<th>Insurers</th>
<th>Foreign Partners</th>
<th>Date of Registration</th>
</tr>
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<tbody>
<tr>
<td>3</td>
<td>ICICI-Prudential Life Insurance Co. Ltd</td>
<td>Prudential, UK</td>
<td>24.10.2000</td>
</tr>
<tr>
<td>4</td>
<td>Om Kotak Life Insurance Co. Ltd</td>
<td>Old Mutual, South Africa</td>
<td>10.01.2001</td>
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<tr>
<td>5</td>
<td>Birla Sun Life Insurance Co. Ltd</td>
<td>Sun Life, Canada</td>
<td>31.01.2001</td>
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<tr>
<td>6</td>
<td>Tata – AIG Life Insurance Co. Ltd</td>
<td>American International Assurance Co., USA</td>
<td>12.02.2001</td>
</tr>
<tr>
<td>7</td>
<td>SBI Life Insurance Co. Ltd</td>
<td>BNP Paribas Assurance SA, France</td>
<td>29.03.2001</td>
</tr>
<tr>
<td>8</td>
<td>ING Vysya Life Insurance Co. Ltd</td>
<td>ING Insurance International B.V., Netherlands</td>
<td>02.08.2001</td>
</tr>
<tr>
<td>9</td>
<td>Allianz Bajaj Life Insurance Co. Ltd</td>
<td>Allianz, Germany</td>
<td>03.08.2001</td>
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<td>10</td>
<td>Metlife India Insurance Co. Ltd</td>
<td>Metlife International Holdings Ltd., USA</td>
<td>06.08.2001</td>
</tr>
<tr>
<td>11</td>
<td>Reliance Life Insurance Co. Ltd (Earlier AMP Sanmar Life Insurance Company)</td>
<td>-</td>
<td>03.01.2002</td>
</tr>
<tr>
<td>12</td>
<td>AVIVA</td>
<td>Aviva International Holdings Ltd., UK</td>
<td>14.05.2002</td>
</tr>
<tr>
<td>13</td>
<td>Sahara Life Insurance Co. Ltd</td>
<td>-</td>
<td>06.02.2004</td>
</tr>
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<td>14</td>
<td>Shriram Life Insurance Co. Ltd</td>
<td>Sanlam, South Africa</td>
<td>17.11.2005</td>
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<td>15</td>
<td>Bharti AXA Life Insurance Co. Ltd</td>
<td>AXA Holdings, France</td>
<td>14.07.2006</td>
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<td>16</td>
<td>Future Generali India Life Insurance Company Ltd</td>
<td>Pantaloon Retail Ltd., Sain Marketing Network Pvt.Ltd(SMNPL), Generali, Italy</td>
<td>04.09.2007</td>
</tr>
<tr>
<td>17</td>
<td>IDBI Forties Life Insurance Company Ltd</td>
<td>Fortis, Netherlands</td>
<td>19.12.2007</td>
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<tr>
<td>18</td>
<td>Canara HSBC OBC Life Insurance Company Ltd</td>
<td>HSBC, UK</td>
<td>08.05.2008</td>
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<tr>
<td>19</td>
<td>Aegon Religare Life Insurance Company Ltd</td>
<td>Religare, Netherlands</td>
<td>27.06.2008</td>
</tr>
<tr>
<td>20</td>
<td>DLF Pramerica Life Insurance Co.Ltd</td>
<td>Prudential of America, USA</td>
<td>27.06.2008</td>
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<tr>
<td>21</td>
<td>Life Insurance Corporation of India (LIC)</td>
<td>-</td>
<td>1956</td>
</tr>
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</table>

There is a definite scope to increase the volume of savings in life insurance, given the current distribution of income amongst households and their employment structure.

“A substantial proportion of households in all income, occupation and education groups are uninsured. A significant fraction of the uninsured households might not be aware of the benefits of life insurance or might not know insurance agents who presumably tend to concentrate their efforts in spreading insurance among the upper income groups. For instance, 39 million rural households and 18 million urban households are aware of life insurance but do not own any policy and are confident about their households’ financial stability. This customer segment represents a key potential target segment for life insurance marketers. These households have the potential to increase the market for life insurance by Rs 258 billion – the market potential in rural areas is Rs 139 billion, while the corresponding figure for urban areas is Rs 119 billion. Alternatively, there are 11 million rural households and 10 million urban ones that could be a lucrative target for life insurance marketers. These segments are aware of life insurance and are confident about their financial security, but do not own any policy.

They earn more than the median income of insured households. In monetary terms, at the (average) current premium, this household segment could yield additional Rs 105 billion - Rs 36 billion each in rural as well as urban areas - as an immediate market that needs to be captured by life insurance companies.

Based on the above calculations the market (including both rural and urban) could generate an additional premium between Rs 105 billion to Rs 258 billion.

Educating the masses about the benefits of life insurance and a more intensive sales campaign are the only definite means of stepping up household savings in this form in the short as well as the long-term. Although greater employment security and growth in income would help promote savings in this form, there is scope for increasing savings even at the current levels of income by educating the masses about the importance of life insurance. This should not be difficult for the service providers, considering the fact that of late, they have been making efforts to increase life insurance ownership in rural India, a more difficult task than extending the coverage in urban areas. However, making households more insurance-minded will be, comparatively, a more difficult task that may require determined sales efforts spread over a longer period of time.”27
India’s life insurance market has grown rapidly over the past six years, with new business premiums growing at over 40% per year. “The premium income of India’s life insurance market is set to double by 2012 on better penetration and higher incomes. Insurance penetration in India is currently about 4% of its GDP, much lower than the developed market level of 6 - 9%. In several segments of the population, the penetration is lower than potential. For example, in urban areas, the penetration of life insurance in the mass market is about 65%, and it’s considerably less in the low-income unbanked segment. In rural areas, life insurance penetration in the banked segment is estimated to be about 40%, while it is marginal at best in the unbanked segment. The total premium could go up to $80-100 billion by 2012 from the present $40 billion as higher per capita income increases per capita insurance intensity. The average household premium will rise to Rs 3,000-4,100 from the current Rs 1,300 as will penetration by the existing and new players. India’s ratio of life insurance premium to its GDP is around 4 per cent against 6-9 per cent in the developed world. It could rise to 5.1-6.2 by 2012 in tandem with the country’s demographic profile. India has 17 life insurers and the state-owned Life Insurance Corp. of India dominates the industry with over 70 percent market share, though private players have been growing aggressively.

Considering the world’s largest population and an annual growth rate of nearly 7 per cent, India offers great opportunities for insurers. US based online insurance company ebix.com plans to enter the Indian market following deregulation of its insurance sector. Online insurer ebix.com’s expansion into India is a major step for the company to become a global supplier of internet-based insurance tools for consumers and insurance professionals. In a diverse country such as India it is imperative that a universal insurance infrastructure be created to maximize efficiency in the insurance industry. Online insurer ebix.com can offer the Indian market a business-to-consumer internet portal where consumers have more choice while purchasing insurance and an internet-based agency management system that will help agents work more efficiently with multiple carriers. Foreign holding in Indian insurance companies is limited to 26 per cent. The government wants to increase the cap to 49 percent, but its communist allies oppose such a move. The market is moving beyond single-premium policies and unit linked insurance products which are easier to sell. The agency model is the dominant sales channel accounting for more than 85 per cent of fresh premiums but
overall inactivity and attrition is much higher at 50-55 per cent than the global average of 25 per cent.

Opportunities include health insurance and pensions, the report said; adding only 1.5-2 per cent of total healthcare expenditure in India was currently covered by insurance. A life insurance policy covers one’s personal self. Unlike with general insurance, it is not like insuring a vehicle. Having said that, if we consider that India’s population is over one billion and growing, we get a picture of the true potential of the life insurance sector in India. LIC has been in business for 50 years now and has not covered the entire population base yet. About 250 to 300 million Indians are still insurable. LIC has issued about 120 million policies till now, with new premium income of US$ 1 billion. Its assets have been estimated at $37 billion and in the last quarter it reported a 60 per cent growth in new business. LIC’s business is growing at the rate of 20 per cent every year. That is the kind of potential one is talking about in life insurance in India. It would not be wrong to say that a lot of the advantage of advertising by new private sector insurance companies has by default gone to LIC. While they have created a lot of awareness through private insurer’s advertisements, LIC has benefited. Why? Because LIC has a much wider branch network, and buyers are surer of LIC because it has been in existence for long; they are more comfortable about its safety. Some LIC agents continue to follow the unethical practice of offering discounts from their commissions to new policy buyers; this makes a difference.”

**3.13 Impact of Global Financial Crisis in the Life Insurance Sector in India**

The impact of the recent global financial crisis on the life insurance business felt after the American International Group (AIG) and Fortis required bailouts due to their financial ill health. “India cannot be insulated from this impact as these insurers are having joint ventures in India. This has changed the perception of investors towards the private life players in India. In this occasion, there is a proposal by the High Level Committee on Financial Matters (HLCFM) on minimum common standards for financial intermediaries and financial education is the most important factor.”
3.14 Current Scenario of Life Insurance Corporation of India

Current scenario of Life Insurance Corporation (LIC) of India in number of life insurance offices, new issued policies, first year (including single premium) life insurance premium, total life insurance premium, net assets, global market share, individual new business, group new business, individual death claims, group death claims, claims settled in individual category, claims settled in group category and individual agents of life insurance are as follows:

3.14.1 Life insurance offices

Network of LIC is spread over the entire country. For better services to the customers, offices at the ground level play a very important role in this respect. Details about number of offices of LIC are given below:

Table 3.3 shows the number of life insurance offices were continuously increasing. Total industry has experienced a sharp growth of 305.32 percent from 2001 to 2008. In 2001 the number of life insurance offices was 2199 and in 2008 the number of offices has been 8913. LIC had only a slow rise of 15.37 percent in the number of life insurance offices. It means that private sector has had enough growth. The number of life insurance offices remained stable from 2001 to 2005 and had an increase of 14.79 percent from 2005 to 2008.

3.14.2 New issued policies

New policies play a great role in insurance corporation survival. Insurance Corporation can make it as a competitive advantage. Details of new issued policies are given in the following table;
Table 3.4
New Policies Issued

<table>
<thead>
<tr>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>LIC</td>
<td>37612599</td>
<td>38229292</td>
<td>31590707</td>
<td>23978123</td>
<td>26968069</td>
<td>24545580</td>
</tr>
<tr>
<td></td>
<td>(-1.61)</td>
<td>(21.01)</td>
<td>(31.75)</td>
<td>(-11.09)</td>
<td>(9.87)</td>
<td>(96.75)</td>
</tr>
<tr>
<td>Industry Total</td>
<td>50874157</td>
<td>46151566</td>
<td>35462117</td>
<td>26211198</td>
<td>28626916</td>
<td>25370674</td>
</tr>
</tbody>
</table>

Note- Figure in bracket indicates the growth over the previous year in percent.

Table 3.4 illustrates new issued policies between 2003 to 2008. LIC of India had a considerable increase of 96.75 percent in new issued policies in 2003. It decreased noticeably to 9.87 and -11.09 percent in 2004 and 2005. In 2006 there was a peak of 31.75 percent and then it stepped down dramatically to 21.01 and -1.61 percent in 2007 and 2008.

3.14.3 First year (Including Single Premium) Life Insurance Premium

First year premium is the premium which has been collected by insurer from new customers. Details of first year life insurance premium are given in the following table;

Table 3.5
First year (Including Single Premium) Life Insurance Premium (Crore)

<table>
<thead>
<tr>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>LIC</td>
<td>59996.57(6.71)</td>
<td>56223(97.17)</td>
<td>28515.56(38.07)</td>
<td>20653.06(19.05)</td>
<td>17347(8.58)</td>
<td>15976.76(-18.44)</td>
<td>19588.77(101.93)</td>
</tr>
<tr>
<td>Industry Total</td>
<td>93712.52(23.88)</td>
<td>75649.21(94.96)</td>
<td>38785.54(47.94)</td>
<td>26217.64(32.49)</td>
<td>19788.32(16.80)</td>
<td>16942.45(-14.68)</td>
<td>19857.28(104.56)</td>
</tr>
</tbody>
</table>

Note: Figure in bracket indicates the growth over the previous year in percent.

Table 3.5 shows first year (including single premium) life insurance premium from 2002 to 2008. First year life insurance premium in LIC soared markedly by 206.28 percent between 2002 and 2008. LIC experienced a huge increase of 101.93 percent of first year life insurance premium in 2002 then it reduced enormously by -18.44 percent in 2003. LIC commenced to soar significantly the first year life insurance premium from 2004 to 2007 but in 2008 LIC underwent a dramatic reduction of 6.71 percent.
3.14.4 Total Life Insurance Premium

Total life insurance premium is the total monetary consideration payable by the insured to the insurer for the period (or term) of insurance contract granted by the insurance policy. “The sum of the pure premium and the loading premium constitutes the office premium. Once any premium taxes are added, the total premium is obtained.”

Details of total life insurance premium are given in the following table:

<table>
<thead>
<tr>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>LIC</td>
<td>149789.99</td>
<td>127822.84</td>
<td>90792.22</td>
<td>75127.29</td>
<td>63533.43</td>
<td>53628.49</td>
<td>49821.91</td>
</tr>
<tr>
<td></td>
<td>(17.19)</td>
<td>(40.79)</td>
<td>(20.85)</td>
<td>(18.25)</td>
<td>(16.30)</td>
<td>(9.65)</td>
<td>(42.79)</td>
</tr>
<tr>
<td>Industry</td>
<td>201351.41</td>
<td>156075.84</td>
<td>105875.76</td>
<td>82854.80</td>
<td>66653.75</td>
<td>55747.55</td>
<td>50094.46</td>
</tr>
<tr>
<td>Total</td>
<td></td>
<td>(29.01)</td>
<td>(27.78)</td>
<td>(24.31)</td>
<td>(19.50)</td>
<td>(11.28)</td>
<td>(43.54)</td>
</tr>
</tbody>
</table>

Figures in bracket indicate the growth over the previous year in percent.

Handbook on Indian Statistics 2007-2008, India

Table 3.6 illustrates total life insurance premium in crore from 2002 to 2008. Total life insurance premium had a growth of 200.65 percent from 2002 to 2008. Total life insurance premium experienced a dramatic rise of 42.79 percent in 2002. It nose dived to 9.65 percent in 2003 and it started a considerable increase to 40.79 percent in 2007 but again it declined steeply to 17.19 percent in 2008.

3.14.5 Net Assets

Ownership of any physical property or right that has money value is called asset. Assets are classified into tangible, intangible, current and fixed assets. Details of net assets are given in the following table:

<table>
<thead>
<tr>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>LIC</td>
<td>2070718</td>
<td>1404902</td>
<td>973572</td>
<td>366870</td>
<td>403421</td>
<td>1253481</td>
<td>1671753</td>
<td>1261354</td>
</tr>
</tbody>
</table>

Handbook on Indian Statistics 2007-2008, India

Table 3.7 shows net assets of LIC from 2001 to 2008. Net assets had a growth of 64.17 percent between 2001 and 2008.
3.14.6 Global Market Share
Market share creates a competitive advantage for all companies. The main goal of the corporations is making money and more profit by more market share. Details of global market share are given in the following table;

<table>
<thead>
<tr>
<th></th>
<th></th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>LIC</td>
<td>0.7</td>
<td>0.3</td>
</tr>
</tbody>
</table>


Table 3.8 illustrates global market share of LIC. Global market share of LIC in 1998 was 0.3 percent and it reached to 0.7 percent in 2004. It shows a noticeable rise of 133.33 percent from 1998 to 2004.

3.14.7 Individual New Business
For insurance purposes, the general term used to describe all the activities required to market insurance, submit individual applications, evaluate the risks associated with those applications, and issue and deliver individual insurance policies. Details of individual new business are given in the following table;

<table>
<thead>
<tr>
<th>Insurer</th>
<th>Policies</th>
<th>Premium</th>
</tr>
</thead>
<tbody>
<tr>
<td>LIC</td>
<td>14990569</td>
<td>20175.91</td>
</tr>
<tr>
<td>Total Industry</td>
<td>19312974</td>
<td>31975.18</td>
</tr>
</tbody>
</table>

Source: Insurance Regulatory and Development Authority – IRDA Journal (2010), volume VIII, No 6, India

Table 3.9 shows individual new business of LIC in 2010. In 2010, policies of individual new business was 77.62 percent of total industry and premium of individual new business was 63.1 percent of total industry.

3.14.8 Group New Business
Group new business is to submit group applications, evaluate the risks associated with those applications, and issue and deliver group insurance policies. Details of group new business are given in the following table;
Table 3.10
Group New Business

<table>
<thead>
<tr>
<th>Insurer</th>
<th>Schemes</th>
<th>Live Covered</th>
</tr>
</thead>
<tbody>
<tr>
<td>LIC</td>
<td>8228</td>
<td>13454230</td>
</tr>
<tr>
<td>Total Industry</td>
<td>9732</td>
<td>27608838</td>
</tr>
</tbody>
</table>

Source: Insurance Regulatory and Development Authority – IRDA Journal (2010), volume VIII, No 6, India

Table 3.10 illustrates group new business of LIC in 2010. In 2010, schemes of group new business was 84.54 percent of total industry and the members were 48.73 percent of total industry.

3.14.9 Individual Death Claims
The payments to the beneficiaries of individual policyholder at time of death are individual death claims. Details of individual death claims are given in the following table;

Table 3.11

<table>
<thead>
<tr>
<th>Insurer</th>
<th>Total Claims</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>No. of Policies</td>
</tr>
<tr>
<td>LIC</td>
<td>221107</td>
</tr>
<tr>
<td>Total Industry</td>
<td>259057</td>
</tr>
</tbody>
</table>

Source: Insurance Regulatory and Development Authority – IRDA Journal (2010), volume VIII, No 6, India

Table 3.11 shows individual death claims of LIC in 2010. In 2010, total number of individual death claims (policies) was 84.54 percent of total industry and amount of benefit was 70.32 percent of total industry.

3.14.10 Group Death Claims
The payments to the beneficiaries, in a group contract are group death claims. The detail of group death claims is given in the following table;

Table 3.12

<table>
<thead>
<tr>
<th>Insurer</th>
<th>Total Claims</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>No. of Lives</td>
</tr>
<tr>
<td>LIC</td>
<td>51965</td>
</tr>
<tr>
<td>Total Industry</td>
<td>90222</td>
</tr>
</tbody>
</table>

Source: Insurance Regulatory and Development Authority – IRDA Journal (2010), volume VIII, No 6, India
Table 3.12 illustrates group death claims of LIC in 2010. In 2010, total number of group death claims was 57.59 percent of total industry and amount of benefit was 65.57 percent of total industry.

### 3.14.11 Claims Settled in Individual Category

Claim settlement in individual category is a lump sum payment by an insurer to a claimant in exchange for the claimant’s agreement to release the insurer from further responsibility for coverage under the policy. Details of claims settled in individual category are given in the following table;

<table>
<thead>
<tr>
<th>Insurer</th>
<th>Total Claims Settled</th>
<th>No. of Policies</th>
<th>Benefit Amount</th>
</tr>
</thead>
<tbody>
<tr>
<td>LIC</td>
<td>201479</td>
<td>1523.44</td>
<td></td>
</tr>
<tr>
<td>Total Industry</td>
<td>230654</td>
<td>2023.57</td>
<td></td>
</tr>
</tbody>
</table>

Source: Insurance Regulatory and Development Authority – IRDA Journal (2010), volume VIII, No 6, India

Table 3.13 shows claims settled in individual category in 2010. In 2010, total claims settled in individual category was 87.35 percent of total industry and amount of benefit was 75.28 percent of total industry.

### 3.14.12 Claims Settled in Group Category

Claim settlement in group category is a lump sum payment by an insurer to claimants in exchange for the claimants’s agreement to release the insurer from further responsibility for coverage under the policy. Details of claims settled in group category are given in the following table;

<table>
<thead>
<tr>
<th>Insurer</th>
<th>Total Claims</th>
<th>No. of Lives</th>
<th>Benefit Amount</th>
</tr>
</thead>
<tbody>
<tr>
<td>LIC</td>
<td>51459</td>
<td>321.79</td>
<td>321.79</td>
</tr>
<tr>
<td>Total Industry</td>
<td>87518</td>
<td>469.71</td>
<td></td>
</tr>
</tbody>
</table>

Source: Insurance Regulatory and Development Authority – IRDA Journal (2010), volume VIII, No 6, India

Table 3.14 illustrates claims settled in group category in 2010. In 2010, total claims settled in group category was 58.80 percent of total industry and amount of benefit was 68.51 percent of total industry.
3.14.13 Individual Agents of Life Insurance

Individual agents are who introduce buyers of insurance to insurers. Details of individual agents of life insurance are given in the following table;

<table>
<thead>
<tr>
<th>LIC</th>
<th>1402807</th>
</tr>
</thead>
<tbody>
<tr>
<td>Total Industry</td>
<td>2983290</td>
</tr>
</tbody>
</table>

Source: Insurance Regulatory and Development Authority – IRDA Journal (2010), volume VIII, No 6, India

Table 3.15 shows individual agents of life insurance in 2010. LIC had 47.02 percent of individual agents in total industry.

3.15 The Investment of Funds of L.I.C

The L.I.C. invests its funds in agricultural, industrial and socially oriented sectors. “Investments under agricultural sector cover land development, fertilizers, pesticides, irrigation, food processing and plantations.

In Industrial Sector it finances industries like Aluminum, banks, cement, coal, dyes and chemicals, electrical goods, Engineering, Iron and steel, Jute, sugar, mining, Mineral oils, Paper & Boards, Pharmaceutical, Railways, Rubber Product, Shipping & Transport, Textiles etc. Nearly one-fourth of the L.I.C.’s controlled funds are being injected to socially oriented projects like Housing (HUDCO) Water Supply, Electrification, Sanitation, Road Transport etc. The investment of the funds of the L.I.C. is regulated by section 27 A, of the Insurance Act, 1938. They are modified from time to time by a legislative framework.”

3.15.1 Present Position of L.I.C. Investment

All premiums have to be invested properly. Present scenario of investment in LIC is:

(i) In Govt. of India Marketable Securities 25%
(ii) Govt. of India & State Govt. Securities. 25%
(iii) In socially oriented sector including Public Sector, Co-operative Sectors House Building and other schemes. 25%
(iv) Other Investments:
   (a) In Corporate Private Sector 10%
   (b) Loans to Policy-holders. 8%
   (c) Const, and Acquisition of property. 2%
3.15.2 Suggestions on the Investment Policy of L.I.C

The Era Sezhian Committee set up to study the prospects of toning up the working of L.I.C. has suggested the total revamping of the corporations investment policies. “The committee has suggested that the corporation should reduce the present 50 p.c. of its total investments in Government securities to 40 p.c. L.I.C. also at present invests 25 percent of its investable funds in socially oriented projects. The committee has suggested all such loans should be made at the market rates of interest. The grim future awaiting the L.I.C is that it is facing severe competition from other saving organizations. This competition could be met only if the returns on the L.I.C invested funds are higher than that provided by others. Unless the L.I.C takes steps to make life insurance attractive, it may lose its prime position as the mobiliser of savings. Inflation hits the policy-holders by erosion of the value of provisions payable at maturity. Thus the saving aspect is fast losing its attraction because of maturity the amount will be reduced in depreciated currency. Therefore, in order to ensure higher yield to the policy-holder the L.I.C should charge varying rates of interest on its investments to earn more return.”

3.16 Role of L.I.C. in Socially Oriented Sector

LIC plays a great role in social sector. “Its role is as below:

1. Investment in the State Electricity Boards: Electricity forms the basic infrastructure for agricultural and industrial growth. From 1964-65, the L.I.C has been advancing loans to carry out rural electrification programmes through State. By March 1990, L.I.C has earmarked to invest Rs. 1085 crores in such programmes.

2. Investment in Housing Schemes: The high cost of materials has urged the Government to construct housing accommodations at cheaper rates through different agencies. L.I.C has been giving financial assistance to State Governments, Apex Coops., HUDCO and policy-holders under "Own Your Home" schemes etc.

3. Township Development by L.I.C.: Since 1970 the L.I.C has been actively engaged in township development projects. The constructed houses are sold through co-operative societies or under L.I.C's 'Own Your Home' scheme. Such projects had
been undertaken at Bombay, Bangalore, Kanpur, Hyderabad, Ahmadabad and Delhi.

4. Investment to Water Supply and Sewerage Schemes: Piped Water and drainage are the twin pre-requisites linked with general health of the community as a whole. The L.I.C has been involved in this sector since 1962. The L.I.C is spending Rs. 276 crores for water supply and sewerage schemes by the end of March, 1980.

5. Investment in Land Development Banks and Sugar Co-ops: L.I.C has diverted its attention for the upliftment of rural folk. It invests regularly in the debenture issues of Central Co-operative 197 Land Development Banks of various states. These funds are used to finance agriculture, irrigation and fertilizer projects. Besides, the L.I.C. also grants loans to sugar co-operatives.

6. Investment in Small Scale Sector: L.I.C. does not grant assistance to individual entrepreneurs but finance is made available through State Financial corporations.”

Thus L.I.C. being one of the premier financial institutions of the country has been playing a very important role in hastening 'Socioeconomic growth of the country.

3.17 The Impact of LPG on Life Insurance Corporation of India (LIC)

The Indian life insurance industry has its own origin and history, since its inception. It has passed through many obstacles, hindrances to attain the present status. “The income earning capacity of an individual citizen of a nation and the eagerness and awareness of the general public are the two key determinants of the growth of any insurance industry. For that they should provide wider and mass-employment opportunities and sound educational system. Moreover, the general public must be inculcated with more knowledge, awareness and importance about life insurance, and these steps help to boost the growth of insurance industries. In this Indian context, the insurance habit among the general public during the independence decade was quite rare and in the following decades, it slowly got increased. There was a remarkable improvement in the Indian insurance industry soon after the acceptance and adaptation of Liberalization, Privatization, and Globalization (LPG) in the year 1991. After 1991 the Indian life insurance industry has geared up in all respects, as well as it is being forced to face a lot of healthy competition from many national as
well as international private insurance players. The fall in the savings rate and increased competition in the primary market and particularly the aggressive mobilization by the Mutual Fund posed serious challenges before LIC.

The nationalization of insurance business in the country resulted in the establishment of Life Insurance Corporation of India (LIC) in 1956 as a wholly-owned corporation of the government of India.

Following are the objectives of LIC:

(i) Spreading life insurance much more widely and in particular to the rural areas and to the socially and economically backward classes, with a view to reach all insurable persons in the country and provide them adequate financial coverage against death at a reasonable cost,

(ii) Maximizing mobilization of people savings by making insurance linked savings adequately attractive,

(iii) Investing funds 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,

(iv) Meeting the various life insurance needs of the community that would arise in the changing social and economic environment through its Family Schemes and Group Insurance Schemes.

The above objectives are framed by the LIC at the time of its establishment and it is trying to materialize its objectives over the subsequent years. However, the Indian life insurance Industry is facing several challenges and issues throughout its career and establishes meaningful strategies to overcome these challenges and issues from time to time. Since the date of its establishment it has earmarked a steady growth; but many factors affected its abnormal growth and progress.”

They are as follows:

a. The mega illiteracy percentage
b. Improper awareness among the general public regarding the savings
c. Least percentage of employment opportunities
d. Lowest wage and salary pattern.

When compared with the developed foreign countries the Indian life insurance industry has achieved only a little, because of no quality strategies adopted by the LIC, as well as our standard of education and awareness about savings, per capita income, and employment opportunities are comparatively not up to the mark.
Soon after the introduction of new economic policy (LPG) in the year 1991, the shape of the Indian life insurance industry has been changing and it has geared up. Soon after then many private players have entered into this industry, who pose challenges and threat to its competitors. These new challenges forced the industry Insurance Principles and Practice by M. N. Mishra – S. Chand Publishers – 2008 Edition to establish colorful strategies and plan for its survival and steady growth.”

### 3.18 Product Diversification by LIC

Product diversification is essential to meet the varying needs, changing references and rising aspirations of the customers. Realizing the importance of product diversification LIC has introduced various insurance plans so as to increase its business multifold. The growth of LIC according to policies is given in Table 3.16. It is obvious from the table that the importance of whole life policies and endowment assurances are reducing gradually, that total sum assured under these policies are increasing although in relation to total individual business, they are not increasing.

<table>
<thead>
<tr>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>Whole Life Policies</td>
<td>41.22</td>
<td>130.03</td>
<td>133.33</td>
<td>117.31</td>
<td>105.88</td>
</tr>
<tr>
<td>Endowment Assurance</td>
<td>2900.77</td>
<td>9538.92</td>
<td>1069.36</td>
<td>12314.79</td>
<td>22578.66</td>
</tr>
<tr>
<td>Money back</td>
<td>2628.83</td>
<td>12979.08</td>
<td>16396.08</td>
<td>19426.77</td>
<td>20861.32</td>
</tr>
<tr>
<td>Children's Anticipated Endowment</td>
<td>87.33</td>
<td>82.08</td>
<td>9.96</td>
<td>9.80</td>
<td>13.13</td>
</tr>
<tr>
<td>Jeevan Raksha Policy</td>
<td>35.11</td>
<td>525.22</td>
<td>1375.39</td>
<td>1666.05</td>
<td>2843.38</td>
</tr>
<tr>
<td>Jeevan Mitra</td>
<td>751.25</td>
<td>1885.55</td>
<td>1769.17</td>
<td>1927.46</td>
<td>2288.49</td>
</tr>
<tr>
<td>Jeevan Sathi</td>
<td>59.47</td>
<td>544.36</td>
<td>554.64</td>
<td>566.74</td>
<td>735.49</td>
</tr>
<tr>
<td>Marriage/ Educational Endowment/Annuity</td>
<td>-</td>
<td>271.90</td>
<td>673.12</td>
<td>647.70</td>
<td>1736.26</td>
</tr>
<tr>
<td>Convertible Whole Life</td>
<td>273.92</td>
<td>473.62</td>
<td>198.16</td>
<td>165.74</td>
<td>-</td>
</tr>
<tr>
<td>Jeevan Balya Kiran</td>
<td>-</td>
<td>1090.65</td>
<td>834.96</td>
<td>865.67</td>
<td>-</td>
</tr>
<tr>
<td>Jeevan Chhaya</td>
<td>-</td>
<td>84.40</td>
<td>363.54</td>
<td>357.90</td>
<td>949.59</td>
</tr>
<tr>
<td>Bima Sandesh</td>
<td>-</td>
<td>205.01</td>
<td>64.69</td>
<td>51.78</td>
<td>-</td>
</tr>
</tbody>
</table>

Source: Economic Surveys of Various Years and LIC Annual Reports of Various Years
Money back policies have increased to the level of Rs. 20,000 crore. It is prominent assurance policy because of its advantages of investment. The amount of children's anticipated endowment is reducing year after year. It has come down to nearly 10 crore.

Jeewan Raksha Policy has yielded insurance to the tune of Rs. 1600 crore in 1996-97. It is rapidly increasing. Similarly Jeevan Mitra has crossed the level of Rs.1927 crore. Jeevan Sathi is also becoming popular. The sum assured was Rs. 566.74 crore in 1996-97. The Marriage Endowment and Educational amenities have increased considerably to meet the requirements of marriage and education of children. Convertible whole life has gone down to the level of Rs. 165.74 crore in 1996-97. Jeevan Balya/Jeeven Kishore has been popular as they crossed the level of Rs. 800 crore. Similarly, Jeevan Chhaya has been gradually increasing although Bima Sandesh declined to Rs. 51.78 crore in 1996-97.

One may conclude from the foregoing details that those policies are becoming popular, which have features of investment and periodical payment along with coverage of risk.

As evident from the Table 3.16 that the LIC has diversified insurance products. Under this scheme, Asha Deep with some novel features was introduced in 1993-94. This plan besides providing death and maturity payment provides benefits in case the life assured suffering from any of four major ailments, viz., cancer, paralytic stroke leading to permanent disability, renal failure of both kidneys and coronary artery diseases, where bypass surgery has been done.

1. **Asha Deep-I**: The total business under Asha Deep-I was Rs. 4573.70 crore under 6.42 lakh policies in 1993-94. Asha Deep-I did not continue later on.

2. **Asha Deep-II**: This plan was first introduced in September 1993 on an experimental basis for a period of 3 months. In response to public demand the plan was reintroduced as Asha Deep-II in the month of November, 1995. This plan besides death and maturity payment, provides for benefits in case the life assured i.e affiliated by any of four major ailments viz., cancer, paralytic stroke leading to permanent disability, renal failure of both kidneys and coronary artery diseases where bypass surgery has been done. The amount of sum assured under this scheme was Rs. 1362.34 crore in

3. **Jeevan Aadhar**: Jeevan Aadhar introduced in January 1996 is specially designed for the benefit of handicapped dependents. Contributions under this Plan are eligible for income tax relief under Section 88 IRDA of the Income Tax Act. This plan is basically a limited payment whole life assurance on the life of the proposer with provision for Guaranteed Additions and Terminal Addition to the basic sum assured. The claim amount will be payable partly in lump sum and partly in the form of annuity to the handicapped dependents. The sum assured under Jeevan Aadhar was Rs. 21.12 crore in 1995-96 and Rs. 19.52 crore in 1996-97.

4. **Jeevan Suraksha**: This plan was introduced on 15th August, 1996. It enables individuals to provide for retirement income from a selected date. The policy is with life cover but can be taken without life cover under certain conditions. The policy holder taking policy with life cover provides minimum of 50% of the target pension to spouse on death during the deferment period. Spouse’s pension is not provided under without life cover plan. On investing the policyholder has the option to receive 25 per cent of the notional case plan in lump sum and balance in annuity. The amount of Jeevan Suraksha was Rs. 102.65 crore in 1997-98.

5. **Jeevan Sneha**: It was introduced on 16th January, 1997 for women. It is a without profit money back type plan with the added features of guaranteed additions viz., encashment of survival benefit as and when required. Flexibility to pay premium in advance, inbuilt accident cover, for insurance cover for a period of 3 years from the date of first unpaid premium provided at least 2 full years premium have been paid and option to receive pension in lieu of maturity benefits. The sum assured under this scheme was Rs. 251.07 crore in 1996-97.

6. **Jeevan Sanchaya**: This plan was introduced on 16th January, 1997. It is without profits money back type of plan with provision of loyalty addition and guaranteed addition. Accident benefit is also granted under this plan with an upper limit of Rs. 5 lakhs in addition to existing limit of Rs. 5 lakhs under other Plan.

7. **Children's Money Back**: Children's Money Back has assured Rs. 935.31 crore in 1994-95, Rs. 1583.50 crore in 1995-96 and Rs. 1253.88 crore in
1996-97. It is becoming popular because of inherent advantages to children. People want insurance for their children.”35

3.18.1 Endowment Insurance Policies
This kind of policies is very popular. The sum assured is paid either at the death of the assured or surviving at the date of maturity. There are various type endowment policies with the insurance company:

- Ordinary endowment policy
- Pure endowment policy
- Joint- life endowment policy
- Anticipated endowment policy

3.18.2 Jeevan Sathi Insurance Plan
As the name itself indicates the plan is suitable for spouse and ideally suited to the working couples. “The sum assured is payable at the first death of either of the two lives assured but the policy still remains for full sum assured and the sum assured is payable to the other living person at the end of maturity. However, if the other surviving person also dies during the currency of the policy, the sum assured is paid to his there nominee along with the bonus. The surviving assured is not required to make further premiums as soon as the first assured dies. The other salient features are as under:

1. The minimum and maximum sum assured is Rs. 5,000 and Rs. 1,00,000 respectively.
2. The policy is issued for a term of 15 years, 20 years and 25 years.
3. The maturity age should not exceed 65 years.
4. Medical examination is necessary

The unique feature of this policy is that in the event of the death of the first assured, the surviving assured is paid the sum assured without bonus and is also relieved to pay the future premiums. The surviving assured is again paid the full sum assured along with the bonus at the date of maturity or if the second assured also dies before the maturity date his legal heirs or nominee will get the full sum assured with bonus.”36
3.19 Social Security Schemes in India Implemented Through LIC OF India

LIC’s group insurance schemes provide security to weaker sections of the society, identified in 24 occupation groups, by offering insurance protection through its various schemes.

3.20 National Economy and LIC’S Investment

Primary obligation of the L.I.C. is to its policy-holders whose money it holds as trustee. On one side fund should be invested in such a manner to enable maximum return subject to the safety of the capital. Thus a balance is to be made between maximum investment return and the safety of the fund. Though being trustee of the policyholders, LIC is to fulfill its basic liability towards them but it has to keep before it the interest of the community as a whole. It should invest in ventures which provide to achieve social advancement of the nation. LIC has been investing in socially oriented schemes, like, water supply and sewerage, housing, electricity generation, road transport etc. On 31st March, 2010 LICs investments and outstanding loans were Rs. 12,812.87 crores. It is such a huge amount which may play a constructive role in the advancement of the nation. Out of the total loans and investments more than 80 per cent is in public sector. LIC has invested Rs, 1,257.22 crores as loans to different electricity boards. For housing schemes LIC has provided loans of Rs. 988.6 crores to various housing schemes of State Governments.”

The following table shows the investment of LIC in socially oriented schemes:

<table>
<thead>
<tr>
<th>Scheme</th>
<th>Amount (Rs. in crores)</th>
</tr>
</thead>
<tbody>
<tr>
<td>1. State Electricity Boards</td>
<td>1,257.22</td>
</tr>
<tr>
<td>2. State Government's housing scheme</td>
<td>488.60</td>
</tr>
<tr>
<td>3. Water Supply Schemes</td>
<td>456.38</td>
</tr>
<tr>
<td>4. State Road Transport Corporations</td>
<td>116.17</td>
</tr>
<tr>
<td>5. Rural Water supply schemes.</td>
<td>104.18</td>
</tr>
</tbody>
</table>

3.21 General working and Organizational Set-up of LIC

The organizational set up of the LIC has been laid down in the LIC Act, 1956. “The Corporation shall have its Central Office at Mumbai and 5 Zonal Offices each at Mumbai, Delhi, Kolkata, Chennai and Kanpur. Each Zonal Office has under its control and jurisdictions over the numbers of Divisional Offices and Branch
Offices. There were 32 Divisional Offices and 209 Branch Offices at the time of nationalization. The corporation shall transact business through the appointments of Agents on Commission basis. They shall work under Development Officers, a permanent employee of the Corporation.”38

In order to achieve the objects and to run the day-to-day work efficiently the organizational set up of the Corporation has been laid down in the following chart;

**Figure 3.1**
Organizational Set-up of the Life Insurance Corporation of India

<table>
<thead>
<tr>
<th>Board of Directors</th>
</tr>
</thead>
<tbody>
<tr>
<td>Executive Committee</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>Chairman</th>
</tr>
</thead>
<tbody>
<tr>
<td>Managing Directors</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>Zonal Advisory Committee</th>
</tr>
</thead>
<tbody>
<tr>
<td>5 Zonal Offices headed by Zonal Manager</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>Central Office headed by Executive Director or Chief</th>
</tr>
</thead>
<tbody>
<tr>
<td>Branch Offices</td>
</tr>
</tbody>
</table>

Divisional Offices


**Board of Directors:**

The Board of Directors LIC shall be appointed by the Central Government. The Board is the supreme authority so far as the decisions on policy matters are concerned. The Board shall have not less than 15 members. No specific qualifications have been laid down in the Act, for the appointment of Directors. Generally, persons of high administrative ability and experience are appointed as Directors, so that they can discharge the administrative and managerial functions of the Corporation efficiently. Efforts are made by the central government to give participation of all the parts of the country. The Board of Directors shall meet once in every month to transact the following work:

1. To frame the top administrative policies,
2. To make decisions in respect of functions laid down under section 6 of the LIC Act.

3. To make decision on decentralization and delegation of authority.

4. To make decisions in respect of long term policy matters;

5. To constitute various committees.

6. To consider promotions, such as Executive Directors, Zonal Managers and to frame service conditions.

Committees of the Corporation:

In section 19(1) of the LIC Act, the Corporation has the power to constitute the various committees. The Board of Directors is empowered to constitute such committees for the efficient working and control. The section has also specified to constitute Executive Committee and Investment Committee. Following are the Committees of the Corporation and their functions are as under:

(1) Executive Committee:

1. To formulate the new plans for life insurance.

2. To carry on capital redemption business, annuity business or reinsurance business pertaining to life insurance.

3. To appoint agents, formulation of their commission rates, and other incentives.

4. To mortgage, purchase, sale or lease the fixed and floating assets of the Corporation.

5. To regulate and control the financial matters.

6. To issue standing orders in respect of business procurement.

7. To appoint legal advisors.

(2) Investment Committee:

In Section 19(2) the Corporation may also constitute an Investment Committee for the purpose of advising it in the matters relating to the investment of the fund. The committee shall consist of not more than 8 members out of which not less than 4 shall be the member of the Corporation and the remaining shall be persons having special knowledge and experience in the financial matters particularly investment of funds. The committee shall meet once in a month at any place and decide the matter relating to investment only.

(3) Personnel Advisory Committee:

The Committee shall consist of members not less than 8 in all and title functions
are to establish good employer and employees’ relationship in the LIC. The rules regarding appointment of staff, their grade structures, their promotion rules and the industrial relations are among the main functions. The chairman of the Corporation is the ex-officio member of the committee.

(4) Building Advisory Committee:
The Committee shall consist of members not more than 10 in all and shall advise the Corporation regarding the construction, purchase or sale of the building. The Committee shall also advise in the matter of various application received from the housing societies and other construction companies.

(5) Development Advisory Committee:
The Committee shall consist of not more than 5 members. The main function of the committee is to advise the Corporation regarding development of new business and to suggest various new schemes and plans.

(6) Budget Advisory Committee:
The Committee shall consist of not more than 6 members and shall advise in the formation of the budget.

(7) Legal Advisory Committee:
The Committee shall advise in the matters relating to law. The Committee shall consist of members not more than six in all.

(8) Policy –holders Advisory Committee:
The Committee shall advise the Corporation for better services to its policy-holders and shall consist of members not more than eight in all. The Chairman of the Corporation is the Ex-officio Chairman of these Committees.

The Chairman:
The Chairman is the Chief Executive Officer of the Corporation and also the ex-officio Chairman of all the committees. He is to implement the decisions of the Board and is also empowered to do all such acts which are in the best interest of the Corporation.

The Managing Directors:
The Corporation may appoint one or two persons to be the Managing Director of the Corporation and every such Managing Director shall be a whole-time Officer of the Corporation and shall exercise such powers and perform such duties as may be entrusted or delegated to him by the Executive Committee of the Corporation.

Organizational set-up of the Corporation is four tier system:
Figure 3.2
Organizational set-up of the Corporation

Central Office

Zonal Office

Divisional Office

Branch Office


Central Office

The Central Office of the Corporation is situated at Mumbai. The main function is the formulations of the policies and their implementations. It also coordinates and controls the activities of Zonal Offices. To invest the funds is also an important work of the Central Office. The Central Office is also responsible to file the annual returns and report of its activities to the Central Government. To standardize the different practices, formulation of the policy conditions, arrangement of re-insurance, publicity work and to appoint the external auditors are among the other works of the Central Office. The Central Office has the following departments:

1. Development Department
2. Accounts Department
3. Investment Department
4. Inspection Department
5. Building Department
6. Legal and Mortgage Department
7. Actuarial and Data Processing Department
8. Foreign Department
9. Organizational Department
10. Publicity Department
11. Organizational and Method Department (O. & M. Deptt.)
12. Personnel Department
13. Vigilance Department
14. Group and Superannuation Department

**Figure 3.3**
**Organizational Set-up of LIC of Central Office: Mumbai**

<table>
<thead>
<tr>
<th>Director</th>
<th>Department</th>
</tr>
</thead>
<tbody>
<tr>
<td>Managing Director</td>
<td>Planning Department</td>
</tr>
<tr>
<td></td>
<td>Policy-holders' Servicing Department</td>
</tr>
<tr>
<td></td>
<td>Foreign Department</td>
</tr>
<tr>
<td></td>
<td>Vigilance Department</td>
</tr>
<tr>
<td></td>
<td>Group &amp; Superannuation Department</td>
</tr>
<tr>
<td></td>
<td>Organization &amp; Methods Department</td>
</tr>
<tr>
<td></td>
<td>Audit &amp; Inspection Department</td>
</tr>
<tr>
<td>Executive Directors</td>
<td>Personnel Department</td>
</tr>
<tr>
<td></td>
<td>Legal &amp; Mortgage Department</td>
</tr>
<tr>
<td></td>
<td>Building Department</td>
</tr>
<tr>
<td></td>
<td>Actuarial Department</td>
</tr>
<tr>
<td></td>
<td>Investment Department</td>
</tr>
<tr>
<td></td>
<td>Accounts Department</td>
</tr>
<tr>
<td></td>
<td>Development Department</td>
</tr>
</tbody>
</table>


(1.) **Development Department:** The important functions of the Development Department are as follows:

1. To make various plans for the development of life insurance.
2. To conduct research for development of life business in the various segments of public.
3. To open new offices particularly in rural areas.
4. To make comparative study of the business of the last year and for the current year.
5. To formulate various incentive schemes for Development of staff.
6. To formulate the process for apartments of Career Agents and their training and to prepare them professional agents.
7. To conduct socio-economic survey.

(2) **Accounts Department:** The important functions are:

1. To maintain the accounts of the Central Office.
2. To prescribe the manner in which the accounts are to be maintained at various levels.

3. To formulate the draft forms for the various accounts books

4. To review the system of accounts from time to time and to suggest improvements therein.

5. To receive and analyze the accounts of the various offices.

6. To prepare final accounts of the Corporation and to place them before the competent authority and also to file annual report to the Central Govt.

7. To appoint External Auditors.

8. To prepare Annual Budget and its approval by Executive Committee.

9. To file various returns.

10. To place the fund flow position to the investment committee.

11. To advise the Executive Committee in respect of any financial interest of the Corporation.

(3) Investment Department: The important functions are as under:

1. To execute the Corporation's investment policy formulated from time to time under the Ministry of Finance.

2. To invest the fund as advised by the Investment Committee in equity debentures and Government securities, etc.

3. To make comparative study of the various institutions and their annual reports.

4. To maintain and control a complete record about the receipt of interest and dividend from the investment so made and to remind default, if any.

5. To prepare the comprehensive investment report and to place it before the competent authority

(4) Actuarial and Data Processing Department: The important functions are as under:

1. To frame standard rules for under-writing.

2. To study the underwriting procedure of the other countries

3. To under-write and to give decisions of Divisional Office for proposals referred to them and beyond their powers.

4. To under-write sub-standard risk.

5. To determine the premium scales for different plans.

6. To arrange re-insurance under sub-standard risk.
7. To prepare mortality tables.

(5) Building Department: The important functions are as under:
1. To construct the various office buildings and staff quarters for the employees of the Corporation.
2. To construct the buildings with an investment objective.
3. To prepare annual budget for buildings.
4. To maintain and repair the existing buildings.

(6) Legal and Mortgage Department: The important functions are as under:
1. To give legal advice to the various departments.
2. To make rules for advancement of loan against mortgage of property.
3. To advise the Divisional Offices for mortgaged property beyond their limits.
4. To make rules for mortgage of the property.
5. To advise in the appointment of panel valuer and legal advisor to Divisional Officer.
6. To prepare and consolidate various statements in respect of mortgage properties.

(7) Personnel Department: This department has the following important functions:
1. To make rules for the appointments, transfers, and promotions to the various cadres of the employees.
2. To maintain the service records of all Class I Officers of the Corporation including the employees of the Central Office.
3. To collect various data about the employees.
4. To discuss with the representatives of the employees on their various demands.
5. To appoint Class I Officers of the Corporation including the Staff of Central Office.
6. To arrange training programmers of the Class I Officers of the Corporation.
7. To select officers among class I for training at administrative staff college, Hyderabad and Indian Institute of Management, Ahmadabad.
8. To make rules for departmental promotions.
9. To frame rules for the purchase of stationery, furniture’s, by the Divisional Offices and to maintain procedures and disposal of the old fixture and furniture.
10. To prepare budget for Divisional Offices in respect of water coolers, furnitures, franking machines and staff cars, etc.

(8) Inspection Department: The important functions are as leader:
1. To formulate the policy of internal audit.
2. To prepare the Audit reports and rating of the various offices.
3. To find out the time lag in the disposal of the communication.
4. To take various steps on the Audit Reports submitted by the internal auditors.

(9) **Foreign Department:**
1. To control the activities of the foreign offices.
2. To transact the life insurance business in foreign countries.
3. The Corporation has a very few offices in foreign countries and that too only, in U.K., Mauritius and Fizi.

(10) **Vigilance Department:** The functions are:
1. To take effective measures for the publicity to spread Insurance message in the rural areas.
2. To organize T.V. & Radio Programmers.
3. To display various publicity materials, in Fairs, etc.
4. To publish periodical magazines.
5. To prepare budget for the Divisional Offices publicity department.
6. To supply publicity materials to field force through Divisional and Branch Offices.

(11) **Organization and Methods Department (O. & M.):** The Department is responsible for following:
1. To take effective measures and to implement them for the better organizational structures.
2. To Simplify the organizational procedure
3. To formulate the policies regarding Organization and Methods.

(12) **Group & Superannuation Department:**
1. To formulate the various schemes for group and superannuation’s insurance.
2. To advise the Divisional Offices for group insurance schemes for the weaker sections of the society.
3. To prepare the progress reports of the various schemes implemented.

**Zonal Offices**

As per the Section 18 of the Life Insurance Corporation Act, 1956-The Corporation shall establish a Zonal Office at each of the following places namely Mumbai, Kolkata, Chennai, Delhi and Kanpur and subject to the previous approval of the Central Government may establish such other Zonal Offices as it thinks fit.
The territorial limits of each zone shall be such as may be specified by the Corporation. Accordingly Corporation has established five Zonal Offices as under:

1. Northern Zonal Office – New Delhi
2. Southern Zonal Office - Chennai
3. Western Zonal Office - Mumbai
4. Eastern Zonal Office - Kolkata
5. Central Zonal Office - Kanpur

Zonal Manager:
Each Zonal Office is headed by a Zonal Manager and he is the Chief Executive Officer of the respective Zone. He is to implement the decisions of the Central Office. As per LIC Act section 22 - "The Corporation may entrust the superintendence and directions of the affairs and business of a Zonal Office to a person who shall be known as Zonal Manager and the Zonal Manager shall perform all such functions of the Corporation as may be delegated to him in respect of the area within the jurisdiction of the Zonal Office."

Functions of the Zonal Office:
The important functions of the office are as under:

1. To take decision on all technical matters.
2. To receive the monthly accounts for each Divisions under its jurisdiction and to guide them on accounting matters.
3. To under-write the proposals on sub-standard risk and proposals beyond the limits of the Divisional Offices.
4. To advise in the matter of personnel, legal and allied matters.
5. To frame rules and procedures for purchase of furniture’s and fixtures, printing and stationery.
6. To control over the activities of field staff and Career Agents.

Zonal Advisory Committee: In Section 22(2) of the LIC Act the Corporation is empowered to constitute for each Zonal Office a Zonal Advisory Board consisting of such number of persons as it thinks fit for the purpose of advising the Zonal Manager in respect of such matters as are referred to it under the regulation made by the Corporation. Thus the Committee is to advise Zonal Manager.
Employees and Agents Relations Committee:

The Corporation is empowered to constitute for each Zonal Office Employees and Agents Relations Committee consisting of such number of persons as it may think fit and such committee shall consist of representatives of the Corporation its employees and the agents. The number of representatives of the employees and agents shall not be less than the number of the representatives of the Corporation. It shall be the duty of the committee to advise the Zonal Manager on matters which relate to the welfare of the employees and agents of the Corporation or which are likely to promote amity and good relations between them and to the Corporation.

Various Departments of the Zonal Office:

Each Zonal Office must have the following departments:

1. Personnel Department
2. Development Department
3. Accounts Department
4. Office Services Department
5. Legal & Mortgage Department
6. Actuarial Department, and
7. Marketing Department.

(1) Personnel and Industrial Relations Deptt. : The Department is responsible for following:

1. Maintaining the records like leave, medical, leave travel concession, salary, increments to various classes of employees in zonal office.
2. Advising the Divisional Offices in their jurisdiction in respect of cadre strength and promotions, etc.
3. Collecting the data relating to schedule castes, schedule tribes, ex-military personnel and handicapped employees
4. Working as appeal ting authority in disciplinary action taken by the Divisional Office in respect of its employees.
5. Advising the Divisional Office in respect of Industrial Relations.
6. Implementing various welfare schemes for the employees.

(2) Development Department: The following are the important functions:

1. To make planning, control and review over the new business progress.
2. To promote development officer in the cadre of Assistant Branch Managers.
3. To organize various competitions for new business.
4. To award club membership to agents according to their performance.
5. To organize annual conferences for agents and Development Officers.

(3) Accounts Department: The important functions are as under:
1. To prepare accounts and budget for Zonal Office.
2. To receive monthly and quarterly Trial Balance of Divisional Offices and to analyze them.
3. To review the budget periodically for Divisional Offices.
4. To arrange periodically Internal Audit of accounts of Divisional Offices and Branches.
5. To transfer the available funds to the central office for investment.
6. To maintain the P.F. Accounts and settle Gratuity and retirement benefits.

(4) Office Services Department: The important functions are as under:
1. To purchase and sale the property of the Corporation.
2. To lease out the property.
3. The periodical repair of the building.
4. To make security arrangement for the property.
5. To purchase various furniture and fixtures for Divisional Offices, and also to supply the printed stationery, manuals, etc.
6. To advise Divisional Offices for Office Services and maintenance of property.

(5) Legal & Mortgage Department: The important functions are as under:
1. To aid and advise for the Divisional Offices on matters relating to law.
2. To advise the Divisional Offices in respect of mortgage of property.
3. To defend the Corporation in Industrial Tribunals.
4. To file suits in the Court of Law for recovery of loan advances under 'Own Your House' schemes, etc.

(6) Actuarial Department: The important functions are as under:
1. To underwrite and convey decisions to Divisional Offices in respect of non-standard risk.
2. To aid and advise the Divisional Offices in respect of new business.
3. To review the repudiated claims referred by Divisional Offices.
4. To assist in the formulation of mortality tables.

(7) Marketing Department: Its important functions are as under:
1. To review the Divisional Office's budget for the various departments.
2. To prepare marketing strategy for development of new business.
3. To aid and advise Divisional Offices for better services to policyholders.
4. To conduct product research.
5. To organize the training programmed of the Development Officers.

Divisional Offices

A zonal Office may have under its jurisdiction a number of Divisional Offices as well as Branch Offices for effective and better services to the policy-holders. A Divisional Office is an important office not only for the policy-holders but also for effective control on Agents, Development Officers and Branches under its jurisdictions. Section 18(4) of the LIC Act empowered to the Zonal Manager to establish as many Divisional Offices and branch offices as he thinks fit.

Divisional Offices in India: As per the total available data Corporation has as many as 58 Divisional Offices in the Country consisting, of 13 in Eastern Zone, 12 in Western Zone, 7 in Northern Zone, 16 in Southern Zone and 10 in Central Zone.

Table 3.17

<table>
<thead>
<tr>
<th>Zone</th>
<th>No of Divisional Offices</th>
<th>Places</th>
</tr>
</thead>
<tbody>
<tr>
<td>Eastern Zone</td>
<td>13</td>
<td>Kolkata, Metropolitan, Calcutta, Suburban, Cuttak, Asansol, Jalpaiguri, amleshpur, Muzafarpur, Patna, Silchar, Howrah, Sambalpur, Guwahati, Joorhat</td>
</tr>
<tr>
<td>Western Zone</td>
<td>12</td>
<td>Mumbai, Ahmedabad, Pune, Satara, Rajkot, Nasik, Surat, Nagpur Baroda, Aurangabad, Thane and Goa</td>
</tr>
<tr>
<td>Northern Zone</td>
<td>7</td>
<td>Delhi, Chandigarh, Jallandhar, Jaipur, Ajmer, Srinagar and Karnal</td>
</tr>
<tr>
<td>Central Zone</td>
<td>10</td>
<td>Kanpur, Luchnow, Jabalpur, Varanasi, Agra, Raipur, Meerut, Indore, Bhopal and Barely</td>
</tr>
<tr>
<td>Southern Zone</td>
<td>16</td>
<td>Trivandrum, Bangalore, Coimbatore, Dharwar, Hyderabad, Kozhikod, Chinni, Madurai, Thanjavur, Cuddapah, Vishakhapatnam, Machhali-pattanam, Udupal, Warangal, Raichur and Emakulam</td>
</tr>
<tr>
<td>Total</td>
<td>58</td>
<td></td>
</tr>
</tbody>
</table>

**Divisional Manager and his Functions:**
A Divisional Manager is the Chief Executive Officer for the Divisional Office. He works directly under the control of Zonal Manager. A Divisional Manager has to control all the Branches under its jurisdiction and is responsible for overall development of the Division. He is to place the various reports connected with the Divisional Office, to the Zonal Manager. His functions are as under:

1. To review the budgets of the different branches and to place them before the Zonal Manager.
2. To place the plans of the Divisional Office before the Zonal Manager for its approval.
3. To accept the insurance proposals beyond the limit of the Branches.
4. To make necessary arrangements for the Inspection of the Branch Offices and to take necessary steps for the improvement of their performance.
5. To make arrangements for the training of sub-ordinate staff and provide them opportunity for the development.
6. To have liaison with the important policyholders and their representatives, competitors, Government Officers and Organizations who can affect the business of Corporation.
7. To work as per the policies of the Corporation.
8. To take necessary steps to improve the public image of the Corporation in its area.
9. To organize the Conferences of Agents and Development Officers.
10. To take necessary steps to give better facilities to policyholders. Steps should also be taken to increase the business.
11. To give suggestions to Central and Zonal Office for improvement in policies.

**Re-Organized -Divisional Office:**

Upon the recommendations of the Era Sezhiyan Committee and subsequent report also submitted by Prof. Ishwar Dayal a Management Expert, the Corporation decided to re-organize the functions of the Divisional and Branch Offices.

For practical experience the scheme was first implemented in 3 Divisions in the year 1981-82, thereafter in another 20 Divisional Offices in the year 1982-83 and again in 18 Divisional Offices in the year 1983-84. Now all the Divisional Offices have been re-organized and now a re-organized Divisional Office will have the
following departments:

1. Marketing Department,
2. New Business Department,
3. Actuarial Department,
4. Accounts Department,
5. Legal and Mortgage Department,
6. Office Management Department,
7. Machine Department or Data Processing Deptt.
8. Personnel and Industrial Relations Deptt.
9. Planning and Review Department.

(1) **Marketing Department:** The marketing department at Divisional Office is responsible for overall supervision and quality of work done in various branches through its different sanctions which are as under:

(a) **Sales Department:** The important functions of this department are as under:
1. To supervise the sales functions of the branches.
2. To maintain the performance record of the field personnel.
3. To aid and advise the branches that how different policies are designed to meet the needs of prospective insurers.
4. To collect the various data relating to new business from the branches and to submit them to Zonal Office.

(b) **Sales Section:** The important functions are as under:
1. To supervise the functions relating to policy-holders at branch level.
2. To aid and advise on the individual cases referred to them.
3. To organize the training and refresher course of branch staff.
4. To sanction policy loans, settle maturity claims and death claims beyond the limit of branch.

(c) **Sales Training Section:**
1. To conduct training of Assistant Branch Managers, Development Officers and Agents.
2. To conduct field publicity.

(d) **Branch Support Unit:**
1. To provide the administrative support to various sections under marketing department.
2. To prepare various data on the basis of work reports submitted by the branches.
3. To review the branch performance on various counts.

**(2) New Business and Actuarial Department:** Important functions of this department are as under:

1. To under-write the proposals beyond the branch office limit.
2. To appoint medical examiners and to fix their limit for sum assured.
3. To review the performance of medical examiner and also to increase their limits.
4. To control and supervise the functions of the branches from underwriting to issue of policy.

**(3) Accounts Department:**

1. To review the budget of the branches.
2. To receive the monthly Trial Balance from Branches and to consolidate them.
3. To conduct training and refresher courses to branch personnel.
4. To analyze branch Trial Balance and to recommend suitable actions.

Accounts Department has two sections:

1. General Accounts Section is responsible for Cash, banking, salary and final accounts, and
2. Branch Account Section is responsible for branch accounts and their analysis.

**(4) Legal and Mortgage Department:**

1. To grant loans under various schemes of the Corporation.
2. To aid and advise on the legal matters.
3. To sanction loans on mortgage property.

**(5) Office Management Department:** The Department has following two sections:

1. **Purchase Section** - responsible for purchase of stationery, printing of various forms, purchase of furnitures and fixtures within their powers.
2. **Service Section** - responsible for all inward mail and dispatch and to provide sciences and office equipments such as duplicating machine, calculators, typewriters, water coolers, and also to provide security arrangement of the office.

**(6) Machine Department or Data Processing Department:**

1. To issue premium receipts,
2. To issue commission bills of the agents,
3. To prepare salary and other wage bills of the staff and medical examiners
bills.
4. To provide necessary help to branches not having machine support, in the
   preparation of premium notices, receipts, and commission bills.

(7) Planning and Review Department:
   The important functions of this department are as under:
   1. To collect various economic data for the branches and to supply them to
      branches.
   2. To prepare various business progress plans for branches and division and to
      revise them.
   3. To study the changes in the economic and social conditions of the society
      under the jurisdiction of the branches, and division and to inform accordingly
      to the branches.

(8) Personnel and Industrial Relations Department:
   1. To appoint the Clerical and Sub-ordinate staff.
   2. To conduct training for new recruited personnel in the clerical and
      subordinate staff.
   3. To assess the staff strength for the coming 3 years.
   4. To develop industrial relations with trade unions and to solve the problems
      through negotiations.
   5. To maintain the various records relating to staff as for example, confidential
      report, leave records of Divisional Office.
   6. To conduct sports and other staff welfare activities.
   7. To receive and settle the grievances of the employees in individual capacity.

   **Branch Offices**
   A Branch Manager has rightly opined about the importance of branch. He
   explained that the Corporation's field staff is directly attached to the branches.
   Moreover 50% of the Offices are working in branches. Corporation receives 67% of
   its income from branches and policyholders are directly in touch with the branches.”
   The progress of the Corporation is therefore greatly depend upon the efficient
   functioning of branches. Up to 31.3.1986 there were 1,197 branch offices and as on
   31.3.1987 there were 1,280 branch offices in the country. Branches are under the
   control of respective divisions.

   A Branch Manager is the Chief Executive Officer of the Branch.
   He is assisted by Assistant Branch Manager (Administration) and Assistant Branch
Manager (Development). He is responsible for overall performance of the branch, 
Different departments of the LIC branch.

A re-organized branch of LIC shall have the following departments:

1. New Business Department
2. Policy-holders Servicing Department
3. Sales Department,
4. Accounts Department
5. Office Services Department, and ,
6. Machine Department

(1) New Business Department: The important functions of this department are as under:

1. To receive the proposal for insurance through agents or Development officer.
2. To scrutinize them and to take follow up action with agents.
3. To register the proposal after their scrutiny.
4. To accept the proposal and issue first premium receipts.
5. To issue policies.
6. To see that the proposals are distributed evenly to each and every doctor of 
   the branch.
7. To prepare various statistics for new business as for example introduction of 
   new business, completion of business, premium income, etc.

(2) Policyholders Servicing Department: The important functions are as under:

1. to prepare policy ledger sheet.
2. To record therein the premium position.
3. To send a reminder if premium is not paid in days of grace.
4. To sanction policy loans.
5. To effect alteration and registration of nomination and assignment.
6. To settle surrender value payments.
7. To admit the age if not admitted at the time of proposal.
8. To transfer the policy records from one place to another on request of the 
   policy-holder.
9. To consider revival of the lapsed policy.

(3) Sales Department: The important functions are as under:

1. To appoint Agents through the process of test and interview.
2. To grant insurance licence to Agents and to conduct their training.
3. To organise Agents' Competition.
4. To allot proposal numbers and to sent them to new business department.
5. To maintain Agents' records after completion of proposal.
6. To settle the Agents' Commission including bonus.
7. To maintain Agents' Commission Accounts.
8. To receive Agents' complaints and to remove them.
9. To settle payments under various incentive schemes for development officers.
10. To review the budget for the department.

(4) Accounts Department: The important functions are as under:
1. To maintain the various cash books for cash receipt and payments.
2. To receive the cheques, M.O., in payment premiums.
3. To maintain the collecting bank accounts and their reconciliation.
4. To prepare the agents' commission bills.
5. To make the policy payments such as policy loans, surrenders, survival benefits, maturity claims, death claims, etc.
6. To keep the General accounts of the branch.
7. To furnish the various data to accounts department at Divisional Office.
8. To transfer the surplus fund to Divisional Office.
9. To reconcile the various branch accounts.
10. To prepare monthly trial balance.
11. To prepare and to review the branch budget

(5) Office Service Department:
1. To maintain leave records of the employees at branch
2. To prepare, monthly salary bills.
3. To make proper arrangement for inward mail and its dispatch.
4. To indent the branch requirement for printing stationery, furniture and fixtures.
5. To maintain building if owned by the Corporation.
6. Any other matters relating to Office Services and Personnel matters.

(6) Machine Department: This department may or may not be at all branch offices, since a micro-processor machine is sufficient to handle more than 50,000 policies. So a machine department installed at a big centre is enough to give support to other nearby branch or branches. The important functions of the department are as under:
1. To issue premium receipts and notices.
2. To prepare commission bills.
3. To prepare salary bills and medical Examiner's bills
4. Any other work relating to machine.

**Management Committee**

In the re-organized scheme a management committee is to be constituted at Divisional Celltre as well as at each Branch level. The committee at Divisional level shall consist of Divisional Manager as its President and all the heads of the departments as members. At Branch level it shall consist of Branch Manager as being its President and all the heads of the departments concerned as the members, which included the Branch Supervisory personnel. The Committee shall hold its meeting once in every fort-night or earlier as may be necessary. The quorum shall be the presence of at least 4 members including the President of the committee and Agenda and minutes are to be recorded. The committee has higher financial powers. The important functions of the committee are as under:

1. To finalize the budget proposals of Branch/Divisional Office.
2. To review the performance of Branch/Divisional Office
3. To review the matters relating to under-writing and policy services beyond the powers of the Officer-in-charge of a Branch or Divisional Office.
4. To discuss the matters relating to mutual co-operation and assistance to any.
5. To take such steps as improve the image of the Corporation.
6. The decisions of the Management Committee on all matters are to be unanimous and in case of any difference it should be referred to the higher office.
References

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33. Ibid, P.196
35. Niti Bhasin (2009) Monetary, banking and financial Development in INDIA, opcit PP.139 to 156
37. Ibid, P.247
38. Ibid, PP. 248 to 273