CHAPTER-IV

BIRD'S EYE VIEW OF LIFE INSURANCE IN INDIA

Life Insurance is a financial cover for a contingency linked with human life, like death, disability, accident, retirement etc. Human life is subject to risks of death and disability due to natural and accidental causes. When human life is lost or a person is disabled permanently or temporarily, there is loss of income to the household. Though human life cannot be valued, a monetary sum could be determined based on the loss of income in future years. Hence, in life insurance, the Sum Assured (or the amount guaranteed to be paid in the event of a loss) is by way of a ‘benefit’. Life Insurance products provide a definite amount of money in case the life insured dies during the term of the policy or becomes disabled on account of an accident.

4.0. HISTORY OF LIFE INSURANCE

The year, 1818, saw the advent of life insurance business in India with the establishment of the Oriental Life Insurance Company in Calcutta. This Company however failed in 1834. In 1829, the Madras Equitable had begun transacting life insurance business in the Madras Presidency.

The British Insurance Act was enacted in 1870 and in the last three decades of the nineteenth century, the Bombay Mutual (1871), Oriental (1874) and Empire of India (1897) were started in the Bombay Residency. This era, however, was dominated by foreign insurance offices which did good business in India, namely Albert Life Assurance, Royal Insurance, Liverpool and London Globe Insurance and the Indian offices were up for hard competition from the foreign companies. In 1914, the Government of India started publishing returns of Insurance Companies in India. The Indian Life Assurance Companies Act, 1912 was the first statutory measure to regulate life business. In 1928, the Indian Insurance
Companies Act was enacted to enable the Government to collect statistical information about both life and non-life business transacted in India by Indian and foreign insurers including provident insurance societies.

In 1938, with a view to protecting the interest of the Insurance public, the earlier legislation was consolidated and amended by the Insurance Act, 1938 with comprehensive provisions for effective control over the activities of insurers. The Insurance Amendment Act of 1950 abolished Principal Agencies. However, there were a large number of insurance companies and the level of competition was high. There were also allegations of unfair trade practices. The Government of India, therefore, decided to nationalize insurance business. An Ordinance was issued on 19th January, 1956 nationalizing the Life Insurance sector and Life Insurance Corporation came into existence in the same year. The Life Insurance Corporation absorbed 154 Indian, 16 non-Indian insurers and also 75 provident societies—245 Indian and foreign insurers in all. The LIC had monopoly till the late 90s when the Insurance sector was reopened to the private sector.

4.1. NEED OF LIFE INSURANCE

Every human being has to face the following risks:

- Dying too soon
- Living too long

Hence Life Insurance is needed:

- To ensure that immediate family has some financial support in the event of family head demise
- To finance children’s education and other needs
- To have a savings plan for the future to get a constant source of income after retirement
➢ To ensure that to have extra income when the earnings are reduced due to serious illness or accident

➢ To provide for other financial contingencies and life style requirements

4.2. CONCEPTS OF LIFE INSURANCE

1. Accident: An unforeseen and unintended event or occurrence.

2. Accident and Health Insurance: One of the insurance covers where benefits includes loss of income reimbursement, in case of sickness, accidental injury or accidental death.

3. Accident Insurance: For covering loss occurring due to accidents.


5. Accidental Death Benefit: If the insured dies as the result of an accident then the additional benefit payable besides the face amount of a life insurance policy. It is also referred to as “Double indemnity”.

6. Actuarial Cost Method: In order to determine the contribution to be made under a retirement plan or the level of benefits in case of fixed contribution, this is one of the several adopted methods. Besides giving the forecasts for mortality, interest and expenses it also estimates the future labor turnover, salary scales and retirement benefits.

7. Actuary: A Professional having expertise in the technical aspects of pensions, insurance and related fields and estimates the amount of money to be contributed to insurance on pension fund in order to provide future.

8. Additional Insured: Under an insurance policy specifically named assured party.

9. Adjustable Life Insurance: The flexibility in the insurance plan allowing the policy holder to change the plan of insurance, raise or cover the face amount of the policy, increase or decrease the premium and lengthen or shorten the protection period.
10. Age Limits: The stipulated minimum and maximum ages below and above which the acceptance of applications, renewal of policies by the company is done.

11. Annuitant: The person to receive the annuity; during whose life annuity is payable.

12. Annuity: A Contract providing an income for a specified period of time in number of years or for life.

13. Annuity Certain: Providing an income for a specified number of years, regardless of life or death by a contract.

14. Annuity Consideration: An annuitant making one of the regular periodic payments for an annuity.

15. Assignment: An individual's personal interest in an insurance policy transferred legally to another person.

16. Benefit period: The period of time, generally one to three years, for the payment of major medical benefits after the deductible has been satisfied. For a new benefit period a new deductible needs to be satisfied.

17. Benefits: Under each coverage, the amount received by the claimant, assignee or beneficiary by an insurance company.

18. Brokers: A person representing the buyers of property and liability insurance, and a marketing specialist deals with either agents or companies to provide proper coverage required by the customer.

19. Cancellation: The insured or the company may discontinue an insurance policy before its normal expiration date.

20. Cash Surrender Value: The voluntary termination yields available in cash by the owner before the death or maturity of the policy.

21. Catastrophe: Any event causing loss of man & material in extraordinarily large magnitude.
22. Claim: A request made by the insured under the terms of an insurance contract for payment of loss.

23. Commission: The part of an insurance premium which an insurer shares with an agent or broker for his services in procuring and servicing the insurance.

24. Concealment: An insurance applicant's deliberate failure in revealing a material fact to the insurer.

25. Conditions: Provision included in an insurance contract that limits the insurer's promise to perform.

26. Consideration: A binding contract element towards the acceptance of the payment of the premium, by the insurance company, and the statements made by the prospective policy holder in the application.

27. Contract: An agreement that binds two or more parties for doing or not doing of certain things. An insurance contract is embodied in the written document referred to as policy.

28. Convertible Term Insurance: A term insurance which can be exchanged for and the plan of insurance without evidence of insurability at the option of the policy holder.

29. Covered Expenses: This refers to the hospital, medical and miscellaneous health care expenses incurred by the insured entitling him for the payment of benefits.

30. Death Benefit: A payment made on the death of the employee annuitant to a designated beneficiary.

31. Deferred Annuity: An annuity plan in which the income benefits begin at some specified future date.

32. Deferred Group Annuity: A group annuity plan providing for the purchase each year of a paid up deferred annuity for each member of the group. The sum of these deferred annuities is the total amount received by the member at retirement.
33. Deposit Term Insurance: A term insurance where the first year premium is larger than subsequent premiums and not involving a "deposit" in real sense. A partial endowment is paid at the end of term period which can be applied towards the purchase of a new term policy, or perhaps, a whole life policy.

34. Disability Benefit: An additional feature with some life insurance policies which not only provides for the waiver of premium but also payment of monthly income if the policy holder becomes totally and permanently disabled.

35. Earned Income: An Individual’s employment income from salary, wages, commissions, or fees.

36. Earned Premium: Applies to the portion of the policy period which has already expired and includes the part of total property casualty policy premium.

37. Endorsement: An additional paper mentioning certain terms besides the original contract and when attached to original becomes a legal part of the contract.

38. Endowment: The amount payable to the policy holder as life insurance on the maturity date if he is living or to a beneficiary if the insured dies prior to the maturity period.

39. Extended Term Insurance: An insurance plan providing the original insurance amount for a limited period of time and available as a non forfeiture option.

40. Fixed Annuity: Annuity which guarantees a fixed amount for the periodic payments.

41. Flexible Premium Policy or Annuity: Annuity or a life accident policy which facilitates the contract holder or policyholder to vary the amounts or timing of premium payments.

42. Face Amount: Refers to the amount mentioned on the face of the policy payable in case of death or maturity excluding additional amounts payable under accidental death or other special provision, acquired through the application of policy dividends.
43. Flexible Premium Variable life Insurance: A life insurance plan developed after continuing the unique feature of premium flexibility in universal life insurance and equity based benefit feature of variable life insurance.

44. Grace Period: A specified time period after the due date of premium allowing the policyholder to make the payment as the policy continues without any break during this period.

45. Group Annuity: A pension plan issued to the employer for the benefits of their employees wherein under a master contract annuities to a group of people is provided retirement. Certificate is held by individual members and evidence of their annuities.

46. Group Insurance: A single master policy having insurance written on a number of people issued generally to the employer or the association to which they are affiliated.

47. Group Life Insurance: Under a master policy the life insurance given to a number of people without medical examination and issued generally to the employer for the benefit of their employees.

48. Health Insurance: a) An insurance plan which provides for the financial losses resulting from sickness or accidental bodily injury. b) An insurance plan or protection providing for the payment of benefits for covered sickness or injury, including various types of insurance such as accident insurance, disability income insurance, medical expense insurance and accidental death and dismemberment insurance.

49. Human Life Value: Term used to indicate the present value of the family's share of deceased breadwinner's earnings, for purposes of life insurance.

50. Immediate Annuity: An annuity wherein payment begins immediately.

51. Key Person insurance: Protection of business firm against the financial loss caused by its key person loss.
52. Kurtosis: Actuarial term to indicate the degree of concentration about the central value of a distribution.

53. Lapse: The expiration of forfeiture of an insurance policy by non-payment of due premium.

54. Lapsed Policy: A policy terminated because of non-payment of premium.

55. Participating Policy: A life insurance policy where the policy holders' receive the surplus of the benefit as decided by the Board of Directors of the company and serves to reduce the premium the policyholder had paid.

56. Pension Benefit: According to the plan of benefits a series of payments provided to the insured.

57. Pension Plan: An insurance plan which is established and maintained by an employer, group of employers, union or any combination where the participants after retirement receive.

58. Retention: An insurance company retaining of the net amount of risk or the past which is not reinsured.

59. Rider: A document allowing the modification of the policy or amending the original contract by increase or decrease in benefits or waiver of a condition or coverage.

60. Risk: Any enhance of loss. Risk Classification: Based on the risk characteristics of the individuals insured (eg age, occupation, sex, state of health) the company decides on the life insurance premium and then applies the resulting rules to individual applications through this method.

61. Term Insurance: An insurance plan where the beneficiary receives the life insurance benefit only if the insured dies within a specified period.

62. Variable Annuity: An annuity where the investment results of a life insurance company's separate account for the variation in the benefit.
63. Vested Commissions: The commission paid to the writing agents.

64. Waiting Period: After the date of employment an employee must wait for a specified period of time before his/her insurance becomes effective.

65. Waiver: Exemption of certain disabilities or injuries otherwise covered in the policy, from the coverage though an attached agreement.

66. Waiver of Premium: One of the provisions under an insurance policy where during a period of continuous total disability lasting for a specified period of time, the insured is relieved of premium payments falling due during that time.

67. Whole Life Insurance: A life insurance plan where the premiums can either be paid a limited number of years (limited payment life) or for whole life (straight life) and the beneficiary gets the amount on the death of the insured whenever it occurs.

4.3. TYPES OF LIFE INSURANCE POLICIES

There are different types of life insurance policies like term insurance, whole life insurance, endowment policy, money back plans, children plans, annuity plans, Unit linked insurance policies in India.

1. Term Insurance

In Term Insurance, no benefit is normally payable if the life assured survives the term. In the event of death or Total and Permanent Disability if the benefit is offered, the dependants will be paid a benefit.

2. Whole Life Insurance:

With whole life insurance, people are guaranteed lifelong protection. Whole life insurance pays out a death benefit so insured can be assured that his family is protected against financial loss that can happen after his death. It is also an ideal way of creating an estate for his heirs as an inheritance.
3. **Endowment Policy:**

An Endowment Policy is a savings linked insurance policy with a specific maturity date.

**Money back plans or cash back plans:** Under this plan, certain percent of the sum assured is returned to the insured person periodically as survival benefit. On the expiry of the term, the balance amount is paid as maturity value. The life risk may be covered for the full sum assured during the term of the policy irrespective of the survival benefits paid.

4. **Children Policies:**

These types of policies are taken on the life of the parent/children for the benefit of the child. By such policy the parent can plan to get funds when the child attains various stages in life. Some insurers offer waiver of premiums in case of unfortunate death of the parent/proposer during the term of the policy.

5. **Annuity (Pension) Plans:**

When an employee retires, he no longer gets his salary while his need for a regular income continues. Retirement benefits like Provident Fund and gratuity are paid in lump sum which are often spent too quickly or not invested prudently with the result that the employee finds himself without regular income in his post-retirement days. Pension is therefore an ideal method of retirement provision because the benefit is in the form of regular income.

There are two types of annuities (pension plans)

**Immediate Annuity:** In case of immediate Annuity, the Annuity payment from the Insurance Company starts immediately. Purchase price (premium) for immediate Annuity is to be paid in lumpsum in one installment only.

**Deferred Annuity:** Under deferred Annuity policy, the person pays regular contributions to the Insurance Company, till the vesting age/vesting date. He has the option to pay as single
premium also. The fund will accumulate with interest and fund will be available on the vesting date. The insurance company will take care of the investment of funds and the policyholder has the option to encash 1/3rd of this corpus fund on the vesting age / vesting date tax free. The balance amount of 2/3rd of the fund will be utilized for purchase of Annuity (pension) to the Annuitant.

6. Unit Linked Insurance Policy:

Unit Linked Insurance Policies (ULIPs) offer a combination of investment and protection and allow the flexibility and choice on premiums is invested. In unit linked plans, the investment risk portfolio is borne by the investor. Typically, the policy will provide with a choice of funds to invest. Insured have the flexibility to switch between different funds during the life of the policy. The value of a ULIP is linked to the prevailing value of units. In the event of death or permanent disability, the policy will provide the Sum Assured, so that Insurer can feel comfort in knowing that his family is protected from sudden financial loss. A ULIP has varying degrees of risk and rewards.

There are various charges applicable for Unit Linked Policies and the balance amount out of the premium is only invested in the fund/funds chosen by insured. It is important to ask the insurer or agent or broker questions to understand the sum total of charges that have to be incurred. It is important to assess risk appetite and investment horizon before deciding to buy a ULIP policy. And also read the terms and conditions of the policy carefully to understand the features of the policy including the lock-in period, surrender value, surrender charges etc. All the types of plans mentioned above can be offered under ULIP plans.
4.4. WORKING OF THE LIFE INSURANCE INDUSTRY

At its simplest form, life insurance providers have a pretty good idea how long certain groups of people will live, and collect premium payments from policyholders based on many factors that serve as indicators of how long the insured person might live. Insurance companies charge lower premiums for people they believe will live longer and higher premiums for policyholders they believe are at greater risk of dying at a younger age.

While the insurance companies are collecting premiums from policyholders, the companies invest the money collected in various securities to earn a profit. If a policyholder maintains a life insurance policy for enough years, the insurance company earns a profit even after it has paid out the face value of the insurance policy to the policyholder’s beneficiary.

Life insurance improve their chances of paying out claims later rather than sooner with the help of statisticians that are good at determining various risk factors and how they affect the length of time a person may live. The insurance companies also implement underwriting guidelines to help weed out and refuse coverage to groups of people considered to be at high risk for not living as long as healthier groups of people. This helps the insurance company avoid paying out claims before the insurance company has had a chance to earn profits on premiums received.

A. Growth in Number of Offices of Indian Life Insurers

LIC is operating through its five tier organizational structure, namely central office, zonal offices, divisional offices, branch offices and satellite offices while private life insurers are operating through two tier organizational structure, namely head office and branch offices. Increase in number of offices shows expansion of life insurance industry. The total number of offices of life insurers operating in India increased from 2199 in 2000-01 to 5373 in 2006-07, registering a growth rate of 11.9 per cent during the period of study while the
number of offices of LIC increased from 2186 in 2000-01 to 2301 in 2006-07, registering a
growth rate of 0.6 per cent, the number of offices of private life insurers increased from 13 in
2000-01 to 3072 in 2006-07, registering a very high growth rate of 92.4 per cent. It shows
that private life insurers expanded their business very fast as they had 57.17 per cent share in
total number of offices operating in India as on 31.3.2007, while LIC expanded at slow speed
due to its already established network throughout the country. Within the private life insurers,
two insurers namely, Bajaj Allianz Life Insurance Company Limited and Sahara India Life
Insurance Company Limited grew very fast with a growth rate of more than 300 percent and
six insurers grew at a growth rate of more than 100 percent. Coefficient of variation stood at
36.77 percent for total industry, 122.46 per cent for private life insurers and 1.85 per cent for
LIC which shows that growth was more consistent in case of LIC and life insurance industry
as a whole as compared to private life insurers.

B. Individual Agents working in Life Insurance:

Individual agents are the major source for getting new business in life insurance
industry. It is evident from the fact that LIC and private life insurers got 88.66 per cent and
66.3 per cent of their total new business respectively through individual agents during the
year 2006-07. Table 2 reveals that total number of individual agents increased from 1423839
in 2005-06 to 1993199 in 2006-07, registering an increase of 39.99 per cent during the year
2006-07. While the number of individual agents of LIC increased from 1052993 to 1103047
showing an increase of 4.75 per cent during the year 2006-07, the number of individual
agents of private life insurers increased from 370846 to 891052 registering an increase of
140.3 per cent during the same period. Further, the turnover ratio was 14.05 per cent and
39.72 per cent respectively for LIC and private life insurers. This ratio was 20.75 percent for
the life insurance industry as a whole. The high turnover ratio for private life insurers may be
due to wrong recruitment policies or lesser job satisfaction

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4.5. MICRO INSURANCE

In an effort to ensure a balanced and speedy expansion of insurance coverage in the country, the Authority had come out with a regulatory framework (Obligations of Insurers to Rural or Social Sectors, 2002). These regulations impose obligations on insurers towards the rural population to sell a specified percentage of policies and underwrite specified percentage of gross premium underwritten with respect to life and non-life insurance companies respectively; and cover a specified number of lives/assets belonging to people below poverty line or those pursuing certain traditional occupations. The Government of India set up a consulting group in 2003 to examine the existing insurance schemes for the rural poor; and on the basis of the group’s recommendations, the Authority issued IRDA (Micro insurance) Regulations, 2005. Consequent upon the notification of these regulations, there has been a steady growth in the design of products catering to the needs of the identified groups. The flexibilities provided in the Regulations allow the insurers to offer composite covers or package products. The insurance companies are now also offering already approved general products as micro insurance products with the approval of the Authority, if the sum assured and other features of the products are within the range prescribed for micro insurance. In the case of life insurance, the individual new business premium under this segment stood at 130 crore under 36.51 lakh policies in 2010-11. The same for the group business amounted to 155 crore premium under 1.52 crore lives. LIC contributed most of the business procured in this portfolio by garnering 123 crore of individual premium from 29.51 lakh policies and 138 crore of group premium. In case of non-life business, there are a number of products offered (e.g. Janata Personal Accident Policy, Gramin Personal Accident Policy, Cattle/Livestock insurance, etc.) by the non-life insurance companies targeting the lower income segment of the population.
4.6. PERFORMANCE IN THE FIRST QUARTER OF 2011-12

The life insurers underwrote new business of ₹18,283 crore during the first quarter in the current financial year 2011-12 as against ₹25,522 crore in the corresponding first quarter in 2010-11, recording a decline of 28.36 percent. Of the new business premium underwritten, LIC accounted for ₹13,342 crore (72.98 per cent market share) and the private insurers accounted for ₹4,941 crore (27.02 per cent market share). The market share of these insurers was 73.43 percent and 26.57 percent respectively in the corresponding period of 2010-11.
The life insurance industry procured premium of ₹4,897 crore in ULIPS for the first quarter of 2011-12 as against ₹13,916 crore in the first quarter of 2010-11, a decline of 64.81 per cent.
The industry procured premium of ₹13,386 crore in traditional business for the quarter ended June 2011 as against ₹11,606 crore for the quarter ended June 2010 exhibiting a growth of 15.34 per cent. 53. The non-life insurers underwrote a premium of ₹14,046 crore during the first quarter of the current financial year recording a growth of 22.35 per cent over ₹11,480 crore underwritten in the same period in 2010-11. The private sector non-life insurers including special insurers and health insurers underwrote a premium of 6,020 crore in April-June, 2011 as against 4,725 crore in April-June, 2010, reporting a growth of 27.40 percent.
The public sector non-life insurers underwrote a premium of 8,026 crore which was higher by 18.82 percent (6,754 crore in the first quarter of 2010-11). The market share of the public and private insurers including specialized insurers and health insurers stood at 57.14 and 42.86 percent respectively at the end of the quarter (58.81 and 41.19 at the end of June 2010). 54.
The standalone health insurers contributed 496 crore in 2011-12 (₹364 crore in 2010-11) registering a growth of 36.26 per cent. The contribution of specialized companies ECGC and AIC of India was 376 crore in the first quarter of 2011-12 (357 crore in 2010-11) registering a growth of 5.32 percent.
4.7. OBJECTIVES OF LIC OF INDIA

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

ii. Maximize the mobilization of people's savings by making insurance-linked savings adequately attractive.

iii. Bear in mind, in the investment of funds, the primary obligation to its policyholders, whose money it holds in trust, without losing sight of the interest of the community as a whole; the funds to be deployed to the best advantage of the investors as well as the community as a whole, keeping in view national priorities and obligations of attractive return.

iv. Conduct business with utmost economy and with the full realization that the moneys belong to the policyholders.

v. Act as trustees of the insured public in their individual and collective capacities.

vi. Meet the various life insurance needs of the community that would arise in the changing social and economic environment.

vii. Involve all people working in the Corporation to the best of their capabilities in furthering the interests of the insured public by providing efficient services with courtesy.

viii. Promote amongst all agents and employees of the Corporation a sense of participation, pride and job satisfaction through discharge of their duties with dedication towards achievement of Corporate Objectives.
4.8. ORGANISATIONAL SET UP OF LIC OF INDIA

1. The Organization of the Corporation is on the pattern broadly indicated in the Life insurance Corporation Act. 1956. Divisional Offices, 42 in Number and with defined territorial jurisdiction for the development of new business in the respective areas, are responsible for the complete service of new insurance policies from the time of acceptance of proposals to settlement of claims, coordination and general supervision vest in the five zonal offices and the central office, the central office being responsible for the formulation of broad policies and procedures. Investment of funds is the sole responsibility of the office.

2. The Chairman is the Chief Executive of the Corporation. The 15 members constituting the Corporation manage the affairs of the Corporation. The work of the Corporation is conducted through various committees such as Executive Committee, Investment Committee, Service and Budget Committee. In addition, for each zone, Advisory Boards and Employees and Agents Relations Committee have been constituted and they functioned with advisory capacity, since 31st August 1971, these committees have also been constituted in each of the Divisional Offices. The other authorities mentioned in the Act and the regulations are the Managing Directors, Executive Directors and Zonal Managers.

3. When the Corporation was constituted on the 1st September 1956, the work of integrating into one organization, the controlled business of 243 units engaged in the transaction of life insurance business in India was taken up. In determining the organizational set up, it was considered important to avoid to the maximum extent possible, dislocation in the servicing of the existing policies during the period of changeover. For this reason the machinery provided by the former Head Office Units of the insurers was left largely undisturbed. However, as a first step towards
ultimate integration, all the head offices constituted at the Zonal Head Quarters were integrated into limited number of administrative units. In the city of Bombay, for instance, there were 50 Head Offices of Indian insurers, 9 Principal Offices of Foreign insurers and 15 Head Offices of Provident Societies. The offices under the first two categories were combined into 9 integrated head office (I HO) groups. Another group known as an integrated branch office unit was formed comprising the branch offices of insurers with one pension fund and of 15 provident societies in Bombay. Thus, integrated head office groups, and integrated branch office groups were handling the servicing of existing policies in the Mumbai city. At centers other than zonal head quarters, all the head office units and all branch office units of the previous insurers had been grouped together and were treated as part of the Divisional Office, in whose area the respective IHO units or IBO units were situated.

4. The servicing of existing business was being handled by IHO and IBO Units more or less on the same lines as was being done by the respective head offices and Branch offices of the insurers concerned prior to the appointed day. However, in each of the IHO and IBO groups, steps had been taken for achieving uniformity in administrative practices as far as practicable and, for this purpose, the work of some of the departments of the various units, where there was more than one unit in a group, had been integrated, similarly, a simplified system of accounting had been introduced, so that the work of the cash and Accounts department was done on a uniform pattern. The integration work was being pursued with an eye to prompt disposal of work and efficient servicing of policies. Further, existing policyholders had also been given the benefit of the more liberal policy conditions offered by the corporation for its own policies e.g., waiver of premiums under
whole life policies after the assured attains 80 years age or has paid premiums already for 35 years whichever is later, removal of war risk extra premium and other restrictions on policies issued to military personnel, etc.

5. The present arrangement for the servicing of old policies was a temporary one, it was intended that ultimately all policies issued before First September 1956 should also be serviced by the Divisional Offices of the Corporation in whose jurisdiction the policyholders resided. This process of decentralization involved wholesale transfer of policy records from the existing head office units to the concerned Divisional Offices. In order to ensure that the process of decentralization was speeded up without dislocating service to the policyholders, the Corporation has set up an Integration Department at the Central Office to handle the decentralization of policies and issue directions to the existing units in this context as well as to deal with complaints.

4.9. ORGANISATION AND MANAGEMENT OF LIC OF INDIA

The LIC's Central Office is situated in Mumbai. It has 7 Zonal Offices, 102 Divisional Offices and 2048 Branch Offices in India and 3 Branches outside India. The following table presents the distribution of each category of its offices.

<table>
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<th>Zones</th>
<th>Divisional Offices</th>
<th>Branch Offices</th>
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<tr>
<td>Total</td>
<td>102</td>
<td>2048</td>
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Source: LIC Diary 2011
The integral organization and management of the LIC comprises of:

a. Board of Directors
b. Committees of Corporation
c. The Chairman &
d. Managing Director

The structural framework is shown here in the following 4.1 figure

**BOARD OF DIRECTORS**

Board of Directors is the highest authority of the Corporation. They are appointed by the Central Government. The maximum number of Directors can be 15, but at present (in 1993) there are only 11 Directors. No specific qualifications have been prescribed for a director, but should not have personal interest in the functioning of the Corporation. The functions of the Board are as under:

1. To determine the long-term policies of the Corporation.
2. To take decision for doing any work prescribed under the Act.
3. Decentralization and delegation of authority at different levels.
4. Tasks to be assigned to top level, which are not delegated to lower levels.

5. Constitution of committees according to requirements.

6. To take decision in regard to promotions & conditions of services of important officers.

Committees of the Corporation

The Board of Directors has power to appoint different committees for the effectively discharging, directing and control as well as advising the Board in such matters. Some of the important committees are as below:

1. Executive Committee
2. Investment Committee
3. Personal Advisory Committee
4. Building Advisory Committee
5. Development Advisory Committee
6. Budget Advisory Committee
7. Legal Advisory Committee
8. Policy holders Service Advisory Committee

The Chairman

The chairman of the LIC is the Chief Executive Officer of the Corporation. He heads all the committees of the Corporation. But he has no authority to exercise the power of investment committee. In the matters of investment of funds, the Chairman has to follow the advice of Investment Committee. But he can ask the Board of Directors to reconsider any decision or advice given by the committee. There are restrictions on exercise of powers of the Chairman, but in emergencies he has all the powers of the Corporation.
The Managing Director

The Managing Director is the whole time officer of the Corporation. He discharges all the functions entrusted to him by the executive committee of the Corporation. The Corporation can appoint one or more persons as Managing Director. The Managing Director need not be a member of the Board. He delegates some of his powers to the officers working in different levels, but before such delegation takes place, prior approval of the Board of Directors/Chairman is necessary.

Offices of the LIC and Departments

For the effective management and control of the LIC, the offices of the Corporation are divided into:

- Central Office
- Zonal Office
- Divisional Office
- Branch Office

THE CENTRAL OFFICE

The Central Office of Corporation is situated in Mumbai. It is the highest controlling point of the Corporation. This office functions under the care of Board of Directors and different committees of the Corporation.

Functions: The important functions of the Central office are as under:

1. Determination of requisite policies & plans.
2. Issues directions to Zonal and Divisional Offices from time to time.
3. Establishing co-ordination between Zonal and Divisional Office.
4. Exercise control over Divisional and Branch Offices through Zonal Offices.
5. Investment of Funds of the Corporation.
6. Organizing meetings of Zonal Managers and Annual General Meetings of Divisional Managers.

7. Supervision of the activities of Divisional and Branch Offices and auditing of their accounts.

8. Standardization of work methods, fixation of premium rates, arrangement of re-insurance, publicity, etc.

**Important Departments in Central Office:** For the purpose of discharging these functions, some departments have been set up in the Central Office. The important departments are:

1. Development Department
2. Investment Department
3. Corporate Department
4. Organization Planning Department
5. Policy holder Servicing Department
6. The Finance and Accounts Department
7. The Actuarial Department
8. Audit and Inspection Department
9. Legal and Mortgage Department
10. Group and Superannuation Department
11. Personal Department
12. Vigilance Department
13. Electronic Data Processing Department
14. Integration Department
15. Publicity Department
16. Foreign Department
The Zonal Offices of LIC are situated in Mumbai, Calcutta, Delhi, Kanpur, Hyderabad and Madras. The main duty of the Zonal Offices is to bring uniformity in the activities of various Divisional Offices working under their jurisdiction. Functions of Zonal Offices are as below:

- To control the functioning of the officers and employees to prepare the development planning of insurance business in the particular zone.
- It evaluates the quantum of risk involved in revival of policies, which are beyond the powers of Divisional Office.
- To take policy decisions in technical matters received from subordinate offices in the zone.
- To advise and guide the Divisional Offices on the principles, practices and methods of accounting system.
- It also plays advisory role in personnel and legal matters, management of corporation's office buildings, purchase of stationary, furniture and equipment, printing of forms and other documents, etc. The roles of two committees are very important with organization and management of zonal offices. They are:

1. **Zonal Advisory Board/Committee:** Every zonal office has the power to set up a Zonal Advisory Board under every zone. This board gives necessary advice to concerned zonal manager in matters relating to business policies. This board is constituted by 8 to 12 members.

2. **Employees and Agents Relations Committee:** There is provision in the Insurance Act to set up employees and agents relations committee. This committee constitutes with 50%
members from employees and 50% from agents. Its main function is to advise the zonal manager in welfare matters of employers and agents.

3. **Zonal Managers:** The Chief Officer of the Zonal Office is the Zonal Manager who manages and controls the functioning of Zonal Office and executes the orders and directions from the Central Office. Zonal Managers are responsible for the following functions:

- Makes arrangement for managerial development and training activities.
- Expansion of branches and development of insurance agents.
- Undertakes market studies.
- Increasing cost effectiveness.
- Increasing public relations.
- Playing the role of "Appeal Office" for outside aggrieved people.

**Important Department in Zonal Offices**

1. The Personal and Industrial Relations Department
2. The Development Department
3. The Estates Department
4. The Legal and Mortgage Department
5. The Accounts Department
6. The Actuarial Department
7. Building and Engineering Department
8. Office Services Department
9. Zonal Training Department

**DIVISIONAL OFFICES**

The functional areas of 7 zonal offices of LIC have been distributed to a number of offices. Divisional Office is an important functional area point of the corporation. It provides
various types of services to policyholders as well as to the agents, development officers, employees and branch offices. As per information available up to 31st March 2006 the total number of divisional offices has been 102 as given in the following 4.2figure.

<table>
<thead>
<tr>
<th>Zone</th>
<th>No. of Divisional Offices</th>
<th>Place Where Situated</th>
</tr>
</thead>
<tbody>
<tr>
<td>Central Zone</td>
<td>7</td>
<td>Bhopal, Gwalior, Indore, Jabalpur, Raipur, Satna &amp; Shandole</td>
</tr>
<tr>
<td>North-Central Zone</td>
<td>11</td>
<td>Agra, Aligarh, Allahabad, Bareilly, Dehradun, Gorakhpur, Haldwani, Kanpur, Lucknow, Meerut &amp; Varansi</td>
</tr>
<tr>
<td>Eastern Zone</td>
<td>18</td>
<td>Assensol, Beharmup, Bhangalpur, Bongaigaon, Calcuttal-1,2,3, Cuttack, Gauhati, Hazaribagh, Hawrah, Jalpaigudi, Jamshedpur, Johrat, Mujafarpur, Patna, Sambalpur, Silchar</td>
</tr>
<tr>
<td>Northern Zone</td>
<td>16</td>
<td>Ajmer, Amritsar, Bikaner, Chandigarh, Delhi-1,2,3, Jaipur, Jalandhar, Jodhpur, Karnal, Ludhiana, Shimla, Srinagar, D.O. Cell Jammu, Udaipur</td>
</tr>
<tr>
<td>South Central Zone</td>
<td>16</td>
<td>Bangalore -1,2, Belgaum, Kadappa, Dharwar, Hyderabad, Karimnagar, Mochilipatn, Raichur, Rajmundri, Secundрабad, Uduppi, Vishakhapatnum, Warangal, Mysore, Nellore</td>
</tr>
<tr>
<td>Southern Zone</td>
<td>12</td>
<td>Coimbatore, Ernakulam, Kottayam, Kozhicode, Madras-1,2, Madurai, Salem, Tanjavour, Trivandrum, Tirunavalvel, Vellore</td>
</tr>
<tr>
<td>Western Zone</td>
<td>22</td>
<td>Ahmedabad, Amravati, Aurangabad, Bhavnagar, Mumbai-1,2,3,4 &amp; SSS, Gandhinagar, Goa, Kolhapur, Nagpur, Nanded, Nasik, Pune, Rajkot, Satara, Surat, Thane, Vadodara, Nadiad</td>
</tr>
</tbody>
</table>
Divisional Manager is responsible for all the functions of Divisional Office. He discharges his functions under the direct control of Zonal Manager. He evaluates the plans and budgets of branch offices and a report is sent to Zonal Manager. There is a provision for setting up a management committee in Divisional Office. This committee establishes coordination between different departments of divisional office. It also determines the general objectives of Divisional Office. A meeting of the committee is held once in two weeks, quorum is 4 members personally attending the meeting. The following is the constitution of this committee.

- Chief of Divisional Office as Chairman.
- All the Department heads are nominated members.

The functions of this committee include:

- Approval of the budget proposals of branch / divisional office.
- Evaluate the monthly progress reports.
- Accepting the proposals of common supervision.
- Issues of directions for inter departmental cooperation.
- Give suggestions to top officers for improvement in policies towards work methods & policies.
- Efforts to increase goodwill of the corporation.
- Consideration of matters where collective efforts are needed.
- Discharging of functions delegated by top authority.
- To improve the efficiency of every unit of the corporation.
Important Departments in Divisional Offices

The departments under divisional offices are as follows:

1. Planning Department
2. Policy holder Servicing Department
3. Accounts and Cash Department
4. Claim Department
5. New Business Department
6. Office Service Department
7. Legal and Mortgage Department
8. Marketing Department
9. Personal and Industrial Relations Department
10. Data Processing Department
11. Branch Support Department
12. Establishment Department
13. Mailing Department

BRANCH OFFICES

Branch Offices have been set up under the direct control of Divisional Offices. Branch Offices are the primary centers of LIC through which the insurance business is obtained. A major part of the LIC employees and officers are working in Branch Offices. The problems of policyholders are mostly solved by the Branch Offices. Nearly 2/3rd of the total income of the LIC is earned through the Branch Offices. Nearly 75% of the managerial expenses are spent by the Branch Offices. Branches are first contacting place for the proposer's.

The Branch Manager is head of the Branch and he is responsible for effective functioning of the Branch Office. There is a provision for setting up a management
committee at every branch office. At present 2008 Branch Offices are functioning in the country, this includes 99 new branches opened during the year 1993-94. The zone wise distribution of branch offices has been given in the previous chapter.

**Important Departments in Branch Offices:** Usually the following departments are setup in a branch office.

1. New Business Department
2. Policy holder Servicing Department
3. Accounts Department
4. Office Service Department
5. Sales and Development Department
6. Claim Department
7. Machine Department

**CAPITAL OF THE CORPORATION**

The original capital of the corporation was five crores of rupees provided by the central government after due appropriation made by parliament by law for the purpose and the terms and conditions relating to the provision of such capital. The central government may be on the recommendations of the corporation, reduce the capital of the corporation to such extent and in such a manner as the central government may determine.

**4.10. INVESTMENT PATTERN OF LIFE INSURANCE OF INDIA**

Life insurance is a long duration contract, which generates investable surplus which is invested keeping in view the safety and security of the funds spread over different categories, industry and regions so as to serve larger economic and social interests while optimizing yield. With the formation of Life Insurance Corporation of India, it can be said that utilization
of peoples' money invested in life insurance for planned economic development of country took roots.

One of the objectives of nationalization of life insurance industry was channelizing of its funds for the benefit of the community at large. The investment of the Corporation's fund is governed by section 27A of the Insurance Act, 1938 and subsequent guidelines/instructions issued by the Government of India from time to time.

These investments are regulated by the government to the benefit of the people at large by providing basic amenities like water, drainage, sanitation, power, housing, transportation, etc. The modified section 27A of the Indian Insurance Act, 1938, prescribes percentage-wise ceiling of maximum limit in different categories of investment. These have been modified from time to time with a view to pre-empting an increasing proportion of its funds in Government/Government guaranteed / approved / socially oriented investments. The LIC has been directed to concentrate more on the financing of the socially-oriented investments.

LIC is one of the largest investors in government securities, infrastructure and social sector. The corporation helps to boost up the industrial growth in the country. It helps the small scale and medium scale industries by granting loans for setting up co-operative industrial estates. The corporation assists state level financial corporations and all India Financial Corporations like IDBI, IFCI, ICICI, etc. by way of subscription to bonds/debentures issued by such institutions. It also makes investment in the corporate sector in the form of long, medium and short term loans to companies/corporations.

PRE-NATIONALIZATION INVESTMENT PATTERN

Before the setting up of LIC in 1956, through the nationalization and amalgamation of 245 companies, life insurance companies were governed by section 27 and27A of the Indian
Insurance Act, 1938. According to the Act, every insurance Company was required to invest as follows.

Table No.4.2 Pre-Nationalization Investment Pattern

<table>
<thead>
<tr>
<th>S. No</th>
<th>Type of Investment</th>
<th>Percentage</th>
</tr>
</thead>
<tbody>
<tr>
<td>1</td>
<td>Government securities</td>
<td>25%</td>
</tr>
<tr>
<td>2</td>
<td>Government securities or approved securities</td>
<td>Not less than 25%</td>
</tr>
<tr>
<td>3</td>
<td>Other investment</td>
<td>Not more than 15%</td>
</tr>
<tr>
<td>4</td>
<td>Approved investment</td>
<td>35%</td>
</tr>
</tbody>
</table>


POST-NATIONALIZATION INVESTMENT:

Based on the recommendation of the Jagannathan Committee to review the investment policies of the LIC, Section 27A was further amended in 1975. The amended section 27A stipulated that accreditations to the controlled fund of the LIC could be invested as under:

a) 8% was required for loans against policies within the surrender values.
b) About 2% could be invested in immovable properties.
c) 10% be invested was invested in the private sector.
d) Remaining 5% was not available for investment as it constituted funds in the pipeline.
### Table No. 4.3 Post-Nationalized Investment Patterns

<table>
<thead>
<tr>
<th>S. No.</th>
<th>Type of Investment</th>
<th>Percentage</th>
</tr>
</thead>
<tbody>
<tr>
<td>1</td>
<td>In central Government marketable securities</td>
<td>25%</td>
</tr>
<tr>
<td>2</td>
<td>In central Government, State Government securities including the government</td>
<td>50%</td>
</tr>
<tr>
<td></td>
<td>guaranteed marketable securities including (a) above</td>
<td></td>
</tr>
<tr>
<td>3</td>
<td>In social oriented sector including public sector, cooperative sector, own your home</td>
<td>75%</td>
</tr>
<tr>
<td></td>
<td>(OYH) scheme including second above.</td>
<td></td>
</tr>
</tbody>
</table>


### INVESTMENT PATTERN AFTER INSURANCE SECTOR REFORMS

The Malhotra Committee recommended a modification in the existing pattern of LIC’s investment in 1994 as follows:

### Table No-4.4

<table>
<thead>
<tr>
<th>S. No.</th>
<th>Type of Investment</th>
<th>Percentage</th>
</tr>
</thead>
<tbody>
<tr>
<td>1</td>
<td>In the government securities not less than 25%</td>
<td>Not less than 40%</td>
</tr>
<tr>
<td>2</td>
<td>The State government securities and government guaranteed securities, inclusive of</td>
<td>Not less than 50%</td>
</tr>
<tr>
<td></td>
<td>(1)</td>
<td></td>
</tr>
<tr>
<td>3</td>
<td>In social oriented sectors as may be prescribed by the government form time to time</td>
<td></td>
</tr>
</tbody>
</table>

Source:- Malhotra Committee Report, 2012
INVESTMENT PATTERN REVISED BY IRDA

The control over the investment pattern of Insurance funds has been revised by the IRDA whereby it has been made mandatory for a life insurance company to invest at least 15% of its controlled fund in infrastructure and social sector of the country. Every insurer carrying on the business of life insurance shall invest and at all times keep invested his controlled fund in the following manner.

Table No- 4.5

<table>
<thead>
<tr>
<th>S. No.</th>
<th>Type of Investment</th>
<th>Percentage</th>
</tr>
</thead>
<tbody>
<tr>
<td>1</td>
<td>Government Securities</td>
<td>25%</td>
</tr>
<tr>
<td>2</td>
<td>Government Securities or other approved securities (including (i) above)</td>
<td>Not less than 50%</td>
</tr>
<tr>
<td>3</td>
<td>Approved investment as specified in Schedule 1</td>
<td>Not less than 15%</td>
</tr>
<tr>
<td></td>
<td>a. Infrastructure and social sector Explanation: for the purpose of this requirement,</td>
<td></td>
</tr>
<tr>
<td></td>
<td>infrastructure and social sector shall have the meaning as given in regulation 2(h)</td>
<td></td>
</tr>
<tr>
<td></td>
<td>of insurance regulatory and development authority (registration of Indian insurance</td>
<td></td>
</tr>
<tr>
<td></td>
<td>companies) regulations 200 and as defined in the insurance regulatory (obligations of</td>
<td></td>
</tr>
<tr>
<td></td>
<td>insurance to rural and social sector) regulations, 2000., respectively.</td>
<td></td>
</tr>
<tr>
<td></td>
<td>b. Other to be governed by Exposure/Prudential Norms specified in Regulations</td>
<td>Not exceeding 20%</td>
</tr>
<tr>
<td>4</td>
<td>Other than in approved investment to be governed by Exposure/Prudential Norms</td>
<td>Not exceeding 15%</td>
</tr>
<tr>
<td></td>
<td>specified in Regulations 5</td>
<td></td>
</tr>
</tbody>
</table>
4.11. PENSION AND GENERAL ANNUITY BUSINESS

Every insurer shall invest and at all times keep invested assets of pension business, General Annuity Business and Group business in the following manner:

Table No- 4.6

<table>
<thead>
<tr>
<th>S. No.</th>
<th>Type of Investment</th>
<th>Percentage</th>
</tr>
</thead>
<tbody>
<tr>
<td>1</td>
<td>Government Securities, being not less than</td>
<td>20%</td>
</tr>
<tr>
<td>2</td>
<td>Government Securities or other approved securities (inclusive (1) above being not less than)</td>
<td>40%</td>
</tr>
<tr>
<td>3</td>
<td>Balance to be invested in approved investment as specified in Schedule I and to be governed by Exposure/Prudential Norms specified in Regulation 5</td>
<td>Not exceeding 60%</td>
</tr>
</tbody>
</table>

Source:- P.R.Khanna, Examination Guide For Life Insurance Agents, Taxmann’s, New Delhi, 2012, p.194

4.12. KINDS OF AGENCY SYSTEM / INTERMEDIARIES

i. Ordinary agents

ii. Brokers

iii. Corporate Agents

iv. Composite Agents

v. Consultants

DISTRIBUTION

Insurance companies are required to sell their products to the customers. The full network comprising the various methods is called Distribution System.
Channels of Distribution

i. Agency System
ii. Employee Sales Personnel
iii. Direct Contact
iv. Alternate Distribution

Distribution by Agency System: Agents are commissioned representatives of the insurance companies who predominantly meet their clients and sell life insurance after assessing his needs. They also give after-sales service and maintain longtime relationship. This is by far the most effective and dominant channel of distribution.

Agency Distribution Channel

In the liberalized insurance market, insurers are likely to have the following types of Distribution for their conventional life insurance business:

Table No. 4.7

4.13. FUNCTIONS OF LIC OF INDIA

Section 6 of the LIC Act, 1956 has laid down the functions of the corporation.

➢ Subject to the rules, If any, made by the central government in this behalf, it shall be the general duty of the corporation to carry on life insurance business, whether in or outside India, and the corporation shall exercises its powers under this Act as to
secure that life insurance business is developed to the best advantage of the community.

➢ Without prejudice to the generality of the provisions contained in sub section I, but subject to the other provisions contained in this act. The corporation shall have power.

➢ To carry on capital redemption business, annuity certain business or reinsurance business in so far as such reinsurance business appertains to life insurance business,

➢ Subject to the rules, if any, made by the Central Government in this behalf, to invest the funds of the corporation in such manner as the corporation may think fit and to take all such steps as may be necessary or expedient for the protection or realization of any investment, including the taking over of and administering any property offered as security for the investment until a suitable opportunity arises for its disposal.

➢ To acquire, hold and dispose of any property for the purpose of its business.

➢ To transfer the whole or any part of the life insurance business carried on outside India to any other person or persons, if in the interest of the corporation it is expedient to do so.

➢ To advance or lend money upon the security of any movable or immovable property or otherwise.

➢ To borrow or raise any money in such manner & upon such security as corporation may think fit.

➢ To carry on either by itself or through any subsidiary any other business in any case where such other business was being carried on by a subsidiary of an insurer whose controlled business has been transferred to and vested in the corporation under this Act.
➢ To carry on any other business which may seem to the corporation to be capable of being conveniently carried on in connection with its business & calculated directly or indirectly to render profitable business of the corporation.

➢ To do all such things as may be incidental or conductive to the proper exercise of any of the powers of the corporation.

➢ In the discharge of any of its functions the corporation shall act so far as may be on business principles. Section 4, the LIC Act, 1956 explains the constitution of the Corporation.

1. The Corporation shall consist of such number of persons not exceeding fifteen as the Central Government may think fit to appoint there to & one of them shall be appointed by the Central Government to be the Chairman thereof.

2. Before appointing a person to be a member, the Central Government shall satisfy itself that person will have no such financial or other interest as is likely to affect prejudicially the exercise or performance by him of the functions as member, the Central Government shall also satisfy itself from time to time with respect to every member that he has no such interest and any person who is or whom the central government proposes to appoint and who has consented to be, a member shall, whenever required by the central government so to do, furnish to its such information as the Central Government considers necessary for the performance of its duties under this sub-section.

3. A member who is in any way directly or indirectly interested in a contract made or proposed to be made by the corporation shall, as soon as possible after the relevant circumstances have come to his knowledge, disclose the matter of his interest to the corporation and the member shall not take part in any deliberation or discussion of the corporation with respect to that contract.
4.14. INSURANCE POLICIES AND TAXES

Some important Income Tax benefits available under various plans are highlights below.

1. DEDUCTION FROM INCOME FOR PAYMENT OF LIFE INSURANCE PREMIUM (Section 80C):

A. Life Insurance Premium

The insurance premium paid in order to effect or to keep in force insurance on the life of the assessed and the life of the spouse or his child. The child may be a minor or an adult and includes a married daughter. In the case of HUF, premium paid on the life of any member thereof is eligible for deduction; provided premium paid is not in excess of 20% of capital sum assured.

B. Contribution to Deferred Annuity Plans

Any sums paid by an individual in order to effect or to keep in force a contract for deferred annuity, on his own life or the life of his spouse or any child, provided such contract does not contain a provision for the exercise by the insured of an option to receive a cash payment in lieu of the payment of annuity.

C. Contribution to Pension / Annuity Plans

Contribution to New Jeevan Dhara-I and New Jeevan Akshay-III schemes of LIC qualify for rebate under this section.

2. INCOME TAX EXEMPTION ON MATURITY / DEATH CLAIMS PROCEEDS (SECTION 10(10D)):

Under the provisions of Sub-section 1OD of Section 10 of Income Tax Act,1961, any sum received under a life insurance policy, including the sum allocated by way of bonus on such policy other than any sum received under Sub-section (3) of Section 80DD (i.e. amount to be refunded under Jeevan Aadhar insurance plan in case the handicapped dependant
predeceases the individual) or under a Keyman insurance policy, is exempted from Income Tax. However, any sum received under an insurance policy effected on or after 1.4.2003 in respect of which the premium paid in any of the years during the term of the policy exceeds 20% of the actual capital sum assured will no longer be exempted under this section.

3. NEW JEEVAN SURAKSHA-I PLAN (Section 80CCC):

A deduction to an individual for any amount paid or deposited by him from his taxable income in this annuity plan for receiving pension (from the fund set up by the Corporation under the Pension scheme) is allowed. The deduction will be restricted to Rs. 10,000/-. 

4. JEEVAN ADHAR PLAN (SECTION 80DD):

As per Section 80DD, an amount not exceeding Rs. 50,000/- deposited with the Life Insurance Corporation of India under Jeevan Aadhar plan for maintenance of a handicapped dependant is eligible for deduction from the total income (Rs. 75,000/- where the handicapped dependant is suffering from severe disability).

5. EXEMPTION IN RESPECT OF COMMUTATION OF PENSION UNDER JEEVAN SURKSHA

Under Section 10 (10A) (iii) of the Income Tax Act, any payment received by way of commutation of pension out of the Jeevan Suraksha Annuity plans exempt from tax under clause (23AAB).

INFORMATION TECHNOLOGY IN LIC

Having been one of the very first and largest users of I.T. in terms of Hardware and In-house Developed Software, LIC of India has adopted its existing technologies and also new emerging technologies to meet the changing needs.

1. All the job processes of Branch Offices have been mechanized.
2. 2035 Branch Offices (out of 2048) are now connected through the Wide Area Network.

3. Customer-centric initiatives:
   ➢ Portal for customers has been set up.
   ➢ This portal will be a single outlet for an array of services.
   ➢ Services include policy status, bonus calculation, loan quotation, list of lapsed policies along with revival quotation, premium calendar, change of address, doctor locator, agent locator, premium payment gateway. This is apart from the already existing facilities like premium collection through ECS, ATMs, and Kiosks.
   A similar portal is also available for agents. Services available are similar to those under the customers' portal except premium payment and change of address. Additional services are the commission calendar and commission accrual information,

4. Customers can now dial 1251 for getting policy-related information in many centers throughout the country.

5. The Corporation has started sending premium alerts through SMS (Short Massaging Service) to policyholders of the metros and other big cities. Soon these services will be expanded to include other alerts.

6. Other initiatives: Enterprise Application Integration - also known as Middleware.
   This has been implemented in all the networked Branches so that transactions can be updated in real time in central database as well as in a remote Branch when the Collecting Branch and the Servicing Branch are different. Corporate Active Data warehouse Project (CADW) - This is one of the most ambitious IT projects in the country and once this is completed, LIC of India will place a robust system of MIS, adhoc queries and data mining.
Document Management System - This project aims at achieving a real paperless office in the Branches of LIC of India.

SATELLITE SAMPARK

With a vision of providing easy access to its policyholders, LIC has launched its SATELLITE SAMPARK offices. These satellite offices, which will be attached to the respective parent branches, are basically an extension of the large parent branches in the metro and urban centers where new townships are coming up speedily. This is another major stride by LIC in leveraging the latest technology and moving closer to the customer. The technology has been developed in-house. The Satellite Sampark offers Customer Interface Services like accepting insurance proposals through Green Channel and providing information on policies. These satellite offices will also be accepting insurance premium, initially in respect of the policies serviced by the parent branch. Additional services will be provided through these offices in the future. All the 29 satellite offices spread across the country in metros like Mumbai, Kolkata, Delhi, Pune, Hyderabad, Chennai and Bangalore are being flagged off. The satellite offices will be smaller, leaner and closer to the customer. The digitalized records of the satellite offices will facilitate 'anywhere servicing' and many other services in the future.

ALTERNATIVE PREMIUM PAYMENT CHANNELS

The facilities mentioned below are available at free of cost.

1. Internet Payments

As many as seven Banks - HDFC, ICICI, Bank of Punjab, UTI Bank, Corporation Bank, Federal Bank and Citibank and three Bill Collection Service Providers - Billjunction.com, Timesofmoney.com and Billdesk.com are the Service Providers. Any policyholder who has a bank account in India can use this facility. Under this system, on-line registration has to be done through the Service Providers and this data is validated by LIC.
On the due date, the Service Providers will collect the premium amount by raising a debit to the bank account of the policyholder and remit the proceedings to the designated Branch of LIC. The designated LIC Branch will later on, issue the premium receipt. This service can also include automatic reminders to the policyholders for premium payment. Policyholders staying out of India can also use this facility.

**Electronic Clearing Service (ECS)**

This service is currently available in Mumbai, Chennai, Hyderabad, Kolkata, Kanpur, Patna, Ahmedabad, Chandigarh, Jaipur and New Delhi. It will be extended to other Centers where the RBI has extended its ECS facility. A policyholder having an account in any Bank which is a member of the local Clearing House can opt for ECS debit to pay premiums. The policyholders who wish to use this system would have to fill up a mandate form available at Branches / DO and get it certified by the Bank. The certified mandate forms are to be submitted to the BO / DO. The advantage in this system is that once the option is exercised, the policyholder need not visit a branch for paying the premium or collecting the receipts. On the day indicated by the policyholder, the premium amount will be directly debited to the Bank Account of the policyholder and the receipt will be issued by the designated Branch Office.

**ATM's of Corporation and UTI Banks**

Premium can be paid through the ATMs of Corporation Bank and UTI Bank. This service is available to Corporation Bank and UTI Bank account Holders who are also the policyholders. Interested policyholders would have to fill up a mandate form which is made available at the Bank or at the ATMs and register the request with the Bank through this mandate. Policy information will be available at the ATM during the days of grace for premium payment. On payment of premium, the policyholder will get an acknowledgement receipt from the ATM and later on, a designated Branch will send the actual receipt to the
policyholder. This service is available all over India through ATMs of the Corporation Bank and the UTI Bank.

**LIC'S INTERNATIONAL OPERATIONS**

LIC is the most preferred MULTINATIONAL ORGANISATION catering to the insurance and financial needs of Non Resident Indians (NRIs) and People of Indian Origin (PIOs) in particular and of the Global market in general. LIC operates in international markets through its Branch Offices as well as Joint Venture Subsidiaries.

**BRANCH OFFICES**

1. Mauritius
2. Fiji
3. United Kingdom

**JOINT VENTURE SUBSIDIARIES**

1. **LIC (International) B.S.C. (C):**
   
   A Joint Venture Offshore Company promoted by the Life Insurance Corporation of India. Operations commenced in July 1989 with the following objectives:

   1. To offer US$ denominated policies to cater to the insurance needs of Expatriate Indians.
2. To provide insurance services to the holders of Indian registered policies of LIC of India currently residing in Gulf. NRIs of other countries can avail the services of the company through mail order business.

   The company operates in all the GCC countries through Chief Agents, in the Kingdom of Bahrain (M/s International Agencies Company Ltd.), Kingdom of Saudi Arabia (M/s Al Hamidi Contracting Est. Co.), State of Kuwait (M/s Warba Insurance Company. SAK), Qatar (M/s Investec WLL), and Dubai (M/s Kingstar Insurance Agencies), through the
full - fledged branch office in the Sultanate of Oman (Chief Agent - M/s Gulf Insurance Company LLC).

2. LIC (Nepal) Ltd.:

Nepal Commenced operations in December 2011 by a joint venture with Vishal Group of Industries. The Company operates through 5 Branch Offices at Kathmandu, Birat Nagar, Nepalgunj, Pokhara and Butwal.

3. LIC (Lanka) Ltd.:

A joint venture company with M/s Bartleet Group of Companies, in Sri Lanka commenced operations from March 2012. The company operates through 7 Branch Offices in the cities of Colombo, Gampaha, Jaffna, Anuradhpura, Kandy, Puttalam and Batticaloa, Development Centers and 18 Distribution Outlets.

4. LIC (Mauritius) Offshore Ltd.:

It is a joint venture offshore company promoted by the Life Insurance Corporation of India and the General Insurance Corporation of India. The company is likely to commence operations from this year.

4.15. INSURANCE AND SOCIAL SECURITY

The path of insurance has been evolved to look after the interests of people from uncertainty by providing certainty of compensation at a given contingency. The insurance principle comes to be more useful in modern affairs. It not only serves the ends of individuals, or of special groups of individuals, but also tends to spread through and renovate modern social order. They are

A. Social Security to Individuals

B. Social Security to Business
A. SOCIAL SECURITY TO INDIVIDUALS

1. Insurance Provides Security and Safety

The insurance provides safety and security against the loss on a particular event. In case of life insurance, payment is made when death occurs or the term of insurance is expired. The loss to the family at a premature, death and payment in old-age are adequately provided by insurance. In other words, security against premature death and old-age sufferings are provided by life insurance. Similarly, the property of insured is secured against loss on a fire in fire insurance. In other insurance, too, this security is provided against the loss at a given contingency. The insurance provides safety and security against the loss of earning at death or in old-age, against the loss at fire, against the loss of damage, destruction or disappearance of property, goods, furniture and machines, etc.

2. Insurance Offers Peace of Mind

The security wish is the prime motivating factor. This is the wish, which tends to stimulate to work more. If this wish is unsatisfied, it will create a tension which may manifest itself in the form of an unpleasant reaction causing reduction in "work. The security banishes fear and uncertainty. Fire, windstorm, automobile accident and death are almost beyond the control of human agency and on occurrence of any of these events may frustrate or weaken the human mind. By means of insurance, however, feeling of insecurity may be eliminated.

3. Insurance Protects Mortgaged Property

At the death of the owner of the mortgaged property, the property is taken over by the lender of money and the family is deprived of the use of the property. At the damage or destruction of the property, he will lose his right to get the loan replayed. The insurance will provide adequate amount to the dependents at the early death of the property-owner to pay-off the unpaid loans. Similarly, the mortgagee gets adequate amount at the destruction of the property.
4. Insurance Eliminates Dependency

What would happen at the death of the husband or father, the annihilation of family needs no elaboration. Similarly, at destruction of property and goods, the family would suffer a lot. It brings reduced standards of living and the suffering may go to any extent of begging from the relatives, neighbors, or friends. The economic independence of the family is reduced or, sometimes, lost totally. This can be the more pitiable condition that the wife and children are looking at others more benevolent than the husband and father in absence of protection against such dependency. The insurance is here to assist them and provide adequate amount at the time of sufferings.

5. Life Insurance Encourages Saving

The elements of protection and investment are present only in case of life insurance. In property insurance, only protection element exists. In most of the life policies, element of saving predominates. These policies combine the programs of insurance and savings. The saving with insurance has certain extra advantages:

➢ Systematic saving is possible because regular premiums are required to pay. The saving with a bank is voluntary and one can easily omit a month or two and then abandon the program entirely

➢ In insurance the deposited premium cannot be withdrawn easily before the expiry of the term of the policy. In contrast to this, the saving which can be withdrawn at any moment will finish within no time.

➢ The insurance will pay the policy-holder money irrespective of the premium deposited while in case of bank-deposit only the deposited amount along with the interest is paid. The insurance thus, provides the wished amount of insurance and the bank provides only the deposited amount.

➢ The compulsion or force to pay premium in insurance is so high that if the policy
Holder fails to pay premiums within the days of grace; he subjects his policy as lapsed and may get back only a very nominal portion of the total premium paid on the policy. For the preservation of the policy, he has to try his level best to pay the premium. After a certain period, it would be a part of necessary expenditure of the insured. In absence of such forceful compulsion elsewhere life insurance is the best mode of saving.

6. **Life Insurance Provides Profitable Investment**

Individuals unwilling or unable to handle their own funds have been pleased to find an outlet for their investment in life insurance policies. Endowment policies, multipurpose policies, deferred annuities certainly offer better type of investment. The element of investment i.e. regular saving, capital formation, and return of the capital along with certain additional return are perfectly observed in life insurance. In India, the insurance policies carry special exemption from income tax, wealth tax, gift tax and estate duty. An individual, in his own may not be able to invest regularly with enough of security and profitability. The life insurance fulfils all these requirements with a lower cost. The beneficiary of the policyholder can get a regular income from the life-insurer.

7. **Life Insurance Fulfils the Needs of A Person**

The needs of a person are divided into:

a. Family needs,

b. Old-age needs,

c. Re-adjustment needs,

d. Special needs, and

e. The clean-up needs
a. Family Needs

Death is certain, but the time is uncertain. So, there is uncertainty of the time when the sufferings and financial stringencies may be fall on the family. Moreover, every person is responsible to provide for the family. It would be a more pathetic sight in the world to see the wife and children of a man looking for someone more considerate and benevolent than the husband or the father, who left them unprovoked. Therefore, the provision for children, till they reach earning period and for widow up to long life, should be made. Any other provision except life insurance will not adequately meet this financial requirement of the family. Whole life policies are the better means of meeting such requirements.

b. Old Age Needs

The provision for old age is required where the person is surviving more than his earning period. The reduction of income in old-age is serious to the person and his family. If no other family member starts earning, they will be left with nothing and if there is no property, it would be more pitiable state of affairs. The life insurance provides old-age funds along with the protection of the family by issuing various policies.

c. Re-Adjustment Needs

At the time of reduction in income whether by loss of unemployment, disability, or death, adjustment in the standard of living of family is required. The family members will have to be satisfied with meager income and they have to settle down to lower income and social obligations. Before coming down to the lower standard and to be satisfied with that, they require certain adjustment income so that the primary obstacles may be reduced to minimum. The life insurance helps to accumulate adequate funds. Endowment policy anticipated endowment policy and guaranteed triple benefit policies are deemed to be a good substitute for old age needs.
d. Special Needs

There are certain special requirements of the family, which are fulfilled by the earning member of the family. If the member becomes disable to earn due to old-age or death, those needs may remain unfulfilled and the family will suffer.

1. Need for Education

There are certain insurance policies, and annuities, which are useful for education of the children irrespective of the death or survival of the father or guardian.

2. Marriage

The daughter may remain unmarried in the case of father's death or in case of inadequate provision for meeting the expenses of marriage. The insurance can provide funds for the marriage if policy is taken for the purpose.

3. Insurance Needs for Settlement of Children

After education, settlement of children takes time, in absence of adequate funds, the children cannot be well placed, and all the education may go waste.

e. Clean Up Funds

After death, ritual ceremonies, payment of wealth tax and income tax are certain requirements, which decrease the amount of funds of the family member. Insurance comes to help for meeting these requirements. Multipurpose policy, education, and marriage policies, capital redemption policies are the better policies for such special needs.

B. SOCIAL SECURITY TO BUSINESS

The insurance has been useful to the business society also. Some of the uses are discussed below:

1. Uncertainty of Business and Losses Reduced

In world of business, commerce and industry a huge number of properties are employed. With a slight slackness or negligence, the property may be turned into ashes. The
accident may be fatal not only to the individual or property but to the third party also. New construction and new establishment is possible only with the help of insurance. In absence of it, uncertainty will be to the maximum level and nobody would like to invest a huge amount in the business or industry. A person may not be sure of his life and health and cannot continue the business up to longer period to support his dependents. By purchasing policy, he can be sure of his earning because the insurer will pay a fixed amount at the time of death. Again, the owner of a business might foresee contingencies that would bring great loss. To meet such situations they might decide to set aside annually a reserve, but it cannot be accumulated due to death. However, by making an annual payment, to secure immediately, insurance policy can be taken.

2. Business Efficiency increases With Insurance

When the owner of a business is free from the impact of losses, he will certainly devote much time to the business. The carefree owner can work better for the maximization of the profit. The new as well as old businessmen are guaranteed payment of certain amount with the insurance policies at the death of the person; at the damage, destruction, or disappearance of the property or goods. The uncertainty of loss may affect the mind of the businessmen adversely. The insurance, removing the uncertainty, stimulates the businessmen to work hard.

3. Key Man Indemnification

Key man is that particular man whose capital, expertise, experience, energy, ability to control, goodwill and dutifulness make him the most valuable asset in the business and whose absence will reduce the income of the employer till the time such employee is not substituted. The death or disability of such valuable lives will, in many instances, prove a more serious loss than that by fire or any other hazard. The potential loss to be suffered and the compensation to the dependents of such employee require adequate provision, which is met
by purchasing adequate life-policies. The amount of loss may be up to the amount of reduced profit, expenses involved in appointing and training of such persons and payment to the dependents of the key man. The term Insurance Policy or Convertible Term Insurance Policy is more suitable in this case.

4. Enhancement of Credit

The business can obtain loan by pledging the policy as collateral for the loan. The insured persons are getting more loans due to certainty of payment at their deaths. The amount of loan that can be obtained with such pledging a policy will not exceed the cash value of the policy. In case of death, this cash value can be utilized for settling the loan along with the interest. If the borrower is unwilling to repay the loan and interest, the lender can surrender the policy and get the amount of loan and interest thereon repaid. The redeemable debentures can be issued on the collateral capital redemption policies.

5. Business Continuation

In a business, particularly partnership business may get discontinued at the death of any partner, although the surviving partners can restart the business. But in both the cases the business and the partners will suffer economically. The insurance policies provide adequate funds at the time of death. Each partner may be insured for the amount of his interest in the partnership and his dependents may get that amount at the death of the partner.

4.16 CLASSIFICATION OF INSURANCE COMPANIES

These are establishments, which provide insurance to the people. Insurance Act, 1938 provides a framework for the registration of various insurers. According to it, the following types of insurance companies are allowed in India;
1. Proprietary Companies

Companies having a specified minimum share capital of Rs. 100 crores are incorporated under the Indian Companies Act, 1956 and registered as per section 2(2) 7 A of Insurance Act. All the new players in the field fall under this category.

2. Mutual Companies

Profits of these companies are shared by the policyholders who own them. These are not allowed to operate in India.

3. Co-Operative Insurance Companies

These are registered under the Co-operative Societies Act, 1912. It will also have a share capital of Rs. 100 crores of which foreign entity will not hold more than 26 per cent. [Section 2(2) 8A of Insurance Act, 1938]. No such company has so far been registered.

4. Specialist Companies

An insurance company which opts for some specialized branch of insurance falls under this category. Example can be of Health insurance, Terrorism insurance, etc.

5. Provident Society Companies

With the opening of Insurance to private sectors, the entry of companies has been allowed. A Provident society company is that which writes life insurance policies for a sum up to Rs. 1000 or an annuity up to Rs. 100. This type of company is similar to the industrial life companies in U.K. For such types of Insurance Companies, rules for registration and share capital are different from other types of companies. Refer to sections 65 to 94 of Insurance Act, 1938.

6. Captive Insurance Companies

A large organization may start its own insurance company and pass on its entire insurance business to its subsidiary. This subsidiary will be the Captive Insurance of its Parent Organization. To prevent that captive companies do not become the personal arm of
big houses, IRDA have made it mandatory for these companies to transact at least 50% of its business from outside its parent organization.

7. Composite Companies

A single company doing life and non-life insurance business is called a Composite Company. However, in the interest of business and people IRDA do not allow such companies in India. A separate company for each branch of business can be set up by the same promoters.

8. Government Aided Insurance

There are risks of high magnitude, such as failure of crop, epidemic or catastrophic occurrence, for which no insurance company is capable of undertaking any financial relief. In our country Government have come to finance some schemes through two National Insurers, Examples of such schemes are

a) Scheme for Landless Agriculture Labour Scheme (through LIC)

b) Scheme for borrowers of Rural Integrated Development Programs (through LIC)

c) Crop Insurance through GIC

d) Credit Guarantee Corporation of Government

e) Postal Life Insurance for Government and some special category of employees administered by the Postal Department.
INSURANCE COMPANIES IN INDIA

In total, there are 31 insurance companies operating in India. Of these 15 were general insurance companies and 16 life insurance companies. The following table 4.8 shows the list of all general insurance companies and 4.9 shows life insurance companies.

Table 4.8: The list of all general insurance companies:

<table>
<thead>
<tr>
<th>Sr. No.</th>
<th>Name of the Company</th>
<th>Date of Registration</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td><strong>Public Sector Companies</strong></td>
<td></td>
</tr>
<tr>
<td>1</td>
<td>National Insurance Co. Ltd.</td>
<td>1.1.1973</td>
</tr>
<tr>
<td>2</td>
<td>The New India General Insurance Co. Ltd.</td>
<td>1.1.1973</td>
</tr>
<tr>
<td>3</td>
<td>The Oriental Insurance Co. Ltd.</td>
<td>1.1.1973</td>
</tr>
<tr>
<td>4</td>
<td>United India Insurance Co. Ltd.</td>
<td>1.1.1973</td>
</tr>
<tr>
<td>5</td>
<td>Agriculture Insurance Co. of India Ltd. (only crop insurance)</td>
<td>1.4.2003</td>
</tr>
<tr>
<td>6</td>
<td>Export Credit &amp; Guarantee Corporation Ltd. (only credit insurance)</td>
<td>27.8.2002</td>
</tr>
<tr>
<td></td>
<td><strong>Private Sector Companies</strong></td>
<td></td>
</tr>
<tr>
<td>1</td>
<td>Bajaj Allianz General Insurance Co. Ltd.</td>
<td>2.5.2001</td>
</tr>
<tr>
<td>2</td>
<td>Cholamandalam MS General Insurance Co. Ltd.</td>
<td>15.7.2002</td>
</tr>
<tr>
<td>3</td>
<td>HDFC Chubb General Insurance Co. Ltd.</td>
<td>27.8.2002</td>
</tr>
<tr>
<td>4</td>
<td>ICICI Lombard General Insurance Co. Ltd.</td>
<td>3.8.2001</td>
</tr>
<tr>
<td>5</td>
<td>IFFCO Tokio General Insurance Co. Ltd.</td>
<td>4.12.2000</td>
</tr>
<tr>
<td>6</td>
<td>Reliance General Insurance Co. Ltd.</td>
<td>23.10.2000</td>
</tr>
<tr>
<td>7</td>
<td>Royal Sundaram Alliance Insurance Co. Ltd.</td>
<td>23.10.2000</td>
</tr>
<tr>
<td>8</td>
<td>Tata AIG General Insurance Co. Ltd.</td>
<td>22.01.2001</td>
</tr>
<tr>
<td>9</td>
<td>Star Health and Allied Insurance Co. Ltd.</td>
<td>March 2006</td>
</tr>
</tbody>
</table>
Table no. 4.9: Life Insurers:

<table>
<thead>
<tr>
<th>Sr. No.</th>
<th>Name of the Company</th>
<th>Date of Registration</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td><strong>Public Sector Company</strong></td>
<td></td>
</tr>
<tr>
<td>1.</td>
<td>Life Insurance Corporation of India</td>
<td>01.09.1956</td>
</tr>
<tr>
<td></td>
<td><strong>Private Sector Companies</strong></td>
<td></td>
</tr>
<tr>
<td>1</td>
<td>HDFC Standard Life Insurance</td>
<td>23.10.2000</td>
</tr>
<tr>
<td>2</td>
<td>Max New York Life Insurance Co. Ltd.</td>
<td>15.11.2000</td>
</tr>
<tr>
<td>3</td>
<td>ICICI Prudential Life Insurance Co. Ltd.</td>
<td>24.11.2000</td>
</tr>
<tr>
<td>4</td>
<td>Kotak Mahindra Old Mutual Life Insurance Ltd.</td>
<td>10.01.2001</td>
</tr>
<tr>
<td>5</td>
<td>Birla Sun Life Insurance Co. Ltd.</td>
<td>31.01.2001</td>
</tr>
<tr>
<td>6</td>
<td>Tata AIG Life Insurance Co. Ltd.</td>
<td>12.02.2001</td>
</tr>
<tr>
<td>7</td>
<td>SBI Life Insurance Co. Ltd.</td>
<td>30.03.2001</td>
</tr>
<tr>
<td>8</td>
<td>Ing Vysya Life Insurance Co. Ltd.</td>
<td>02.08.2001</td>
</tr>
<tr>
<td>9</td>
<td>Bajaj Allianz Life Insurance Co. Ltd.</td>
<td>03.08.2001</td>
</tr>
<tr>
<td>10</td>
<td>Met Life India Insurance Co. Pvt. Ltd.</td>
<td>06.08.2001</td>
</tr>
<tr>
<td>11</td>
<td>AMP Sanmar Life Insurance Co. Ltd.*</td>
<td>03.01.2002</td>
</tr>
<tr>
<td>12</td>
<td>Aviva Life Insurance Co. India Pvt. Ltd.</td>
<td>14.05.2002</td>
</tr>
<tr>
<td>13</td>
<td>Sahara India Life Insurance Co. Ltd.</td>
<td>06.02.2004</td>
</tr>
<tr>
<td>14</td>
<td>Shriram Life Insurance Co. Ltd.</td>
<td>17.11.2005</td>
</tr>
<tr>
<td>15</td>
<td>Reliance Life Insurance Co. Ltd.</td>
<td>29.09.2005</td>
</tr>
<tr>
<td>16</td>
<td>Bharti Axa Life Insurance Co. Ltd.</td>
<td>July 2006</td>
</tr>
</tbody>
</table>

Source:- IRDA Annual Report 2005-06.

* Amp Sanmar Life insurance Co. Ltd. Now Converted in Reliance Life Insurance Co. Ltd.
As can be seen from the table, of the 15 general insurers, 9 were private and the remaining 6 public sector companies. Among the life insurers, there was only one public sector company, viz. Life Insurance Corporation of India. The remaining 15 were private life insurers. Prior to the opening up of the insurance sector in 2000, however, there were only two players in the market, the Life Insurance Corporation of India, handling life business and the General Insurance Corporation of India (GIC) dealing with general insurance business, operating through its four subsidiaries, viz., National Insurance Company Ltd., the New India Assurance Company Ltd., The Oriental Insurance Company Ltd., and United India Insurance Co. Ltd. The four subsidiaries have now been delinked from GIC. GIC now operates as the national reinsurer. Unlike an insurance company, a reinsurance company does not accept business from the end customer, but acts as the insurer for insurance companies, thus, helping to pool the risks that are reinsured with it by all the companies.

4.17. OPPORTUNITIES AND CHALLENGES

Insurance is a contract between two parties whereby one party called insurer undertakes in exchange for a fixed sum called premium, to pay the other party called insured a fixed amount of money on the happening of certain event. Insurance indemnifies assets and income. Every asset (living and non living) has a value and it generates income to its owner. The income has been created through the expenditure of effort, time and money. Every asset has expected life time during which it may depreciate and at the end of the life period it may not be useful, till then it is expected to function.

Sometimes it may cease to exist or may not be able to function partially or fully before the expected life period due to accidental occurrences like burglary, collisions, earthquakes, fire, flood, theft etc. these types of possible occurrences are "risks". Future is uncertain; nobody knows what is going to happen? It may or may not? Insurance is the
concept of risk management the need to manage uncertainty on account of above stated risks. Insurance is a way of financing these risks either fully or partially.

4.18. STATUS OF INSURANCE INDUSTRY

Beginning in the year 1818, insurance in India has traveled a long way. At the end of financial year 2001 the insurance business is well entrenched as shown in table.

Table No-4.10 GROWTH OF LIFE INSURANCE BUSINESS IN INDIA

<table>
<thead>
<tr>
<th>Particular</th>
<th>Financial Year</th>
</tr>
</thead>
<tbody>
<tr>
<td>Number of Policies force-million</td>
<td>78</td>
</tr>
<tr>
<td>New Business</td>
<td></td>
</tr>
<tr>
<td>- Number of policies million</td>
<td>12.28</td>
</tr>
<tr>
<td>- Sun assured – Rs. Billion</td>
<td>569.93</td>
</tr>
<tr>
<td>Annual premium receivable – Rs. Billion</td>
<td>33.61</td>
</tr>
<tr>
<td>Life Fund</td>
<td>878</td>
</tr>
</tbody>
</table>


Above table reveals the growth of the life insurance business in India. It gives information about number of policies in force and all details of new business. It also reveals the growth of the life fund during the period of the year 1997 to 2001.

LIBERALISATION

1990’s saw the emergence of liberalization. Liberalization meant lifting government controls, permits, licenses and allowing competition to play its role in the economy. With respect to the insurance business; liberalization means allowing private enterprises, including MNCs to operate in the area, which was hitherto monopolized by the government of India.
As a first step towards allowing private sector entry, government of India appointed a committee, in its report submitted in 1994, recommended, among other things, that the insurance sector in India be thrown open to private sector. Government accepted the recommendation and allowed private players to offer insurance cover to Indian citizens.

Earlier to allow private players to operate, it was necessary to cross the legislative hurdles, such as the passage of the Insurance Regulatory and Development Authority Act 1999 and amendment of life Insurance and General Insurance Corporation acts. These legal requirements being completed with, private players are offered a red carpet welcome to start insurance business. Several MNCs, in Joint Venture with Indian private sector firms, have started operations in a big way. The prominent private players active right now are, ICICI Prudential Life, Max New York Life, KDFC Standard Life, Birla Sun Life, SBI Life and Bajaj Allianz. Their respective market shares are shown in table.

Table No-4.11: MARKET SHARE OF LIFE INSURANCE BUSINESS (As on 2011-12)

<table>
<thead>
<tr>
<th>Overall life insurance business</th>
<th>Private Players</th>
</tr>
</thead>
<tbody>
<tr>
<td>LIC</td>
<td>98.00</td>
</tr>
<tr>
<td>ICICI Prudential Life</td>
<td>40.00</td>
</tr>
<tr>
<td>Max New York Life</td>
<td>14.00</td>
</tr>
<tr>
<td>HDFC Standard Life</td>
<td>12.00</td>
</tr>
<tr>
<td>SBI Life</td>
<td>06.00</td>
</tr>
<tr>
<td>Allianz</td>
<td>04.00</td>
</tr>
<tr>
<td>Others</td>
<td>12.00</td>
</tr>
</tbody>
</table>

Source: Business India, October 28 - November 10, 2011, p.45

Above table reveals the market share of life insurance business as on 2001-02. The table is divided mainly in two divisions.

A) Overall life-insurance business
B) The role of private players. LIC - a public sector unit had 98, %, market share in the life insurance market during the year 2001-02. ICICI prudential Life had 40 % market share in the private sector of life insurance business of India.

**OPPORTUNITIES:** Opportunities of insurance sector after liberalization may be discussed under two heads, viz.

A. Opportunities to LIC

B. Opportunities to Private Players

**A. OPPORTUNITIES TO LIC**

1. Untapped Market

   Only 22% percent of market is covered. Rural and health care Insurance, which presently is untapped, will contribute significantly to the growth of insurance business. According to Shanu Sen, CEO, Quadra Advisory, the rural insurance should be looked upon as an opportunity and no obligation. It is important to take advantage of the immense potential that resides in the rural sector. Stuart Purdy, CEO, Dabur CGU Life Insurance., says it is essential to address the issues of social security policies and risk, management both in the urban and rural sectors of India.

2. Trusted By Customer Credibility / Brand Equity

   LIC has an edge over private players in terms of trust and brand equity. This can be taken advantage by the organization. It should become prorating, aggressive and reach out the people. The survey MARG shows, 67% of respondents are satisfied with service provided by LIC. This is not enough; people seem to be satisfied because they had no alternative. LIC must satisfy this.

3. Wider Agency Network

   True LIC has a wide network of branches and agents. But their reach is restricted and the business generated by the agents fits into the pure to analysis only 5% of agents generate
as much as 80% of business and 95% of agents account for just 20% of business. Make these 95% agents to become productive or show the exit route.

4. Ability to Pay High Bonus on With Profit Policies

LIC is an old company enjoying monopoly all along. It has been running under high profits. At present it can offer high bonus on profit schemes with the comparison of newly entered private players, for whom it is very difficult to pay high bonus.

5. Spread of Risk

LIC has the advantage of spreading the risk over its policies. It can therefore absorb any loss—for example, terrorist attacks and consequent deaths and spread the loss over the policies. This advantage is not available for other players.

6. Bancassurance

Public sector banks in India can emerge as leading players in the distribution of insurance products across the country. With the network of 60,000 branches, two-thirds of which are in rural areas, and their 117 million customer accounts, insurance companies would be well advised to use them as channels for their products, says Karbhajan Singh, Member, IRDA. Bancassurance in India has a great future. Distributing insurance products could be one way of providing them with a basket of services under one roof.

7. Strong Infrastructure

Internet-based business has great potential in life insurance business, in coming years due to its convenience but it will depend on the development of the basic infrastructure. LIC being an old company with good infrastructure, it can develop its future business. It is an opportunity which LIC can take advantage of, especially Banks and NBFCs entering this sector with joint ventures. Retaining and motivating skilled employees will be a great challenge to LIC.
8. Availability of Trained Professional

Scarcity of experts and trained pool of manpower will be a cause of concern for both LIC and newly entered companies. The difficulty in sourcing of human capital with customer care as a prerequisite and high cost of training/recruitment of suitable sales force will limit participation of the new entrant.

9. Premium Charged Can Be Lowered

Earlier LIC was charging high premium for its policy-holders, since it is the only one company offering life insurance. But after liberalization it has charged lower premium on policies and take this as an opportunity for the growth of business.

B. OPPORTUNITIES TO PRIVATE PLAYERS

1. Innovative Products

The schemes offered by the private companies are better alternative to Public Sector Company. General assumption is that private companies provide innovative products at higher cost. So, private players have to take advantage of the new products for capturing the market at cost more or less equal to LICs prices.

2. Increase of Age Limit

LIC is providing policies for only some people who are coming under one particular age, beyond that it is not providing. It means that the people who are coming at a particular age are left out. At the same time public are feeling that the age limit has to be increased. Newly entered companies have to take this as an advantage and they should increase age limits to capture the left out market with little higher premium.

3. Provide Better Service

In a survey conducted by MARG, 67% of the respondents were satisfied with the service provided by LIC. But it might be due to low level of expectation and that is the only company, which provides life insurance business. It means there are customers who were not
satisfied with LIC. Hence new players have to take this as opportunity to capture the unsatisfied customer market through offering better services and other advantages.

4. Health Insurance

Rural and Health care insurance, which presently is untapped, will contribute significantly in growth of insurance business. Particularly, health insurance is another segment with great potential because existing Indian products are insufficient. By the end of 1998 GICs mediclaim scheme covered only 2.5 million people. Indian products do not cover disability arising out of illness or disability for over 100 weeks due to accident. Neither do they cover a potential loss of earning through disability. If private players target this definitely—they will capture this market. At the same time this sector provides a number of challenges, it will also, provide great opportunities.

5. Pension Segment

New players should concentrate on pension segment, since this area is currently not served at all. For instance LIC focuses on the money back segment. Targeting pension segment offers expansion opportunities.

CHALLENGES BEFORE THE INDUSTRY

The new as well as the old insurers will have to face a number of challenges in the liberalized market.

1. Minimum Investment to New Issuers

According to IRDA Act, new insurers will have to invest a minimum capital of Rs. 100 crores. The normal gestation period is five years. The generation of profit normally starts during the sixth year. Hence, the new players will have to be ready for locking up their capital for at least five years before earning any profits.
2. Expectation of the Consumers

At present, LIC is having about 60 products and GIC has about 180 products to offer in the market. But most of them are outdated, as they are not suitable to the needs of the customers. Hence, old as well as new insurers will have to offer innovative products to the customers. The consumers are particularly expecting good pension plans, health plans, term insurance and investment products like unit linked insurance, from the life insurers. In the same way customers expect innovative products from the general insurers for managing health care, property insurance, accident insurance and other products related to personal life of insurance. Hence, all the players in the insurance have to come up with the innovative products, which are suitable for various customers.

3. Distribution Channel

In the liberalized insurance market, there will be multiple distribution channels, include agents, brokers, corporate intermediaries, bank branches, affinity group and direct marketing through telesales and internet. The new players will operate with the help of multiple distribution channels but the old players may be forced to operate only with the help of agents. Hence, intense competition will grow among the old and new insurers in the market to win the consumers. This will pose a great challenge to the insurers in the liberalized insurance market.

4. Consumer Education

After liberalization, the market is flooded by a large number of products by fairly large number of insurers operating in the Indian market. Even with the range of products offered by the LIC and GIC, the customers are confused in the market. Their confusion will further increase in the face of a large number of products, which are offered by the new players. The existing level of awareness of the customer for insurance products is very low, it is so because only 62% of the population of India is literate and less than 10% are well
educated. Even the educated customers are ignorant about the various products of insurance. Hence, it is necessary that all the insurers should undertake the extensive plan for education of customers. This will result in making the awareness of the new insurance which leads to expansion of market.

5. Brand Building

Branding is the new key challenge in the financial services industry. With liberalization of insurance industry, players have to realize the need for branding in a competitive environment. Brand image, is something a company cannot-afford to ignore, if it wants to carve a niche for itself in the long run. It is important that having made a brand promise, a company must identify itself with delivering that brand, lest it lose the opportunity to influence its clientele. Insurance companies need to strive for greater customer focus regardless of whether the customer is the end user or the intermediary. LIC has been successful in creating a strong brand. In rural, India, the LIC is especially synonymous with insurance. But In the wake of competition it has to do a considerable brand building exercise at least in urban India. Brand building is most important for newly entered players. For brand building the companies may incorporate four fundamental building blocks, such as legitimacy, distinctiveness, relevancy and consistency. Brand building is not that much easy but company have to take this as a challenge.

6. E- Service

Internet has brought about a revolution in the way business is done and insurance is no exception to this. According to a recent research by Tower Group 'e-service' will play a vital role in facilitating the process of servicing insurance products. At present 60%to 70 % of online consumers use the internet to research products. The group also expects a significant growth in on line sales by 2005 for which contribution made by generation Y will play an important role. It also expects the personal line property and causality (P&C) premium
resulting from online sales to grow significantly by 2005, approaching 3 to 4.5%, which is more than the current industry estimates of only two percent of premium resulting from online sales. Companies need to take advantage of e-service to serve the consumers online and ensure that the activities are more than mere marketing drives. A better service could pave the way for better selling but companies require a good infrastructure for this. Hence companies have to take this as a challenge and try to go for e-service.

7. Use of Technology

Technology will play a strategic role in providing a competitive edge in aiding design, administering of products and building lifelong customer relationship. Technology will facilitate and helps to create brand positioning. Insurance industry is used to having sophisticated mathematical models and statistics to gauge the risk factor involved in insurance. Now at a time when every business is using technological devices for upgradation of business, insurance sector is not too far behind. Insurance industry is also using high technological equipment but mainly in agro insurance and natural disaster. In a recent court decision of Arkansas the court has given the verdict in favor of insurance company where it had used infrared satellite image to prove its point. Hence, insurance companies have to use Geographical Information System (GIS), Global positioning system (GPS) for fixation of premium and introduction of new products.

8. Bancassurance

It means selling insurance products through banks. This distribution channel today for insurance products is widening. Bancassurance as a major distribution channel is eminent in Asia and it is just a matter of time before it assumes an active role. Synergies of the two financial service viz. banking and insurance, if implemented correctly, can bring vast benefits to stakeholders such as banks, insurance companies, shareholders and consumer, through a wide network of branches, corporate client, customer database, personalized service, rural
penetration, cross selling products, cheaper than agents. So, insurance companies have to enter into agreements with the banks for getting the benefit of Bancassurance.

9. Human Resource Development

Agent's network is conventional channel more prevalent across the world and has been quite successful. But now this network has to become proactive. At the same time IRDA has stipulated that all insurance sales agents have to go through 100 hours training and clear an examination conducted by insurance institute of India. High levels of training and development will be required not just for staff but also for agents and distribution organizations. Existing insurance companies will have to train staff for better service and flexibility, while new players will have to train employees to cope with the products and an intensive use of information technology.

10. Innovative Products

LIC's products are outdated, in the sense that public are expecting insurance for different requirement. At the same time mutual funds have picked up in late 1999. So, LIC should take initiative and go into new innovative capital market solution like catastrophe bonds, equities, funds, derivatives, group family insurance, hybrid products to attract new segment of customers. Of course new players have already come up with innovative products; still they have kept an eye on LICs products and come up with innovative products.

11. Concentration on Rural Areas

Malhotra committee advised that new entrants in life insurance should be required to transact a certain minimum business in rural areas. There is a need to spread life insurance much more widely and particularly to the rural areas, and to the socially and economically backward classes with a view to reaching all insurable persons in the country and providing them, at a reasonable cost, adequate financial cover against risks. Rural and health care insurance, which presently is untapped, will contribute significantly towards growth of
insurance business. It is important to take advantage of the immense potential that resides in
the rural sector. LIC as a major company in life insurance business with 48930 rural agents
can definitely be taken as opportunity. At the same time this sector provides a number of
challenges, and provides great opportunities.