CHAPTER - 2

LIFE INSURANCE IN RETROSPECT AND PROSPECT
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LIFE INSURANCE IN RETROSPECT AND PROSPECT

SECTION - I

HISTORY OF INSURANCE

The word insurance is not new to our society. It is as old as our civilization is our ancestors were practicing the insurance in some way or the other. The instinct to secure themselves against loss and disaster existed in primitive men also. They, too, sought to avert the evil consequences of fire and flood as also loss of life and were willing to make some sort of sacrifice in order to achieve security.

The references to this phenomenon were available in Indian religious scriptures like Hammurabi and Manusamrities, The term “Yogakshema” is used in the Rig Vedas suggesting that some form of community insurance over 3000 years ago existed in India. Aryans in India covered various sorts of risks through mutual Insurance. Also during the Mohan Jodaro Civilization and after India’s trade extended to Babylon and beyond, the merchant guilds at important trading centers devised means to insure ships and caravans.

In the Eighteenth century some societies began to be formed in England with the object of granting Life Assurances. The Amicable Society (1705), The Equitable Life Assurance Society (1762), the Westminster Insurance Society (1792) were some important societies
Life Insurance in Retrospect and Prospect

sprouted in the initial stages of insurance development. The application of the mortality tables in 1755 by Dodson and the introduction of actuarial science revolutionized the whole concept of life insurance. As the life assurance became better known, a practice grew up of speculation in lives, particularly of well-known people, like kings, national leaders or prisoners (particularly, if charged with an offence that would call for capital punishment upon conviction). The premiums varied with their reputation and state of health. If persons of this category fell seriously ill, a huge amount of insurance was written. In order to put an end to this speculation, with its attendant evils, an act called the "Life Assurance Act" (commonly known as the Gambling Act) was passed in 1774. This Act prohibited all insurance on lives except those satisfying insurable interest requirements.

Life Insurance in India

The life insurance business in India started in the 19th century. It came to India from England in the year 1818. The Oriental Life Insurance Company started by the Europeans in Calcutta was the first life insurance company on Indian soil. Later the Bombay Life Assurance Company Ltd., was formed at Bombay in 1823. Then came another organization to conduct the business of insurance. It was named as "Madras Equitable Life Insurance Society and Established in 1829.

In the beginning, the number of life insurance companies was small and the scales of operations were also very limited. In fact, all the insurance companies established in India were European companies. They were brought up with the purpose of looking after the needs and for the benefit of European civilians and Soldiers Indian natives were
not having insured by there companies. Occasionally, they also issued policies on Indian lives with the efforts of eminent Indians. The very first policy on Indian life was issued in 1845 by the “Royal Insurance” in favor of “Gursetjee. But Indian lives were having treated as such standard lives and heavy extra premium were charged against them.²

Indians entered into business of insurance quite late. The Bombay Mutual Life Insurance Society was the first Indian insurance venture formed in 1871. The high charge of premium on Indians lives British insurance companies was considered unfair and discriminatory by the Indian companies. The Indian insurer Bombay Mutual Life Assurance society was the first one to charge normal rate for covering Indian lives.

To popularize insurance in India, need was felt to instill confidence in the mind of general public about the safety of their money handed over as premium to the private insurer. The Government of India rose to the occasion and entered into the life insurance business. The first Government organization assuring lives of the people of India was established in 1873. It was christened as the Oriental Governmental Life Assurance Company. The required confidence was filled by the state-backed Corporation in the minds of the Indian small savers. Security of premium fund in the hands of the Government made the life insurance attractive to the people. Besides measures were taken to popularize the life insurance in the masses. These included educating the people with regard to the value of insurance. It was highlighted that insurance not only covered life risk but also serves as an investment with return, safety and liquidity to the small savers. As a result the insurance business got a fillip. The temptation of the people to go in for life insurance started growing. This induced the entry of the other
entrepreneur in the life insurance business. A number of life insurance organizations sprouted in India after the formation of Oriental Government Life Insurance Company in 1873. Before the end of the century, the Indian insurance industry comprised a number of life insurer. Noteworthy among them were the Indian Life Insurance Co. of Karachi established in 1896, followed by the Empire Insurance Co. of India established at Bombay in 1896 and the Bharat Life Insurance Co. incorporated in 1896 at Lahore.

In the beginning the progress of Indian Insurance Companies was slow in terms of their number as well as volume of business. The factors responsible for the slow growth of Indian insurance concerns were many and varied. Firstly, there was severe business competition from the foreign companies, which had management experience and expertise in the field of insurance. Secondly, the resources available to Indian insurers for operation in comparison to British insurers were meager and scarce to get. Thirdly, the foreign insurance companies had influenced the minds of Indians so much so that they felt more secure and confident in the hands of British concerns than the Indian concerns. Finally, the British concerns enjoyed the patronage of the government which helped them to do better than their Indian counterparts.

The Swadeshi Movement started in the beginning of the twentieth century in 1905 by India’s National Leaders turned the tide in favor of the Indian insurers. The Movement was a prelude to the struggle for independence of the country. It exhorted the Indians to make a boycott of the foreign goods and services and share their use. The Movement urged the Indians to produce, buy and consume indigenously produced Indian goods and services. The appeal of the
Movement touched the emotions of Indians and they started giving preference to the products made in India. The benefits of this Swadeshi Movement obviously were reaped by Indian producer of goods and services. The insurance sector of India was behind to none in being beneficiary of the Swadeshi Movement.

Quite a large number of insurance companies came into being and appeared on the insurance map of India in the wake of Swadeshi Movement. In a short span of time between 1905 and 1912 alone, 38 life insurance companies were formed all over the country. These included the United India Insurance Co. in Madras, National Insurance Co., Calcutta, and the Cooperative Assurance at Lahore which came up in 1906. The Hindustan Cooperative insurance company took birth in Calcutta in 1907. The Indian Mercantile, General Assurance and Swadeshi Life (later Bombay life) were some other insurance companies established during the period ending 1911. Besides, during the same period about 500 provident societies were also floated. In term of geographical spread, these insurance companies and provident the societies covered all important cities of India.3

The private ownership of the insurance companies and provident societies was, however, not conducive to the growth of the insurance business in India. It was fraught with difficulties in regulation of the business and administration of funds as well as sound management of these enterprises. As a result sickness started creeping in the financial and administrative health of these Indian insurance organizations. Soon, as many as 26 Life insurance companies out of the 38 established under the impact of Swadeshi Movement closed down within a short period of time. Likewise, many of the five hundred provident societies
set up by Indians in response to the call of Swadeshi Movement came to a halt soon after their inception.

Alarmed by the sickness of the life insurance companies and Provident fund societies, the Government of India became alert to take measure to safeguard the interest of both the buyers and sellers of life assurance. Deliberations into the causes of sickness and ultimate failure of insurance companies and societies brought to fore the urgent need to device a mechanism that regulated the administrative and financial management of these concerns. This led the Government to ponder in terms of enacting a law to meet the required end, as also to exercise a measure of control on the organizations dealing in life insurance business in the country. Accordingly, the Government of India passed the first Insurance Act called the Life Insurance Companies Act in the year 1912. Another Act called the Provident fund Act was also passed the same year. The insurance business now came under the regulation and control of the Government through this Act.

The passage of Act of 1912 was a landmark in the insurance history of India. The Life Insurance companies Act of 1912 made it necessary that the premium rate tables and periodical valuations of companies should be certified by an actuary. But the Act discriminated between foreign and Indian companies on many counts, putting the Indian companies at a disadvantage. As a result the hope and promise it kindled for the growth of insurance industry in India did not last longer. Soon after the enforcement of Act, the world plunged into a catastrophe of economic destruction and ruin. The First World War started with furious consequence as it proceeded ahead. There was all round devastation. The economies of war stricken countries were badly
shattered. The monster of global inflation took its own toll. The world monetary system was adversely affected. The currencies of the countries depreciated in value to a considerable extent on account of high degree of inflation which pervaded into the economies of countries which had to finance the War. Money value slide down and impacted the industrial sector very adversely and to a great deal. Corporations dealing in financial securities, like the insurance companies bore the most severe brunt of steep depreciation in the value of national currencies. The Indian life insurance companies could not help encounter the situation and their very survival came in jeopardy. The life insurance sector, nascent as it was, suffered a serious set back. The investment of funds of life insurance companies considerably depreciated in value and they had to suffer severe losses. As a result, a number of insurance companies came to grief and closed down.

Some Indian Insurance companies, however, faced the scourge of war and inflation successfully and survived. They kept in operating, but difficulties gradually besieged them. The financial health of these companies deteriorated and they also became actuarially unsound. The experience gained so far of the business in insurance sector, however, brought to fore the areas to the notice of the government which required to be looked into for improvement. The loopholes in the initial Insurance Act of 1912 also came to light which needed to be plugged in the interest of both insured and the insurer as well as growth of the insurance business. The government of India, accordingly, seized the pressing need for further toning up the earlier legislation governing the insurance business. A new Insurance Act thus, came into force in the year 1917.4
The 1917 Act was a landmark for the development and growth of insurance business in the country. The Act was, in fact, a legal step taken in the direction of regulating the insurance business in India. It lent stability and strength to the business enterprises dealing in insurance. Backed by the legislation the policyholders as well as potential subscriber were encouraged to make investment in insurance securities. The new insurance environment favourably moulded the perception of both the insurer and the insured. In fact, the 1917 Act put the insurance business on sound footing and proved instrumental in ushering the growth of insurance companies. Both, the Indian as well as foreign insurance enterprises entered into the insurance market with their own insurance plans and life policies. The boom period was, however, short lived and lasted for a couple of years. In 1919 again a severe competition started between foreign and Indian insurers. With their huge financial resources, better management practice and state patronage; the foreign insurance concerns were better run. They came in a dominating position and the insurance market was mostly captured by them. The competition had pushed up the management expenses of Indian insurance companies and their cost of operation started mounting up. Many of the Indian insurance business houses could not survive this onslaught. Small and financially sick organizations closed down. The better-organized and financially sound Indian insurance companies, however, continued operating.

A significant trend in the life insurance was visibly started from 1930 onwards. By now the Indian insurance companies had gained experience and expertise. They were well established and entrenched in insurance market. This encouraged them to expand their business as
well as the reach in and out of India. The Indian insurers searched and found out virgin markets in other countries with good scope of life insurance business. Thus, they entered into these markets and established their offices. Indian insurance companies were not only now operating in India but started doing business outside India also. They started insuring lives in British East Africa and in the countries of near east. The Indian insurance companies offered attractive terms and bonuses to policyholders. This boom in insurance business saw the growth of insurance organizations. During the decade 1929-1938 alone, as many as 172 insurance companies were floated all over the country. However, the end of 1938 changed competitive scene with new symptoms emerging in the insurance business. The competition among the Indian insurers themselves had begun. The Indian actuaries were faced with two-pronged competition in the market. They had now on the one hand to compete with foreign insurers and on the other, faced internecine competition amongst Indian insurance companies themselves. In the reckless competition they completely ignored the principles of constant vigilance, strict economy, careful management, skilled underwriting and, above all, the principles and criteria of investment in order to create confidence among the policyholders to exercise a closer control over the numerous matters of the management, investment of funds and expenditure of insurance offices.5

The government enacted a fresh insurance Act in 1938, which was an improvement over the 1917 Act. The Act provided for the establishment of the Department of Insurance under the authority of the Superintendent of Insurance (Later designated as Controller of Insurance). The main feature of the Act was that for the first time in the
history, the whole business was unified and controlled by statutory rules and regulation at government level. In 1947, with the attainment of independence the growth of insurance business became the responsibility of the State. A committee headed by Sir Cowasjee Jahangir was appointed by the then government to enquire into the acquisition of control of insurance companies, the manipulation of their funds on acquisition, and the possible repercussion of the interlocking of fund between banks and insurance companies. The Insurance Act 1938 sought, among other things, to place restriction on investment of funds, to prohibit interlocking of funds of insurance and banking companies and to limit their expenses. The Act succeeded in checking the expansion of insurance business in unhealthy directions.

Soon after independence in 1947 India embarked upon a planned economic development of the country and launched the First Five Year Plan in 1951. The country required substantial funds which only an organized Insurance Sector could have provided. Unfortunately, a large number of cases involving misuse of their offices by the directors were noticed. One of the most important lacunas was that no effort was at all made by the life insurers to penetrate into the rural areas.

It is important to mention here that the government Postal Development also participated in life insurance business. The post offices issued the life insurance policies. The postal insurance represented the government participation in India in life insurance business. Thus in fact, Postal insurance dated back to 1883. It was instituted by the government for the benefit of postal employees. The maximum amount on a single life policy was fixed at Rs. 4,000. Later on the government servants sought enhancement of amount and the
maximum limit was raised to Rs.12000. Endowment life policy was issued by the post office. The aggregate sum of postal life policies had crossed Rs. 3000crores in 1954.

The life insurance business, however, was dominantly in the control of private enterprises. As the insurance business involved less capital investment, more and more entrepreneurs entered into the insurance sector. The industry saw mushroom growth of private firms selling life insurance to Indian people. There were as many as 254 private insurance companies in India operating in the year 1956.6

Insurance business being solely in the private sector, the public funds used to go into the hands of private enterprises. Some unscrupulous element in these enterprises however, indulged in malpractices, which were prejudicial to the financial interest of the general public. Lack of the public confidence stared creeping into the insurance business. Many companies frittered away the financial resources garnered as insurance fund from the public overlooking the interest of the policyholders. Some companies were charged with embezzlement and defalcation of funds. Many individuals who controlled the insurance business utilized the funds of these insurance companies for investment in other ventures of their own vested interest disregarding the loss of the industry and the policyholders.

The government of India, therefore, had to take steps to safeguard the interest of the policyholders as well as to ensure that the insurance funds flow to the right productive channels for the economic development of the country as the planning era had already started. The insurance sector represented one of the country’s important capital.
formation bases which mobilized savings. The government, therefore, took the decision to nationalize the insurance business in the best interest of the policy holders and the nation.

Thus started the new era making the important phase in the history of life insurance in India leading to the birth of monolithic organization which came to the known as “Life Insurance Corporation of India” (LIC). Henceforth, the ownership / control and management of life insurance business completely shifted into the hands of Government of India. The following Section-2 is devoted to the discussion of LIC, which assumed a pride of place amongst the India’s public sector organizations. The genesis of LIC, its objectives and functions, organization and management, economic and social role, etc. are dwelt upon in this section.

SECTION – II

The Life Insurance Corporation of India (LIC)

The Life Insurance Corporation of India (LIC), came into existence primarily out of economic necessity. Elimination of unhealthy competition in insurance business due to the existence of a multitude of Indian and foreign private insurer, sometimes leading to malpractices detrimental to the insured, and introducing a uniform norm of insurance business for all people throughout the country were other reasons of secondary importance but not of less significance.

Soon after independence, the government of India embarked upon the process of planned economic development of the country. The
planning commission formulated Five year development plans for the
growth of different sectors of the Indian economy, special emphasis
was given for the development of core sectors, of agriculture, industry,
social and economic infrastructure. The implementation of the planned
programmes of development required huge financial resources. The
Government of India felt the dire necessity to raise adequate funds
which could be channelized to finance the development of core
economic sectors. Capital formation was, thus, the pronounced need of
the time.

Capital formation, however generally involves there distinct but
inter-dependent activities, viz. Savings, financial and investment. In a
developing economy the functions of savings and investment are
disintegrated. Those who save (surpluses units in the economy) are
separated from those who invest (deficit units in the economy). To
bridge the gap between savers and investors intermediaries are
required. The financial intermediaries are the agencies which perform
this economic function. Saving institutions like the insurance
companies, commercial and cooperative banks, post offices, pension
and provident funds administration, are the institutions established to
function as intermediaries between the savers and investors. The
financial institutions assume considerable importance in the process of
economic development as they take upon themselves function of capital
formation on the one hand and providing funds to investors on the
other hand. The roles of financial intermediaries envisages that they
assemble the scattered savings in the economy from the surplus units
(the savers) and build up a huge pool of the institutionalized savings.
Various types of financial securities suiting the aspiration of different
types of savers are devised by these financial intermediaries to attract the savings. These financial securities are then exchanged with the savings of the surplus units. In this process, the financial intermediaries create for the saver a financial obligation upon themselves. The garnered saving transform into a pool of invest able funds into the hands of financial intermediaries. The investment of these funds by financial intermediaries is made through the process of acquisition of investors securities like; shares, bonds, gilt-edge securities, etc. as well as for funding the Government to finance the development plans.

Thus, the Life Insurance Corporation of India (LIC) came into existence as of economic necessity as a financial institution of primary importance to garner the dispersed savings in Indian economy for capital formation required to finance and sustain the economic development of the country.

Sight cannot be lost of the other factors of no less importance that guided the government to take over the insurance business from the private companies into state ownership and control. The scenario of life insurance business at the time of independence of the country reflected the existence of a large number of private players, both foreign and Indian, operating in the insurance market. Keen competition between Indian insurance companies rendered the adherence by them to standard norms of actuarial business not possible. Insurers followed their own strategies of attracting customers and for marketing their insurance securities. The requirements of adequate premium commensurate to the risk had to be sacrificed by insurance companies in their keenness to out compete each other in securing business. Higher risks were insured at low premiums. Administrative and
establishment expenses were higher and not competitive with the volume of business gained by the companies. The investment decisions of the accumulated large insurance funds which are extremely critical for the society and for the companies themselves were not sound under the pressure of competition. The overall impact for all this fell on their profitability which started eroding. Failure, sickness and success amongst the private insurance companies became more usual than exception. This was a situation not considered by the government conducive to the promotion of life insurance sector. Also, the much needed capital formation in adequate measure could not have been possible in such an environment. Nor could the accumulated large insurance funds in the hands of numerous insurance companies be channelised for investment in the planned development programmes. Streamlining and reforming the insurance business was the call of the time and the government rose to the occasion.

Nationalization of the life insurance business in India was the decision rightly taken by the Government of India in the year 1956. The decision was in consonance with the concept of socialist pattern of society pursued by the then government of the Congress Party in India. It was necessary in order that the interest of the insuring public and the industry could be safeguarded, the country's economy promoted and more funds provided for economic development.

However, the 'general insurance' business which included the fire insurance, accident insurance, automobile insurance, etc. was left into the hands of the private companies. But the government had made it clear that it would be watching the general insurance practices carefully. If things did not improve, it might consider nationalization of
general insurance business, too. And the ultimate had to happen. Dissatisfied with the practices and performance of general insurance companies, the government first imposed ‘Social Control’ in 1968, which armed the government with wide saving powers to monitor and regulate the working of general insurance concerns. Later, in 1971, the government took the final step towards nationalization of general insurance business also. The General Insurance (emergency provisions) Act was enacted in 1971 which provided the first stage of takeover. By virtue of the Act, the government assumed the management of the existing insurance companies. The second stage consisted of complete take over of the assets, liabilities and staff of the general insurance companies. This was done by enacting the General Insurance Business (Nationalization) Act of 1972. Thus, the nationalization of the life business as well as of the ‘general insurance’ was complete.

Formation of LIC

The policy of nationalization of life insurance business leading to the formation of Life Insurance Corporation of India was legislated in two phases. Under first phase, on Jan. 19, 1956, the government promulgated the life insurance (Emergency Provisions) ordinance 1956. Under the second phase, the government took steps to established a national level institution for the purpose of looking after the life insurance business. On September 1, 1956, by an Act of parliament, namely, the Life Insurance Corporation Act, 1956, the government established the LIC to function as the only institution to deal with the life insurance business in India. While it was legislated that the LIC should be closely monitored by the government, its management was allowed to have sufficient autonomy. It was to enjoy a monopoly in
respect of the life insurance business but it was directed to function as far as possible on business principles. In fact, the LIC was set up as an autonomous organization.\(^7\)

**Objectives of LIC**

The goals to achieve by forming the Life Insurance Corporation emanate from the necessity of establishing the organization. Capital formation was the basic economic objective so that unutilized savings could be garnered and available to the government for financing the planned economic development programmes. In addition, the Corporation was to redeem other related socio-economic objectives of no less importance to the country. These aims include.\(^8\)

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

2. To maximize mobilization of people’s saving by making insurance-linked savings adequately attractive.

3. To conduct business with the utmost economy and with full realization that the moneys belong to the policyholders.

4. To act as trustees of the insured public in their individual and collective capacities.

5. To meet the various life insurance needs of the community that would arise in the changing social and economic environment.

6. To bear in mind, in the investment of funds, primarily obligation to its policyholders, whose money its hold 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 a community as whole, keeping in view national priority and obligation of attractive return.

7. To involve all people working in Corporation to the best of
their capability in furthering the interest of the insured public by providing efficient service with courtesy.

8. To promote amongst all agents and employees of the Corporation a sense of participation, pride and job satisfaction through discharge of their duties with dedication towards achievements of corporate objective.

Capital Structure

The Life Insurance Corporation of India was formed as a primary financial institution in the public sector as a Government of India undertaking. Keeping with this nature of the Corporation as a Central Government Body, the initial capital was contributed by the Central Government of the country. It was incorporated with a capital Rs. 50 million from the Government of India.

Organization Structure

The LIC is a body corporate with characteristics features of perpetual succession and a common seal. At the top of its organization structure is the Board of Directors which consists of members not exceeding 15 appointed by the Central Government, with the authority to conduct the insurance business subject to the direction of the Central Government. The Central office of the LIC is located at Bombay. LIC’s organization structure at a glance has been presented in the chart which reflects that directly under the Board is the Managing Director. He is the Chief Executive, Advisor and Liaison officer of the Corporation. For discharging its functions effectively, various Central Committees, have been formed which are advisory bodies and deal in specialized functions related to the administration and management of the organization. For instance, there are committees rendering advise on subjects like Executive, Budget, Investment, Legal, Personnel,
Policyholders, Building and development. The Corporation is authorized to constitute such other committees as it may consider necessary for effective working.

Geographically, the Corporation has been organized into seven zones spread to cover the whole country. These Zonal offices are located at Mumbai, Delhi, Calcutta, Chennai, Hyderabad, Kanpur and Bhopal. Besides, the Corporation operates through Divisional Offices established in important cities of the country. Today, there are 100 Divisional offices which function under the direction of the Zonal offices to which they are assigned.

The Corporation has a network of branches with a reach to the people in villages and small towns. So far, the strength of the Corporation’s branches is 2,048 spread over the whole country. The Corporation has a huge workforce to fetch insurance business. Its human resource is a combination of cadre employees engaged on permanent basis in its employment as well as those who have self-employed themselves by working as agents of the Corporation on commission basis paid on the life insurance business fetched by them for the Corporation.
ORGANIZATION OF LIFE INSURANCE CORPORATION

CHAIRMAN

Board of Director

Zonal Advisory

Managing Director

Executive Committee

Budget Advisory Committee

Investment Committee

Legal Advisory Committee

Personnel Advisory Committee

Policyholder Service Advisory Committee

Building Advisory Committee

Development Advisory Committee

North Zone (Zonal Manager)

Central Zone (Zonal Manager)

Eastern Zone (Zonal Manager)

Southern Zone (Zonal Manager)

Western Zone (Zonal Manager)

Divisional Manager

Divisional Manager

Divisional Manager

Divisional Manager

Divisional Manager

Branch Manager

Branch Manager

Branch Manager

Branch Manager

Sub-Office

Sub-Office

Sub-Office

Sub-Office

Sub-Office
The total number of employees in the employment of Corporation is 1.24 lakhs which confers on the Corporation the status of one of the largest employers in India. Besides, more than 5.59 lakhs active agents are spread all over the country selling the life insurance products of the Corporation. The Corporation has also established extensive training facility at all level for the grooming, refreshing and orienting its workforce for marketing the life products with new strategies and conviction to the buyers. At the apex level, the Corporation owns and runs the Management Development Institute, seven Zonal training centers and 35 training centers.9

Functional Areas

LIC's functional organization set up is based on the identification of functions to be performed as the nature of insurance business necessitates. The accompanying Chart depicts the functional areas of the LIC. The central office takes care of the functions related to the overall planning, administration and control of the countrywide activities of the Corporation. These include a variety of important functions such as Organizational, Actuarial, Finance Accounts, Audit Inspection, Development, Investment; Personnel, Legal, Foreign Business, Product Designing, etc. The Zonal Offices monitor and guide the Divisional Offices under them. They take care of such functions as Accounts, Building, Personnel, integration of business activities and administrative working, etc. The Divisional offices oversee as well as direct the branch office assigned to carry out the overall policies of the Corporation and achieve the goals set and targets of business. The branches are in fact in the forefront operating in the insurance market.
Functional Areas of LIC
Central Office (Bombay)

Accounts  Integration  Actuarial  Internal  Buildings  Organizational  Development  Personnel  Investment  EDP  Legal & Mortgage  Foreign  Publicity

ZONAL OFFICE

Accounts  Buildings  Development  Integration  Legal & Mortgage  Personnel

DIVISIONAL OFFICE

New Business  Policyholders Servicing  Accounts  Development  Establishment  Machines  Legal & Mortgage

BRANCH OFFICE

New Business  Policyholders Servicing  Accounts  Development  Establishment  Sub-Office  Development Centre
They are the important sales outlets. Marketing of insurance products and fetching the business for the Corporation is the chief function of the branch establishment. According, the functional areas of branches include carrying out such basic activities as the procurement of new business, maintaining Branch Accounts, Policyholders servicing, dealing with insurance agents, branch personnel and development, etc.

**International Operations of LIC**

Besides the mammoth domestic operations, the LIC of India operates abroad directly through its branch offices at Wembley in U.K., Port Louis in Mauritius and one each at Suva and Lautoka in Fiji.

LIC has also established three overseas joint venture subsidiaries namely LIC (International) E.C. at Bahrain, LIC (Nepal) Ltd. at Kathmandu in Nepal and LIC (Lanka) Ltd. at Colombo in Sri Lanka.

The Corporation's foreign branches at U.K., Mauritius and Fiji together with the three subsidiaries at Bahrain, Nepal and Sri Lanka have shown an impressive growth in the new business in the year 2002-03. The overseas units, despite the global recession have collectively secured 28987 policies with sum assured of Indian Rs. 7938 million and have mobilized first premium income of Indian Rs. 1175 million. They registered a growth of 68%, 51.4% and 82.1% in number of policies, sum assured and first premium income respectively.

**LIC (International) E.C.B. Bahrain**

LIC (International) E.C., the first overseas subsidiary of the Corporation was established in 1989 at Bahrain to cater to the life insurance needs of NRIs in Gulf countries. The company has been
operating in the States of Bahrain, Saudi Arabia, Kuwait and Dubai through chief agents and in Qatar through broker arrangement. Recently the Corporation entered into an agreement appointing M/s. Gulf Insurance Agencies Co. as LIC subsidiary Sultanate of Oman. With the expansion, the company has achieved its coveted goal of having presence in all the GCC countries. The subsidiary at Oman has since its inception has issued 70,069 policies for a sum assured of US $502.33 million.

**LIC (Nepal) Ltd.**

As part of the international expansion programme, the Corporation established LIC (Nepal) Ltd., a joint venture between the LIC of India and the Vishal Group, a leading industrial group of Nepal on 3rd December 2001 at Kathmandu, Nepal. The company has made significant inroads in the Nepal Life Insurance market and has since its inception completed as at 31st March 2003 an impressive business of 11264 policies with a sum assured of Nepal Rs. 196.24 crores and first premium income of Nepal Rs. 9.29 crores. The company made its first public issue in August 2002 which was over subscribed by more than 16 times. It is an eloquent testimony to the efficient way in which the operations have started and to the brand image of LIC. The company contemplates a major geographical expansion programme in the near future and has already established a new branch at Birat Nagar in Nepal.

**LIC (Lanka) Ltd.**

LIC (Lanka) Ltd., the latest joint venture company of the Corporation in partnership with M/s. Bartleet & Co. Ltd., the reputed
Sri Lankan business group, was established on 1st March 2003. The company has in a short period has already opened, besides its existing branch at Colombo, 2 branches at Jaffnaan. Efforts are on to open two more branches at Triconnamali and Batticola in the current financial year.

Globalization of LIC

LIC has strategically decided to give thrust to its international operations and spread its wings to more countries. With this end in view, a Five Year Strategy has been prepared with a phase wise programme for expansion in the international arena. Currently the company is engaged in the exploration of new markets such as USA, Africa, Australia, New Zealand and South East Asian countries. It has planned to increase the share of international business to the total business of LIC to the extent of 2% in a period of 5 years and to 5% in the next 10 years. The aggressive marketing strategies adopted by the LIC have already started bearing fruits much earlier than expected. The share of international business has jumped almost three times from 0.43% to 1.21% in the year 2002-03.

With the impressive performance of the Corporation both in domestic market and abroad as well, LIC is marching ahead with confidence towards achieving its coveted vision of a "transnationally competitive financial conglomerate" and for increasing its share in the Global Life Insurance Market.  

New Era of LIC

Over four and a half decades from 1956 to 2000, the life insurance remained the monopoly of the Life Insurance Corporation
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of India. It functioned as a monolithic financial institution in the insurance sector with exclusive right to conduct the life insurance business in the country. No challenge or competition ever came to be confronted by the Corporation during such a long period. Tapping of the life insurance potential in the country was the sole domain of the LIC. The government laws fully protected the Corporation as the entry or participation in any form of the Indian and foreign insurers into life business were completely banned. However, this monolithic business environment could not last longer for the Corporation. Ultimately it came to be phased out when India signed the General Agreement on Trade and Tariff (GATT) and later joined the World Trade Organization (WTO) in 1995. A new era ushered in as, under the covenants of the GATT and WTO, the protected economy had to be converted into an open and laissez faire economy in the member countries of the WTO. This necessitated reforms towards re-structuring of the Indian economy. The socialist pattern of economy started dismantling in favour of capitalistic pattern introducing privatization in production and distribution system. Initiative was started early nineties to open wide the Indian market for free entry and exit of foreign and domestic companies into manufacturing, trade and services as well as other sectors of the economy. And insurance sector was no exception. It had also to fall in line for reforms. This impacted the status of LIC. The following Section-3 is devoted to the discussion of new era brought about by reforms in the insurance sector and the impacted change in the status of LIC.
SECTION-3

Economic Reform in the Insurance Sector

This section discusses the economic reforms carried by the Government of India in the insurance sector and presents the current scenario as has emerged in the insurance industry in general, and in the life insurance segment in particular, in the wake of reforms introduced in the Indian economy towards liberalization and globalization.

India embarked upon economic reforms from the beginning of the decade of nineties. Wide ranging changes in the economic policies were made in the direction of liberalization of Indian economy. The regime of licenses, regulations and controls is being phased out and replaced by the free entry and exit, privatization and participation by multinational in various economic sectors. Industrial licensing has been virtually abolished and is now restricted to only few specified industries mainly for security, safety and environmental reasons. The requirement of special approval for establishment and expansion of industrial capacity for Foreign Exchange and Management Act companies and for large houses under the Monopoly and Restrictive Trade Practices Act has been dispensed with. Industrial areas exclusively reserved for public sector have been greatly reduced. To raise resources and encourage wider public participation, part of the governmental shareholdings in selected public sector units is being offered to the general public. Under disinvestment policy some of the chronically seek and unprofitable units have been sold out to private entrepreneurs. Inflow of direct foreign investment is being encouraged. Approval for foreign equity up to 51 % in a number of specified industries is available on an automatic
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basis. Individual cases involving foreign equity participation over 51% can now be approved by the Foreign Investment Promotion Board. Automatic permission is also given to foreign technology agreements subject to specified limits.

Reforms have brought in a decisive change in the thrust of trade policy. Imports of large number of items have been permitted under the 'Open General License' policy. Quantitative restriction on imports of raw materials, components, intermediate and capital goods have been drastically reduced and, in certain other cases compatibly done away with. Tariffs are being gradually lowered. Canalization of imports and exports has been reduced and export incentives simplified. The environment has been made conducive in which should improve the economy’s competitiveness and export orientation.

Restructuring of financial sector also was affected and the rupee has been made convertible on trade account. Convertibility of rupee on capital account remains under active consideration of the government to attract larger inflows of Foreign Direct Investment (FDI). Reforms have been brought in the banking sector, telecom sector and insurance sector. As this study specifically concerns itself to the insurance industry, it confines itself to a discussion of the reforms in the insurance sector.

Need for Insurance Sector Reforms

The environment created by wide ranging reforms in other sectors of economy contributed to the necessity of re-structuring the insurance sector also. The life and general insurance business had been the State monopoly for a long time past. The sector was governed and
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controlled by the Central Government. The Life Insurance Corporation and the General Insurance Corporation with its four subsidiaries were gigantic undertakings in the public sector.

Under the impact of economic reforms beginning from 1991, a majority of areas previously reserved for the public sector were thrown open to the private sector to strengthen the forces of competition. The banking industry where only Indian banks had been operating was made open to foreign banks. Innovative banking products created by foreign and private banks were introduced in the Indian market. Vast coverage and deeper reach to the potential customers in the remote urban areas with attractive profitable securities enhanced the volume of business in the banking industry. Most significantly, the competition grew in the banking sector. Higher level of efficiency, quick and convenient services liberal facilities of deposits and withdrawals at any branch of the bank and in some cases even into bank financial transactions in any part of the country were the new trends emerging in the banking industry.

A similar trend was also evident among non-banking financial institutions including leasing companies, mutual funds, merchant banks and other intermediaries dealing with securities business.

In contrast, life and general insurance business remained state monopolies. There was virtually no competition in insurance industry. The consumer of insurance was not being provided a wider choice. Liberalization of insurance sector was considered as the only option to introduce competition in the industry. Benefits of competition could then reach the consumers in terms of range of insurance products.
lower price of insurance covers and better customer services. Besides, the liberal reforms would contribute to the overall growth of insurance sector which had hitherto been stagnant in its activities, products and services being under the State ownership.

The Government of India, therefore, recognized that it was necessary to address the need for reforms in the insurance sector which is an important part of the overall financial system.

Committee on Reforms of Insurance Sector

In furtherance, therefore, of the initiative in the area of financial reforms the Government constituted the "Committee on Reforms of Insurance Sector" in April 1993. As the committee was headed by R.N Malhotra, It came to the known as the Malhotra committee. The committee was assigned the task of making recommendations in the direction of reforms in the insurance sector. The terms of reference required the committee:¹¹

(I) To examine the restructure of insurance industry and assess its strength and weakness in terms of the objective of creating an efficient and viable industry;

(II) To make recommendations for changes in the structure of insurance industry keeping in minds the structural changes carried out in other parts of financial system in the economy;

(III) To make specific suggestions regarding LIC and GIC which would help to improve functioning of these organizations in the changing economic environment;
(IV) To review the present structure of regulation and supervision of insurance sector and to make recommendations for strengthening and modernizing the regulatory system in tune with changing requirement;

(V) To review and make recommendations on the role and functioning of the surveyors, intermediaries and other ancillaries of the insurance sector; and

(VI) To make recommendation on such other matters as the committee considers relevant for the health and long term development of the Insurance sector, or which are consequential on other recommendations including changing the legislation where necessary.

The committee elaborately reviewed the working, performance and current status of the insurance industry. The committee was very realistic in its approach to deal with the task on hand. A market survey was conducted on sample selection basis among users of life insurance to assess their perceptions, to find their satisfaction levels with LIC and to elicit their reactions to the possible liberalization of the life insurance sector. The market survey also covered LIC's corporate clients, i.e. those who use its services for its employees. Agents and users were also included in the survey. The market survey brought forth a variety of findings. It revealed that awareness level of various plans of LIC was quite limited even among the policyholders. In regard to ingredients of operations-related services, a large majority of respondents said that while premium receipts were received punctually, they did not get policy documents for a long time after application, that they did not get premium/default
notices in time and that premium receipts and policy documents had a lot of mistakes. There was a feeling that LIC took long time to send payments on maturity. The general consensus was that LIC offered a range of policies suited to the policyholders, yet it was also felt that the premia is too high, that yields on policies were not good. The agents and development officers were perceived to be very helpful at the initial stage of selling a policy but the enthusiasm wore off later on after the policy was bought. LIC branches were stated to be not conveniently located. 72% of corporate respondents favored private sector entry in the area of life insurance and 60% of them preferred a mix of public and private life insurance companies.

On the positive side, it was stated that LIC had achieved several of the objectives of nationalization: it had spread the insurance culture fairly widely; mobilized large savings for national development and financed socially important sectors like housing, electricity, water supply and sewerage; acquired considerable financial strength and gained confidence of the insuring public and had built up a large talented pool of insurance professionals. At the same time, several negative perceptions and constraints were mentioned. These indicated, for example, that the vast marketing services network of LIC was inadequately responsive to customer needs; insurance awareness was low among the general public; marketing of life insurance with reference to customer needs left much to be desired; term assurance plans were not being encouraged and unit linked insurance was not available; insurance covers were costly and returns from life insurance were significantly lower compared to other savings instrument due to, inter alia, excessive government directed investments of LIC funds; the
marketing organization was weak and turnover of agents extremely high. There was excessive lapsation of policies. While the coverage of the 'insurable population' did go up from 10% in 1971 to 22% in 1992, there was still a vast untapped potential. LIC management was top heavy and excessively hierarchical, especially at the central and zonal offices, the supervision and control functions in the organization had considerably weakened; LIC was overstuffed; work culture within the organization was unsatisfactory; trade unionism had contributed to the growth of restrictive practices; failure to adequately computerize had seriously affected the efficiency of the organization and the quality of customer service; LIC's functioning was constrained in some respects as it was covered by the definition of 'State', Governmental interference also affected the organization's functioning; LIC had became too big to be managed efficiently.

Insurance Regulatory and Development Authority (IRDA)

The government of India guided by the Malhotra Committee reported took the momentous decision to open the Insurance Sector to the private participation also in April 2000. Under the new dispensation the LIC is to function as an Insurance institution of the public sector and private insurance companies will function as insurance institution of the private sector.

In the wake of privatization in the insurance sector necessity was felt of a body to regulate and control the insurance business since it involved the public interest which required to be protected by the Government with the under view the Government of India established the Insurance Regulatory and Development Authority.
IRDA Organization – An Overview

IRDA is a body corporate having perpetual succession and a common seal with power to acquire, hold and dispose of property and to contract. It consist of a Chairperson and other members not exceeding nine in number, of whom five shall serve full time, to be appointed by Central Government from amongst persons of ability, integrity standing who have knowledge or experience of life insurance, general insurance, actuarial science, finance, economies, law, accountancy, administration or any other discipline which, in the opinion of the Central Government, shall be useful to the authority.

The Chairperson and other whole time members shall hold office for the term of 5 years or until the age of 65 years in the case of Chairperson and 62 years in the case of other whole-time members, whichever is earlier and they shall be eligible for re-appointment subject to age consideration. A part-time member shall hold office for the term not exceeding 5 years.

Entry of Private Players

With the setting up of the IRDA as a statutory body for the regulation and development of the insurance sector the way was formally cleared to open the private players entry into the insurance sector from April 2000. The first few registration certificates to private players were issued in October 2000. The process of de-monopolization opened wide vitas with the advent of the private players. A brief account of the new private entrants in the insurance sector from 2000 to 2005 is presented below.
## Details of Life Insurance

<table>
<thead>
<tr>
<th>S. No.</th>
<th>Name of the Company</th>
<th>Types of the Business</th>
<th>Date of commenced business</th>
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<tbody>
<tr>
<td>1.</td>
<td>Life Insurance Corporation of India (LIC)</td>
<td>Public Sector</td>
<td>1956</td>
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<tr>
<td>4.</td>
<td>OM Kodak Mahindra Life Insurance Co. Ltd.</td>
<td>Linked Business, Non-Linked Business, Health Insurance, Both Individual &amp; Group Insurance</td>
<td>17.05.2001</td>
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<tr>
<td>8.</td>
<td>SBI Life Insurance Co. Ltd.</td>
<td>Linked Business, Non-Linked Business, Health Insurance, Both Individual &amp; Group Insurance</td>
<td>15.06.2001</td>
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<td>10.</td>
<td>MET LIFE INDIA Assurance Co. Ltd.</td>
<td>Linked Business, Non-Linked Business, Health Insurance, Both Individual &amp; Group Insurance</td>
<td>04.01.2002</td>
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<td>12.</td>
<td>AVIVA Life Insurance Co. Ltd.</td>
<td>Linked Business, Non-Linked Business, Health Insurance, Both Individual &amp; Group Insurance</td>
<td>06.06.2002</td>
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<td>15.</td>
<td>Sahara India Life Insurance Co. Ltd.</td>
<td>Linked Business, Non-Linked Business, Health Insurance, Both Individual &amp; Group Insurance</td>
<td>N.A.</td>
</tr>
<tr>
<td>17.</td>
<td>BHARATI AXA Life Insurance Co. Ltd.</td>
<td>Linked Business, Non-Linked Business, Health Insurance, Both Individual &amp; Group Insurance</td>
<td>N.A.</td>
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## Details of General Insurers

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<td>Public Sector</td>
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### Changing Character of Insurance Industry

The reform affected in the insurance sector has actually changed the whole complexion of the industry. The new wind is blowing all over the insurance sector in the Indian economy and the emerging scenario is broadly marked by the following development.\(^\text{12}\)

1. The character of the industry has changed in the wake of transaction from a controlled to a competition-driven market;

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<th>Company</th>
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<td><strong>Private Sector</strong></td>
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</table>

Source: IRDA Annual Report 2004-05
II. Several new players have entered the industry both domestic and foreign. The foreign insurers have entered though the joint venture route mostly;

III. Special privileges enjoyed by public sector insurance undertakings have been done away with. The LIC and the general insurance units have been rendered at par with private insurers in the free market;

IV. The range of insurance products and services has widened;

V. The industry now closely regulated but not controlled;

VI. The public sector units, LIC and four subsidiaries of GIC, have, for the first time, came into keen competition with private insurers in the market;

VII. The General Insurance Company (GIC) has been re-designated as the national re-insurer and has ceased to do any direct business in India.

The most significant and potentially influential development is that because of emergence of severe competition market dynamics are changing fast. There has been tremendous development of the insurance sector in terms of the market, volume of business, the number of players and the products and services offered by them, accompanied by market innovations and professionalism. Not only products but contents of products have also been upgraded to make them more relevant for a competitive environment. Insurance is now tied to mutual funds and retirement plan schemes.
There is blending of Insurance with other financial services. The opening up provides a new business opportunity to banks as well. Bancassurance is catching up as new product of insurance. The concepts involve merging of the two activities of banking and insurance and the sale of such securities by the banks. It may provide cost effective banking and insurance products to a common customer. In future, Bancassurance could be an important factor in promoting the growth of the life insurance industry. The State Bank of India (SBI) and the Vysya bank have already received approval from Reserve Bank of India (RBI) to enter in insurance business.

In developing countries, where social security for old age and savings instruments like pension are not available, aspects of savings and investments predominate. As markets mature, share of risk oriented products increases. A similar development is occurring in India where hopefully there is a marked trend towards planning for risk.

With high technology, risk of various types have emerged and increased. There are about 400 major risks underwritten in India. They need professional management services. As of now Tata Risk Management Services, Loss Preventions Association of India and some other are rendering such services. Under the changed environment of free market, the development of risk management business is fast picking up.

Striking changes have taken place in marketing outfits and strategies of insurance products. With the survival of agency system now in the general insurance business, and the entry of brokers, the
market strategy has undergone a change. The general insurance company focuses more attention to the underwriting and claim satisfaction function.

As the needs of the society change people seek new ways to satisfy those needs. The organization that obtains a clear view of what needs exist as well a clear conception of how best to satisfy them, will be the organization that will survive and thrive in the emerging environmental scenario in the insurance sector of India.

The insurance institutions are financial intermediaries. They mobilize the scattered savings of the society and pool them at one place. Insurance companies therefore, serve the most significant economic function of the capital formation for financing development projects for economic growth. The next chapter is devoted to a detailed study of the institutional nature of LIC its working products, their features and the composition of its life policy portfolio.

References:

9. Ibid. (7)
11. Malhotra Committee on Reforms of Insurance Sector”, Government of India