Chapter – 1
Overview Of Insurance And Life Insurance Corporation Of India
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1. INTRODUCTION

Insurance could also be represented as a social device is scale back or eliminate risks of loss to life and property. It's a provision that a prudent man makes against inevitable contingences, loss or misfortune. Beneath the arrangement of insurance, an oversized variety people associate themselves by sharing risks connected to individuals as in camera life; in business additionally there are dangers and risks of various sorts. The aim of every kind of insurance is its build provision against such dangers. The risks which might be insured against embrace hearth, the perils of ocean (marine insurance), death (life insurance) and accidents and felony. Any risk contingent upon these could also be insured against at a premium a commensurately with the chance concerned. Thus, collective bearing of risk is insurance.

Yogakshema Vahamyahan, the illustrious words from Lord Krishna discourses at Kurukshetra, is that the catch phrase. LIC has convincingly used of these years in its monopoly avatar as a sole life insurance firm, “Your welfare is our responsibility”, is what LIC proclaims through its catch phrase. Ever since the life assurance trade was nationalized in one956 and therefore the life assurance Corporation (LIC) born on 1st April, 1956, the monopoly grew in size and stature with each passing decade. From fifty seven hundred thousand policies operating in 1957 is a few 985 hundred thousand by the tip of year 2002-03; the LIC has come back an extended manner.

In an amount of half a century, the insurance sector within the country has come back a full circle from being associate degree open competitive market to finish nationalization then back to a liberalized market. The entry of personal players within the Indian insurance market has modified the character of competition and therefore the vigorous firms of those players have hyperbolic client awareness. This has junction rectifier to speedy increase in insurance business and a sizeable gain of this has additionally been reaped by LIC.

The insurance trade in Asian country is currently open and therefore the new players have already started capturing the market share of the LIC. One estimate is that the LIC has lost some 18% already by the tip of 2004-05. With relevancy higher than reasons, the “Researcher” has set to travel through the study of the performance of LIC when the easing policy regime as and additionally to look at the impact of personal players within the
insurance sector. So researchers section of drawback relies on this issue i.e. performance analysis of LIC.

Before evaluating the performance of LIC on various issues, allow me to perceive concerning Insurance.

1.1. RISK
Risk is an inevitable part of insurance business. Therefore it is necessary to get detail idea about it. It can be clarified on the basis of its meaning and concept which is discussed as follows:

1.1.1. CONCEPT
The term risk could also be outlined because the risk of adverse results flowing from any prevalence. Risk arises out of uncertainty. It may also represent the likelihood of associate degree outcome being totally different from the expected. The state of associate degree in terminate outcome is inexplicit the definition of risk as a result of the end result should be in question. Once risk is alleged is exist, there should always be a minimum of 2 attainable outcomes. If it's illustrious certainly that a loss can occur, there's no risk. A minimum of one among the attainable outcome is undesirable. This could be a loss within the typically accepted sense within which one thing a private possesses is lost or it should be a gain smaller than the gain that was attainable.

The term risk is employed in insurance business is additionally mean either a peril to be insured against (e.g. hearth could be a risk to that property is exposed) or someone or property protected by insurance.
1.1.2 DEFINITION OF RISK:-

The word "risk" has been outlined in many various ways in which by economists, insurance manager, and students.

A. According to Knight, "Risk as measurable uncertainty".
B. According to M. Ahmad, "Capability to estimate risk considers the way to beat any reasonably unsure burden and manage the organization for the sake of future survival".
C. According to Willett, "Risk because the objectified uncertainty concerning the prevalence of associate degree undesirable event."
D. According to Pfeiffer, "Risk as a mix of hazards measured by chance."

According to above definitions it's evident that the chance involves nature of unsure losses, because it is viewed in an exceedingly physiological development that's which means full in term of human experiences and reactions. In our own way it may also be viewed as associate degree objective development which will be or might not be recognized as we tend to are unsure concerning many sorts of losses which will or might not occur for causes nevertheless to be recognized.

1.2 ORIGIN AND DEVELOPMENT OF INSURANCE

Insurance is as old as mankind. But when researcher has decided to find out the performance analysis of insurance sector, particularly LIC, at that time it becomes important to find out that when was this sector started it first business and how it developed. In this point, researcher has tried to find out history and emergence of insurance sector.

1.2.1 HISTORY OF INSURANCE WITHIN THE WORLD

There prevails ambiguity for the introduction of insurance sector in the world. No one actual know when the insurance transaction started. There is lot of antiquity about the origin of the insurance sector. However, there are certain evidences found in different countries are enough to believe that the earliest form of insurance was Marine Insurance. Evidences are also on record that arrangements embodying the ideas of insurance were being practiced in Babylon and India, centuries ago, where traders were encouraged to assume the risks of caravan trade through loans that were repaid only after the goods have arrived safely. Gradually, with the
growth of towns and trade in Europe, the medieval guilds undertook to protect their members from loss of fire and shipwreck, to ransom them from captivity by pirates, and to provide decent burial and support in sickness and poverty. By the middle of the 14\textsuperscript{th} century, as evidenced by the earliest known Insurance contract (GENOA 1347), marine insurance was practically universal among the maritime nations of Europe. In London Lloyd’s Coffee House (1688) was a place where merchants, ship owners and underwriters met to transact business. By the end of the 18\textsuperscript{th} century Lloyd’s had progressed into one of the first modern Insurance companies. Insurance developed rapidly with the growth of British commerce in the 17\textsuperscript{th} and 18\textsuperscript{th} century. Prior to the formation of corporation devoted solely to the business of writing Insurance, policies were signed by a number of individuals each of whom who wrote his name and the amount of risk he was assuming underneath the insurance proposal. The first stock companies to engage in insurance sector were Charter in England in 1720, and in 1735 the first Insurance Company in the American colonies was founded at Charleston, S.C. Fire Insurance Corporation were formed in New York city (1787) and in Philadelphia (1794). The Presbyterian Synod of Philadelphia sponsored (1759) the first life insurance corporation in America. In the 19\textsuperscript{th} century many friendly or benefit societies were founded to insure the life and health of their members, many employer sponsored group insurance policies for their employees such policies generally include not only life insurance but sickness and accident benefits, old age pensions, and the employee contributed certain percentage of premium. Since the late 19\textsuperscript{th} century there has been a growing tendency for the state to enter the field of insurance, especially with respect to safeguarding workers against sickness and disability, either temporary or permanent, destitute, old age and unemployment. The U.S. government has also experimented with various types of crop insurance, a land mark in this field being the Federal Crop Insurance Act of 1938. In World War II the government provided life insurance for members of the armed forces, since then it has provided other forms of insurance such as pensions for veterans and for government employees.

Insurance awareness has led people to save in policyholders’ and pensioners’ funds in financial markets, which thereby not only protect them, but also lead to overall development of the country. Countries with a robust insurance sector, higher capital base and more diverse products deem to have generated long term funds for investment in their debt and capital
markets. Further, it has been observed that these countries have also released resources for investment, particularly for the infrastructure sector.

*References are also available in Hammurabi Manu (Manav Dharma Shashtra). The word ‘Yogakshema’ used in ‘Rig-Veda’ suggested that some form of community insurance was being carried on by the Aryans in our country well over 3000 years ago. The existence of burial society also acknowledge that insurance played significant role in Buddhist period when it used to help the family of a deceased person by building a house and protecting the widows. Marine insurance came earliest than fire insurance and life insurance came and lastly other forms of insurances were developed in the world.*

*Life Insurance had its starting in ancient Rome,* wherever voters formed burial clubs that will meet the ceremonial expenses of its members similarly as facilitate survivals by creating its payments.

*The first stock company to induce into the business of insurance was leased in England in 1720. Within the year 1735 saw the birth of the primary insurance underwriter in yank Colonies in Charleston. In 1759, the Protestant council of Philadelphia sponsored the primary life assurance Corporation in America. However, it had been when 1840 that life assurance very took off in an exceedingly huge manner.*

The nineteenth century saw vast developments within the field of insurance with the newer merchandise being devised to satisfy growing desires.

1.2.2 History of Insurance Sector in India:

The story of insurance is probably as old as mankind. The same instinct that prompts modern business today to secure themselves against loss and disaster existed in primitive men also. They too sought to avert the evil consequences of fire and flood and loss of life and were willing to make some sort of sacrifice in order to achieve security. Though the concept of insurance is largely a development of the recent past, particularly after the industrial era, past few centuries, yet its beginning date back almost 3000 years.
In India insurance has a deep – rooted history. It finds mentions in the writings of Manu (Manusmrithi), Yagnavalkya (Dharmasastra) and Kautilya (Arthasastra). The writings talk in terms of pooling of resources that could be re – distributed in times of calamities such as fire, flood, epidemics and famine. This way probably it was a pre – cursor to modern day insurance. Ancient Indian history has preserved the earliest traces of insurance in the form of marine trade loans and carriers’ contracts. Insurance in India has evolved over time heavily drawing from other countries, England in particular.

Life Insurance in its modern form came to India from England in the year 1818. Oriental Life Insurance Company started by Europeans in Calcutta was the first life insurance company on Indian soil. All the insurance companies established during that period were brought up with the purpose of looking after the needs of European community and Indian natives were not being insured by these companies. However, later with the efforts of eminent people like Babu Muttyalal Seal, the foreign life insurance companies started insuring Indian lives. But Indian lives were being treated as sub – standard lives and heavy extra premiums were being charged on them. Bombay Mutual Life Assurance Society heralded the birth of first Indian Life Insurance Company in the year 1870, and covered Indian lives at normal rates. Beginning as Indian enterprise with highly patriotic motive, and to carry the message of insurance and social security through insurance to various sectors of the society, insurance companies came into existence. Bharat Insurance Company (1896) was one of such companies which were inspired by nationalism. The Swadeshi Movement of 1905 – 1907 gave birth to few more insurance companies. The United India in Madras, National Indian and National Insurance in Calcutta were established in 1906. In 1907 respectively, Hindustan Co – operative Insurance Company took its place in one of the area of the Jorasanko, which is part of house of the great poet Rabindranath Tagore, in Calcutta. During the same period few other companies like The Indian Mercantile, General Assurance and Swadeshi Life (which later became famous as Bombay Life) were established. However, this era was dominated by foreign insurance companies like Albert Life Assurance, Royal Insurance, Liverpool and London Globe Insurance, which did good business in India, and the Indian offices were set up later on for hard competition from the foreign companies.

Before 1912 India had no legislative regulation to regulate insurance business. After seeing requirements, in the year 1912, the Life Insurance Act, and the Provident Fund Act were
The Life Insurance Companies Act, 1912 made it compulsory that an actuary should certify premium rate tables and periodical valuation of companies. But the Act proved discriminated between foreign and Indian companies on many accounts, putting the Indian companies in a position of disadvantage.

The government of India started publishing returns of Insurance Companies in India in 1914. The first statutory measure to regulate life insurance business was The Indian Life Assurance Companies Act, 1912. 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 1928, The Indian Insurance Companies Act was enacted. With a view to protecting the interest of the insured, in 1938, the earlier legislation was consolidated and amended with The Insurance Act, 1938 with comprehensive provisions for effective and efficient control over the activities of insurer.

Principal Agencies were abolished by The Insurance Amendment Act of 1950. There were, however, a large number of insurance companies and the level of competitions were very high. There were many allegations of unfair trade practices. Therefore, the government of India has decided to nationalize insurance business.

An ordinance was issued on 19\textsuperscript{th} January, 1956 for nationalizing the Life Insurance sector and in the same year Life Insurance Corporation came in to existence. The LIC consolidated 154 Indian, 16 non-Indian insurers as even 75 Provident Societies – which rounds up to 245 Indian and foreign insurers in all. The LIC enjoyed monopoly till the late 90’s when the insurance sector was reopened to the private sector.

This millennium has witnessed insurance sector come a full circle in the journey extending to nearly 200 years. In the early 1990s, the process of re-opening of the sector had begun and particularly the last decade has seen it been opened up substantially. In 1993, the government set up a committee under the chairmanship of R N Malhotra, who was former Governor of RBI, to suggest recommendations for reforms which can be implemented in the insurance sectors. The aim was to complement the reforms initiated in the financial sector. The committee submitted its report in 1994 and in that report, with other things, it recommended that the private sector should be permitted to enter the insurance industry. It also stated that
foreign companies should be allowed to enter, preferably as a joint venture with Indian insurance companies.

*In 1999, the Insurance Regulatory and Development Authority (IRDA) was constituted as an autonomous body* for regulation and development of the insurance industry, following the recommendations of the Malhotra Committee report. *It was incorporated as statutory body in April, 2000.* The main objectives of the IRDA include the promotion of competition to enhance customers’ satisfaction through increased consumer choices and lower premiums, simultaneously ensuring the financial security of the insurance market.

In August, 2000, the IRDA opened up the market with the invitation for applications for registrations. *Foreign companies were allowed the total ownership of up to 26%.* The *IRDA has the power to frame regulations under section 114A of the Insurance Act, 1938 and from the year 2000 onwards it has framed various regulations* from registration of companies for carrying on insurance business to protection of policy holders’ interest.

*The Insurance Sector is growing at a speedy rate of 15 – 20% and is a colossal one.* Along with banking services, insurance services add about *7% to the country’s total GDP.* A well developed and evolved insurance sector is a boon for economic development because it provides long term funds for infrastructure development at simultaneously strengthening the risk taking ability of the country.

*The history of Insurance sector is classified on the premise of following amount:*

*A. Before Independence*

*B. After Independence*

*C. During Globalization Period*

**A. BEFORE INDEPENDENCE**

Indian national congress and different Swadeshi Movement started in the earlier part of 20th century, which became cause for refusal of getting English merchandise and therefore the matter became root cause for preferring Indian insurance companies. Because of this reason, several Indian insurance companies came into existence. Indian insurance business arouse up
through the primary war on Indian life, the national, some distinguished were The Hindustan Co-operative, The urban center Life. The Asian Life and therefore the General Assurance

Many industrialists of India started their own insurance firms between the year 1919 to year 1932 and credit for this goes to the recession in the Indian economy. In 1919, New Asian country was started by the TATA group and Lalaji Narnji started The Jupiter General in the same year. Each of them was the distinguished results of that economic recession. ‘LAXMI’, ‘VULCAN’, ‘THE BRITISH INDIA’, ‘THE ZENITH’ were different firms that had started their insurance business from that amount.

Until the primary war, the transactions of insurance firms were negligible. Then when the position began to vary, eruption of Second war aroused up the speedy progress of Indian Insurance business.

Till the year 1920, the number of the Indian firms transacting in insurance business were solely 80. It had been hyperbolic up to concerning 240 till the Second war., in order that government appointed a committee beneath the leadership of Sir Cowasjee Jahangir to look at the insurance structure because speculative business was additionally concerned within the insurance firms by themselves through monetary irregularities. The committee found out that the insurance firms weren’t operating satisfactorily as it should function.

B. AFTER INDEPENDENCE

There have been 218 head offices in India and 12 in India in 1946 i.e. at the time of independence of India which was followed by partition. As per demand of time, the network of insurance sector was drastically modified. The insurance act was sent to government in 1956. The time duration between the years 1952 to the year 1955 was the time of pre nationalization of insurance underwriter. Because of slum in Jute, Tea and different cash crops, the Indian insurance firm wasn't in satisfactory condition. In the last year of pre nationalization era i.e. 1955, the total business of insurance sector was Rs. 2207 crores on sum of 749000 policies. The total investments were merely Rs. 318.9 crores.
The government of India took decision of nationalization of insurance business in 1956 by holding management of all 245 firms existing then. All insurance firms continued to exist as separate entities and in addition to this the possession also continued till the life assurance act came into existence on 1st September, 1956

India is one of that the initial country in the whole world which nationalized the life insurance business. The objectives of insurance sector were as follows:

- To ascertain socialistic pattern of society
- To provide complete security to the policy holders. To avoid mal practices.
- To protect the interest of national

C. DURING GLOBALIZATION PERIOD

The insurance sector was regulated in accordance with the economic policy of the government’s industrial policy of 1990 which was the milestone for economic process similarly as easing. In April, 1993 government created a high level committee headed by Shri. R. N. Malhotra, to suggest reforms within the insurance sector and to build insurance sector economical and competitive. The committee counseled the institution of a robust and effective and efficient insurance administrative body within the variety of a statutory autonomous board on the guidelines of SEBI.

In 1999, the insurance sector unfolded for personal firms in life similarly as Non-life insurance firms. It had been followed by the institution of IRDA (Insurance Regulative and Development Authority) in April 2000. The foreign firms looked upon the untapped profit potentials in Indian insurance business and rush up here.

1.2.3 Growth of LIC since 1956 till Today:

It was a time when India was trapped between two worlds – the one dead and the one struggling to take birth. The princely states were crumbling and new states and enterprises were taking shape. The past had certainly collapsed but not many agreed with the foresight of the visionaries. In such scenario a swift but sure decision to nationalize life insurance in India
was taken in the year 1956 to save the insuring public from the morbidity and rampant malpractices of some life insurer of that time and energize the new India that was emerging. The tiny flame that was kindled on the 1st September 1956 has provided Indians the warmth of security and care for almost six decades and is all set to enter the second half of the century.

The year 1956 bought along a defining moment in India’s social engineering attempts and marked the beginning of a new base in the history of Life Insurance of India that was conceived in a genuine spirit of service to people. The Life Insurance Corporation of India, born on the 1st September that year, is now in its fifty seventh year if service. Almost six decades that stands today as narratives of many glorious achievements have not been without turmoil and troubles. When the Corporation started its journey as a merged entity, there were a number of formidable problems. Beginning from establishing a unified organizational structure to achieving emotional integration of staff absorbed from offices of erstwhile life insurers – there were problems that had no readymade answers. But the valiant efforts of LICians, over generations, succeeded in effectively surmounting every impediment and today the Corporation can, with pride, look back upon the magnificent achievements.

LIC’s past has been great. In competitive era the path to progress traverses through the customer’s heart. The West may have suddenly waked – up to Relationship Marketing coupled with professionalism only can satisfy today’s discerning customer. LIC has remarkably improved its customer servicing in the past few years – it settle about two claims every second – but let the numerical expressions and comparison delight economists and financial experts.

The growth of Life Insurance Corporation of India is a saga of faith – the faith of LIC’s founder, DR. C.D.Desmukh, that nationalization of life insurance would script an era of wider coverage and ethical practices – the faith of the first generation of LICians, who struggled against all odds but were sure of laying a firm foundation – the faith of the next generations of LICians who not only built a strong structure but added newer chapters of achievement with every passing phase, and most important of all, the faith of LIC’s policyholders who have ensured LIC’s market leadership even after re-entry of private companies in the Indian insurance market.
In the year 1956 i.e. in the initial year of LIC, the corporation had 5 Zonal offices, 33 divisional offices and 212 branch offices, apart from its corporate office. As the life insurance contracts are normally long term contracts and for the payment of the policies, it requires a variety of services and that is why the need was felt in the later years to expand the operations and commence new branch offices at each district headquarters. Re – structuring of corporation took place and many new branch offices were opened up. As a result of this, servicing functions of corporation were transferred to the branches, and all these branches were made responsible for accounting units also. It proved miraculous with the performance of the corporation. It is visible from the new business of LIC which reached to about Rs. 200.00 crores in 1957 and the corporation already crossed total new business of Rs. 1000.00 crores only in the year 1960 – 70, and it took only next 10 years to LIC to cross Rs. 2000.00 crores mark of new business. With re – structuring process happening in the early 1980s, by the end of the year 1985 – 86, LIC had already crossed marvelous Rs.7000.00 crores sum assured on new business through new policies.

At present the corporation functions with 2048 fully computerized branch offices, 109 divisional offices, 8 zonal offices, 992 satellite offices apart from the corporate house situated at Mumbai. Wide Area Network of corporation covers its 109 divisional offices and connects all the branches through a Metro Area Network. To offer an on – line premium collection facility in selected cities, LIC has tied up with many Banks and Service Providers. LIC’s ECS and ATM premium payment facility is an additional advantage to customer convenience. Apart from on – line Kiosk and IVRS, info Centers have been commissioned at Mumbai, Ahmadabad, Bangalore, Chennai, Hyderabad, Kolkata, New Delhi, Pune and many other cities. LIC has introduced its SATELLITE SAMPARK OFFICES (SSO) with a vision to provide easy access to its policyholders. The satellite offices are smaller, leaner and closer to customers’ reach. The digitalized records of the satellite offices will facilitate servicing from anywhere and many other conveniences in the future course of time.

Even in the liberalized situation of Indian insurance, LIC continues to be the dominant life insurer and is moving faster on a new growth and it is surpassing its own past records. LIC has issued more than one crores policies during the year 2004. It has already crossed the
milestone of issuing 1,01,32,995 new policy by 15th October, 2005, registering a healthy growth rate of almost 16.67% over the corresponding period of the previous year.

1.2.4. Evolution of Insurance during Nationalized Era: 1956-2000: Need for Nationalization:

National Planning was modeled after seeing the results of Soviet Union, was implemented after India became independent in 1947. It was more evident in the Second Five Year Plan which was implemented by the then Prime Minister Jawaharlal Nehru. The vision was to have main industries under direct control of government with a view to facilitate the implementation of National Planning. Insurance business as a matter of fact, any financial service was not seen to be of any strategic importance. Therefore, there are two important questions we need to focus at. Firstly, why did the nationalization of insurance sector was done by the government in 1956? Second, why government did not nationalized general insurance at the same time?

First of all lets deal with the first question. On the basis of the document produced by Mr. H. D. Malaviya called “Insurance Business in India” on behalf of the Indian National Congress, The genesis of nationalization of life insurance was done. He had written a many books and this was one of the more obscure ones in that document; he had made four important claims to justify that why nationalization is required. First, he stated that insurance is a “cooperative enterprise,” under a socialist form of government; therefore, it is more suited for government to be in insurance business on behalf of the “people”. Second, he argued that Indian companies are overly expensive. Third, he stated that private competitions have not improved services to the “public” or to the policyholders. Fourth, very high lapse ratios of life policies were leading to “national waste.”

Out of all his arguments, his argument related to the high cost of Indian insurers is the only one which he beefed up with proper data. Others were made in vague terms. Therefore, we need to take a closer look at his evidence of data. Based on certain data, he tries to present what he called “overall expenses” of insurance business operation in India, USA and UK. His calculations are shown in Table 1.2.4.1. He showed that it costs Indian insurers 27%-28% of premium income for insuring lives whereas in the USA, the corresponding figure is 16%-17%. In the UK, it is even lower at 13%-14%. On the face of it, this argument seems
watertight. Unfortunately, this is not the case. On closer inspection on how the numbers were arrived at, we find that for the calculation, the denominator used for India is not the same used for the USA or the UK. Specifically, for the Indian numbers, the denominator uses premium income only, whereas, for the other two countries, the denominator uses total income that includes premium income and investment income (as is customary world over).

Table 1.2.4.1

Overall Expenses of Life Insurance Business in India, USA and UK
(All figures are in percentages)

<table>
<thead>
<tr>
<th>Year</th>
<th>India</th>
<th>USA</th>
<th>UK</th>
</tr>
</thead>
<tbody>
<tr>
<td>1950</td>
<td>28.9</td>
<td>16.8</td>
<td>13.0</td>
</tr>
<tr>
<td>1951</td>
<td>27.2</td>
<td>16.5</td>
<td>14.1</td>
</tr>
<tr>
<td>1952</td>
<td>27.1</td>
<td>16.7</td>
<td>14.2</td>
</tr>
<tr>
<td>1953</td>
<td>27.3</td>
<td>17.0</td>
<td>14.5</td>
</tr>
</tbody>
</table>

Source: Unpan Ph.D Thesis 2010

Graph: 1.2.4.1

Overall Expenses of Life Insurance Business in India, USA and UK

The Finance Minister C. D. Deshmukh announced nationalization of the life insurance business. In his speech, he justified the action as follows.

“With the Second Plan, involving an accelerated rate of investment and development, the widening and deepening of all possible channels of public savings has become more than ever necessary. Of this process, the nationalization of insurance is a vital part.” He then went on to declare, “The total [life] insurance in force exceeds Rs. 10,000 millions, that is a little over Rs. 25 per had. Quite recently it was claimed on behalf of a private enterprise
that business in force could be increased to Rs. 80,000 millions and per capita insurance to Rs. 200. I am in complete agreement. There can be no doubt as to the possibilities of life insurance in India and I mention these figures only to show how greatly we could increase our savings through insurance.” He added, “Thus even in insurance which is a type of business which ought never to fail if it is properly run, we find that during the last decade as many as twenty five life insurance companies went into liquidation and another twenty five had so frittered away their resources that their business had to be transferred to other companies at a loss to the policyholders.”

In this way the nationalization was justified based on three distinct arguments. First, the government wanted to use the resources for its own purpose. It clearly means that the government did not want to pay market rate of return for the assets. Second, it did want to increase market penetration by the nationalization process. How is it possible that nationalization deepen the market where private insurance companies cannot? To understand this, here are two possible situations. (1) Nationalization will help in creation of a monopoly. If the situation of economies of scale prevails in the market, that would help the government to reduce the cost of operation per policy sold below what private companies could operate and offer. (2) Government could take life insurance in rural areas through nationalization, where it was not profitable for private businesses to sell insurance. (3) The government found the number of failures of insurance companies to be unacceptable.

The government did succeed in channelling the resources of life insurance business into infrastructure.

The Life Insurance Corporation of India, as of March 2001, had a total sum assured of 155 billion US dollars. The value of Life Fund was 40 billion US dollars. The book value of Life Insurance Corporation’s “socially oriented investments”– mainly comprising of government securities holdings – at end-March 2001 amounted to 27 billion US dollars (73% of a total portfolio value of 37 billion US dollars). In total, 84% of Life Insurance Corporation’s portfolio comprises of exposure to the public sector (Bhattacharya and Patel, 2003). The Reserve Bank of India Weekly Statistical Supplement, October 11, 2003 shows that 52% of the outstanding stock of government securities is held by just two public sector institutions: the State Bank of India and the Life Insurance Corporation of India approximately in equal proportions.
Did the nationalization and consequent creation of monopoly actually reduce the cost of issuing life insurance policies? If we take a simple view of the world and calculate overall costs, we arrive at the results shown in Table 3. If we calculate overall expenses as a percentage of premium income, we arrive at the following. In 1957, the expenses were 27.7%. By 1963, the expenses rose to 29.3%. It fell back to 27.9% by 1982. By 1992, it had fallen to 21.5%. In 2002, it rose to 22.9%. Could we conclude that in the decade of late 1980s, the economies of scale kicked in? The answer is negative. The reason is explained in the Malhotra Committee Report (Malhotra, 1994, Chapter V, Section 5.5, p. 34). The expense ratio reported there was 29% in 1958 and 25% in 1992. The Report excludes group polices from its calculation. Group polices are much cheaper to sell (per policy). These policies did not exist in 1958. But, starting in the 1980s, they became commonplace. Thus, the naïve calculation along this line will lead us to believe that the expense ratio has come down substantially whereas in reality, that is an incorrect conclusion. A number of government reports have come to the same wrong conclusion (for example, the Annual Report of the Ministry of Finance 1995-96, p. 3).

Table 1.2.4.2

Financial Performance of Life Insurance Corporation of India 1957-1992
(All figures are in millions of US dollars)

<table>
<thead>
<tr>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>Total premium income</td>
<td>139.02</td>
<td>253.42</td>
<td>516.16</td>
<td>1284.81</td>
<td>2836.36</td>
</tr>
<tr>
<td>Income from investment</td>
<td>30.28</td>
<td>59.04</td>
<td>180.93</td>
<td>727.22</td>
<td>1511.72</td>
</tr>
<tr>
<td>Total income</td>
<td>169.30</td>
<td>312.45</td>
<td>697.09</td>
<td>2012.03</td>
<td>4348.03</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>OUTGO</th>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>Commission etc. to agents</td>
<td>12.08</td>
<td>23.65</td>
<td>48.74</td>
<td>108.33</td>
<td>274.36</td>
</tr>
<tr>
<td>Salaries &amp; other benefits to employees</td>
<td>19.14</td>
<td>37.40</td>
<td>76.95</td>
<td>126.27</td>
<td>284.02</td>
</tr>
<tr>
<td></td>
<td>2016</td>
<td>2017</td>
<td>2018</td>
<td>2019</td>
<td>2020</td>
</tr>
<tr>
<td>--------------------------------------</td>
<td>------</td>
<td>------</td>
<td>------</td>
<td>------</td>
<td>------</td>
</tr>
<tr>
<td>Other expenses of management</td>
<td>7.22</td>
<td>13.25</td>
<td>18.15</td>
<td>41.14</td>
<td>90.91</td>
</tr>
<tr>
<td>Taxes Etc.</td>
<td></td>
<td>0.26</td>
<td>56.75</td>
<td></td>
<td>150.11</td>
</tr>
<tr>
<td>5 % valuation surplus paid to Govt.</td>
<td></td>
<td>2.85</td>
<td></td>
<td></td>
<td>37.43</td>
</tr>
<tr>
<td><strong>PAYMENTS TO POLICY HOLDERS</strong></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Claims by maturity</td>
<td>32.64</td>
<td>52.49</td>
<td>101.99</td>
<td>369.94</td>
<td>796.73</td>
</tr>
<tr>
<td>Claims by death</td>
<td>12.40</td>
<td>21.13</td>
<td>34.57</td>
<td>91.14</td>
<td>180.47</td>
</tr>
<tr>
<td>Annuities</td>
<td>0.78</td>
<td>0.67</td>
<td>1.99</td>
<td>8.23</td>
<td>37.00</td>
</tr>
<tr>
<td>Surrenders</td>
<td>6.90</td>
<td>8.55</td>
<td>25.43</td>
<td>82.49</td>
<td>257.39</td>
</tr>
<tr>
<td>Total outgo</td>
<td>91.16</td>
<td>160.00</td>
<td>308.08</td>
<td>884.28</td>
<td>2108.42</td>
</tr>
<tr>
<td>Excess of income over outgo</td>
<td>78.14</td>
<td>152.45</td>
<td>389.01</td>
<td>1127.74</td>
<td>2239.67</td>
</tr>
<tr>
<td>Operating cost/Premium income</td>
<td>27.70%</td>
<td>29.30%</td>
<td>27.90%</td>
<td>21.50%</td>
<td>22.90%</td>
</tr>
<tr>
<td>Operating cost/Total income</td>
<td>22.70%</td>
<td>23.80%</td>
<td>20.60%</td>
<td>13.70%</td>
<td>14.90%</td>
</tr>
</tbody>
</table>

**Source:** Calculation based on Malhotra Committee Report, 1994.

**Note:** All figures are converted into US dollars using the average exchange rate of that year.
Table 1.2.4.3
Investment Portfolio of the Life Insurance Corporation 1980-2000

<table>
<thead>
<tr>
<th>Year</th>
<th>Loans to Govt.</th>
<th>Government bonds</th>
<th>Special Central Govt.</th>
<th>Unapproved</th>
<th>Foreign</th>
<th>Total</th>
</tr>
</thead>
<tbody>
<tr>
<td>1980-81</td>
<td>41.7%</td>
<td>55.0%</td>
<td>1.6%</td>
<td>1.1%</td>
<td>0.6%</td>
<td>100.0%</td>
</tr>
<tr>
<td>1981-82</td>
<td>41.1%</td>
<td>54.1%</td>
<td>3.2%</td>
<td>1.0%</td>
<td>0.5%</td>
<td>100.0%</td>
</tr>
<tr>
<td>1982-83</td>
<td>40.3%</td>
<td>54.2%</td>
<td>4.0%</td>
<td>1.0%</td>
<td>0.5%</td>
<td>100.0%</td>
</tr>
<tr>
<td>1983-84</td>
<td>39.1%</td>
<td>54.5%</td>
<td>4.9%</td>
<td>1.1%</td>
<td>0.5%</td>
<td>100.0%</td>
</tr>
<tr>
<td>1984-85</td>
<td>37.7%</td>
<td>55.1%</td>
<td>5.7%</td>
<td>1.1%</td>
<td>0.5%</td>
<td>100.0%</td>
</tr>
<tr>
<td>1985-86</td>
<td>36.5%</td>
<td>55.6%</td>
<td>6.3%</td>
<td>1.1%</td>
<td>0.5%</td>
<td>100.0%</td>
</tr>
<tr>
<td>1986-87</td>
<td>35.0%</td>
<td>56.8%</td>
<td>6.6%</td>
<td>1.0%</td>
<td>0.6%</td>
<td>100.0%</td>
</tr>
<tr>
<td>1987-88</td>
<td>34.1%</td>
<td>57.8%</td>
<td>6.7%</td>
<td>0.8%</td>
<td>0.6%</td>
<td>100.0%</td>
</tr>
<tr>
<td>1988-89</td>
<td>33.2%</td>
<td>58.5%</td>
<td>6.7%</td>
<td>1.0%</td>
<td>0.6%</td>
<td>100.0%</td>
</tr>
<tr>
<td>1989-90</td>
<td>33.1%</td>
<td>58.8%</td>
<td>6.4%</td>
<td>1.2%</td>
<td>0.5%</td>
<td>100.0%</td>
</tr>
<tr>
<td>1990-91</td>
<td>33.6%</td>
<td>59.2%</td>
<td>5.6%</td>
<td>1.1%</td>
<td>0.5%</td>
<td>100.0%</td>
</tr>
<tr>
<td>1991-92</td>
<td>4.9%</td>
<td>85.5%</td>
<td>6.9%</td>
<td>1.9%</td>
<td>0.8%</td>
<td>100.0%</td>
</tr>
<tr>
<td>1992-93</td>
<td>34.1%</td>
<td>60.1%</td>
<td>4.2%</td>
<td>1.1%</td>
<td>0.5%</td>
<td>100.0%</td>
</tr>
<tr>
<td>1993-94</td>
<td>31.4%</td>
<td>63.4%</td>
<td>3.6%</td>
<td>1.1%</td>
<td>0.5%</td>
<td>100.0%</td>
</tr>
<tr>
<td>1994-95</td>
<td>28.7%</td>
<td>66.4%</td>
<td>3.3%</td>
<td>1.1%</td>
<td>0.6%</td>
<td>100.0%</td>
</tr>
<tr>
<td>1995-96</td>
<td>26.5%</td>
<td>69.0%</td>
<td>2.9%</td>
<td>1.2%</td>
<td>0.5%</td>
<td>100.0%</td>
</tr>
<tr>
<td>1996-97</td>
<td>24.8%</td>
<td>71.2%</td>
<td>2.6%</td>
<td>0.9%</td>
<td>0.5%</td>
<td>100.0%</td>
</tr>
<tr>
<td>1997-98</td>
<td>23.1%</td>
<td>73.3%</td>
<td>2.4%</td>
<td>0.8%</td>
<td>0.4%</td>
<td>100.0%</td>
</tr>
<tr>
<td>1998-99</td>
<td>21.7%</td>
<td>75.4%</td>
<td>1.8%</td>
<td>0.8%</td>
<td>0.3%</td>
<td>100.0%</td>
</tr>
<tr>
<td>1999-00</td>
<td>19.8%</td>
<td>77.9%</td>
<td>1.4%</td>
<td>0.6%</td>
<td>0.3%</td>
<td>100.0%</td>
</tr>
<tr>
<td>2000-01</td>
<td>18.3%</td>
<td>79.8%</td>
<td>1.1%</td>
<td>0.5%</td>
<td>0.3%</td>
<td>100.0%</td>
</tr>
</tbody>
</table>

1.2.5 Life Insurance Business during the Nationalized Era:

The nationalization of Indian life insurance took place in 1956. All existing life companies were merged into one single company and it was named *The Life Insurance Corporation*. By the 2000, *Life Insurance Corporation* had total of 100 divisional offices, seven zone offices and 2048 branches. There were more than 680,000 active agents across India and 117,000 employees were employed directly in LIC.

*In this type of examination of corporation, two problems lie.* First, the population of India has increased from 413 million in 1957 to more than 1,000 million in 2000. Therefore, one would expect growth in life policies sold on the basis of the growth of the population itself. Second, if we calculate growth of life insurance in nominal amount, for India, in which the annual inflation rate observed is on an average 7.8% a year between 1957 and 2002, one would expected a growth in the sale of life insurance in the line of inflation rate. Because of certain issues, we will not involve ourselves in such description in our discussion.

The individual life insurance has been the largest segment of the life insurance market in India. The whole life, endowment and “money back” policies are the main types of policies sold by corporation. Money back policies return a certain amount of the premium paid by the
policyholder after stipulation of the contract. Until recent past, the term life policies were not made available in the Indian market. The number of new policies sold each year increased from 0.95 million a year in the year 1957 to around 22.49 million in the year 2001. The total number of policies in force increased from 5.42 million in the year 1957 to 125.79 million in the year 2001. Thus, from both points of view there has been almost 25 fold increase in the number of policies sold during the same time. It is also seen that during the same period, the population has also grown from 413 million in 1957 to over 1,033 million in 2001. In Table 1.2.5 we find out the details of different components of life insurance business during the nationalized era. Between 1985 and 2001, total life business has grown from below 18 billion rupees to over 500 billion rupees. During that period, the price index has grown fourfold. Thus, if there were no change in life insurance bought in real terms, it would have accounted for 78 billion rupees worth of business. It is Notable that like other years, even in the year 2001, individual life business continues to account for 92% of all life insurance market.
Table 1.2.5

*Life Insurance in India, 1985-2004, in millions of US dollars*

<table>
<thead>
<tr>
<th>Year</th>
<th>Total</th>
<th>Individual</th>
<th>Individual pension</th>
<th>Group superannuation</th>
</tr>
</thead>
<tbody>
<tr>
<td>1985</td>
<td>1439.00</td>
<td>1305.60</td>
<td>0.61</td>
<td>133.40</td>
</tr>
<tr>
<td>1986</td>
<td>1655.73</td>
<td>1497.10</td>
<td>1.25</td>
<td>158.63</td>
</tr>
<tr>
<td>1987</td>
<td>2056.14</td>
<td>1815.95</td>
<td>10.01</td>
<td>240.19</td>
</tr>
<tr>
<td>1988</td>
<td>2459.19</td>
<td>2212.68</td>
<td>99.02</td>
<td>246.52</td>
</tr>
<tr>
<td>1989</td>
<td>2759.06</td>
<td>2483.13</td>
<td>131.33</td>
<td>275.92</td>
</tr>
<tr>
<td>1990</td>
<td>3189.71</td>
<td>2878.51</td>
<td>147.06</td>
<td>311.19</td>
</tr>
<tr>
<td>1991</td>
<td>3049.37</td>
<td>2749.45</td>
<td>131.26</td>
<td>299.92</td>
</tr>
<tr>
<td>1992</td>
<td>2822.35</td>
<td>2564.42</td>
<td>26.69</td>
<td>257.93</td>
</tr>
<tr>
<td>1993</td>
<td>3096.56</td>
<td>2817.43</td>
<td>18.40</td>
<td>279.12</td>
</tr>
<tr>
<td>1994</td>
<td>3654.18</td>
<td>3324.75</td>
<td>16.40</td>
<td>329.43</td>
</tr>
<tr>
<td>1995</td>
<td>4354.21</td>
<td>3743.76</td>
<td>13.46</td>
<td>610.45</td>
</tr>
<tr>
<td>1996</td>
<td>4583.93</td>
<td>4124.49</td>
<td>41.28</td>
<td>459.43</td>
</tr>
<tr>
<td>1997</td>
<td>5299.35</td>
<td>4731.80</td>
<td>39.57</td>
<td>567.54</td>
</tr>
<tr>
<td>1998</td>
<td>5535.60</td>
<td>4946.75</td>
<td>54.57</td>
<td>588.85</td>
</tr>
<tr>
<td>1999</td>
<td>6436.30</td>
<td>5811.79</td>
<td>121.93</td>
<td>631.62</td>
</tr>
<tr>
<td>2000</td>
<td>7810.76</td>
<td>6529.91</td>
<td>64.32</td>
<td>701.47</td>
</tr>
<tr>
<td>2001</td>
<td>10649.33</td>
<td>9771.61</td>
<td>611.52</td>
<td>877.71</td>
</tr>
<tr>
<td>2002</td>
<td>12216.81</td>
<td>10268.03</td>
<td>593.23</td>
<td>913.71</td>
</tr>
<tr>
<td>2003</td>
<td>14938.63</td>
<td>12534.63</td>
<td>789.79</td>
<td>1079.23</td>
</tr>
<tr>
<td>2004</td>
<td>17496.40</td>
<td>14662.19</td>
<td>981.96</td>
<td>1230.37</td>
</tr>
</tbody>
</table>

*Sources: Shashtri Committee Report, 2004*
Graph: 1.2.5
Life Insurance in India, 1985-2004, in millions of US dollars

Table 1.2.5.1
Components of Financial Saving as a Percent of GDP

<table>
<thead>
<tr>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>Financial Saving</td>
<td>11.0%</td>
<td>11.0%</td>
<td>14.4%</td>
<td>12.5%</td>
<td>12.1%</td>
</tr>
<tr>
<td>Currency</td>
<td>1.2%</td>
<td>1.3%</td>
<td>1.6%</td>
<td>1.2%</td>
<td>1.1%</td>
</tr>
<tr>
<td>Bank deposits</td>
<td>3.7%</td>
<td>3.2%</td>
<td>6.5%</td>
<td>5.2%</td>
<td>4.5%</td>
</tr>
<tr>
<td>Stocks</td>
<td>1.6%</td>
<td>2.6%</td>
<td>1.7%</td>
<td>0.4%</td>
<td>0.8%</td>
</tr>
<tr>
<td>Claims on government</td>
<td>1.5%</td>
<td>0.8%</td>
<td>1.3%</td>
<td>1.6%</td>
<td>1.5%</td>
</tr>
<tr>
<td>Insurance funds</td>
<td>1.0%</td>
<td>1.1%</td>
<td>1.1%</td>
<td>1.3%</td>
<td>1.5%</td>
</tr>
<tr>
<td>Pension funds</td>
<td>2.1%</td>
<td>2.0%</td>
<td>2.1%</td>
<td>2.6%</td>
<td>2.8%</td>
</tr>
</tbody>
</table>

Source: Dr. H. M. Chandarana, Ph.D Thesis, 2005
Table 1.2.5.1  
Components of Financial Saving as a Percent of GDP

1.2.6. Performance of LIC of India- A Review:

The number of new policies marketed by LIC increased from 14.69 lakhs in 1961 to 2.18 crores in 2004-05 and total sum assured by LIC aroused to Rs.1,79,886.66 crores in 2004-05 from Rs.336.67 crores in 1957. The total funds of the corporation also increased from Rs.702.80 cr. in 1961 to Rs.4, 16,910.36 cr. in 2004-05. Investment, which was Rs.329.74 cr in 1957, grew to a high of Rs.4, 13,800.95 cr in 2007-08, all of which gets utilized for the development of the nation. The LIC has huge investible funds and the main source of such investment is the premiums collected from the policy holders of LIC. The LIC utilizes certain funds in different states, industries and also in different countries. While investing its fund, the LIC has to consider different factors and forces like, safety, liquidity and productivity of fund simultaneously it also has to be in line with other regulatory bindings such as investment norms, asset-liability management etc. In nutshell, the LIC has to make its investments within the boundaries of these bindings as a result; the investment income comes under pressure because the LIC is not in a position to pursue a prudent investment policy. The falling interest rate would also add fuel to the fire and it adversely affects the investment performance of the Corporation. At present LIC continues to be the monopolistic life insurer even in the post liberalization era of the Indian insurance industry. The average premium growth rate has been 20%. With the targeted Rs.1, 75,000 crores total premium by the end of current fiscal,
the life insurance corporation of India has got a market share of about 75%. The corporation has continuously crossed many milestones and has set outstanding performance records in various criteria of life insurance business. The state-owned corporation’s target business is of almost Rs.3,00,000 crores by 2011-12. The life insurance giant expects its assets size to be grown almost Rs.6,00,000 crores or 75% in the upcoming three years. In the current fiscal year, the company has employed about two lakhs insurance agent across the country, which is more than twice then of the 90,000 agents recruited in the previous fiscal year. It has also recruited 4,500 development officers in the current fiscal year and 5,000 new officers could be employed in the next fiscal. It has won various awards which include Loyalty Award 2009, Golden Peacock Innovative Product/Service Award 2009, and Readers’ Digest Trusted Brand Award 2008 in the Platinum Category, CNBC ‘Awaaz’ Consumer Awards 2008 and NDTV Profit Business Leadership Award 2008. Economic Times Brand Equity Survey rated LIC as the No.1 service brand of the country for the 5th consecutive year.

1.3. NEED FOR THE STUDY:

An enquiry into the nature and factors responsible for performance of the LIC of India during the period 2005-06 to 2014-15 would be helpful in formulating the future course of action in the area of product innovation and development, asset-liability management and customer relationship management of the life insurance corporation of India. This will enable the Government, IRDA, LIC of India, private sector players, employees, insurance marketers and the policyholders to know the causes underlying the existing position, to understand and appreciate the other stakeholders’ attitude and to promote compromising and conciliatory behaviour which is the essential pre-requisite for the healthy growth of life insurance industry in our country. It is hoped that this study will be useful in the context of the imperative need for toning up the efficiency of the working of both the public and private sector units, which are expected to play a crucial role in the years to come and give a new outlook to the life insurance policy laid down by the Government and the IRDA.

The aim of researcher is also to find out how certain deficiencies can be avoided which have occurred. It requires naturally loads of objective assessment of the problems with the application of statistical techniques. It will also be useful to bring to light many aspects, with broader perspective, of the performance evaluation of the life insurance industry that
contribute for higher insurance penetration and better customer service are brought to light. It is also hoped that the data presented, the observations made and conclusions arrived at in this study will be useful for inter-sectoral comparison.

1.4. PERIOD OF STUDY:

The present study covers a period of nine years from 2005-06 to 2013-14 during which the implementation of the insurance sector reforms have been progressing. The period of almost one decade is considered, to some extent, a reasonable period for a study of this nature which seeks to identify the problems faced by the insurance players and to suggest measures wherever necessary that go a long way to make the Indian life insurance industry strong enough to overcome these problems. Though the year 2013-14 is the last year of the period of the present study, the quantitative and qualitative developments taken place after 2014 have also been incorporated at relevant places of the study to have an in-depth analysis and also for a proper interpretation of data.

1.5. FORMATION AND STRUCTURE OF LIC:

The formation and structure of LIC means the structure of LIC in terms of its formation and its different departments and sub-departments.

1.5.1 FORMATION OF LIC:

Around 170 insurance firms and almost 80 provident fund societies have been consolidated for formation of life assurance business in India by the year 1955. Out of these, few were foreign firms which had their head office out of India. In addition to this, these insurers have an oversized variety of different insurers who had registered themselves for insurance business had either gone into liquidation or had been condemned by the prevailing insurers.

From a study conducted the then, had been found that the thought of trust territory which ought to be the cornerstone of life assurance was entirely missing and most management had no value of the clear and important distinction which existed between trust and people happiness to stock firms in hand by shareholders. Therefore, it become evident to nationalize Insurance business with a related to the followings:
• Providing hundred per cent security to policy holders
• Ensure use of the fund for national building activities and to avoid wasteful effort in competition
• Save the dividend paid to the shareholders of insurance firms
• Avoiding of widespread undesirable practices adopted by some insurance firms
• Speeding up of insurance business in rural areas

The first step in this direction was taken by Robert E Lee Day, in 1956 by promulgation of associate degree ordinance vesting the management of life assurance business in India within the Central Government. On this occasion, the then government minister Sir C. D. Deshmukh in his broadcast to the state aforesaid.

“The nationalization of life assurance is another milestone on the road the country has chosen so as to achieve its goal of a socialistic pattern of society. Within the implementation of second 5 year arrange it's absolute to offer material help to the lives of millions within the rural areas. It'll introduce a brand new sense of awareness building, for the longer term within the spirit of clam confidence that insurance alone will offer. It's a live planned in an exceedingly real spirit of service to the folks. It'll be for the folks to retort, confound the doubter's and build it a convincing success.”

On the basis of this, the life insurance was nationalized in the year 1956 and this is how the “LIFE INSURANCE CORPORATION OF INDIA” came into existence on the 1st April, 1956. To remember this historic event insurance week is being celebrated from 1st to 7th April each year thenceforth. The mission given to LIC at that point is summarized as —

• Providing protection of insurance to folks in each nook and corner of the country
• Mobilizing savings for the event of country Responding to client sensitivity
• Consequent thereto, tracing the event of life assurance trade is nothing however walks through the progress of LIC itself.
1.5.2. WHAT IS LIFE INSURANCE?
Life insurance could be a contract for payment of a total of cash to the person assured (or failing him/her to the person entitled to receive the same) on the happening of the event insured against. Sometimes the contract provides for the payment of associate degree quantity on the date of maturity or at nominal dates at periodic intervals or on unfortunate death, if it happens earlier. Among different factor the contract additionally provides for the payment or premium sporadically to the corporation by the assured. Life assurance is universally acknowledged to be an establishment that eliminates “risks”, subbing definitely for uncertainty and is available to the death or of total permanent incapacity of the wage earner. By and huge, life assurance is civilization’s partial answer to monetary uncertainties caused by untimely death.

1.5.3. DEFINITION OF INSURANCE
The term ‘insurance’ has been outlined by totally different specialists on the topic. The views expressed by them through numerous definitions are classified into the subsequent 3 classes for the convenience of the study:

A. General Definitions
B. Functional Definitions
C. Written Agreement Definitions

A. GENERAL DEFINITION
The general definitions are given by the social scientists and that they take into account insurance as a tool to protection against risks, or a provision against inevitable contingencies or a cooperative device of spreading risks. a number of such definitions are given below:

1. In the words of John Magee, "Insurance is a plan by that large number of people associate themselves and transfer to the shoulders of all, risks that attach to people."

2. In the words of Sir William Bevridges, "The collective bearing of risks is insurance."
3. In the words of backwoodsman and Kurtz, "Insurance is a substitution for a little illustrious loss (the insurance premium) for a giant unknown loss which can or might not occur."

4. Within the words of Thomas, "insurance could be a provision that a prudent man makes against for the loss or inevitable contingencies, loss or misfortune."

5. Within the words of Allen Z. Mayerson, "Insurance could be a device for the transfer to associate degree insurance firm of bound risks of economic loss that will otherwise come back by the insured."

6. Within the words of Ghosh and Agarwal "Insurance could be a cooperative variety of distributing a precise risk over a bunch of persons WHO ar exposed thereto."

**B. FUNCTIONAL DEFINITION**

These definitions are supported economic or business headed since it's a tool providing monetary compensation against risk or misfortune.

1. Within the words of D.S. Hansell, "Insurance could also be outlined as a social device providing monetary compensation for the consequences of misfortune, the payments being made up of the accumulated contributions of all parties taking part within the theme."

2. Within the words of king. Mehr and Ralph Waldo Emerson Cammack, "Insurance is purchased to off-set the chance ensuing from Hazards that exposes someone to loss."

3. Within the words of Riegel and Miller, "Insurance could be a social device whereby the unsure risks of people could also be combined in an exceedingly cluster and so created a lot of bound, little periodic contributions by the people providing a fund, out of that, people who suffer losses could also be reimbursed."

**C. WRITTEN AGREEMENT DEFINITION**

These definitions take into account insurance as a contract to indemnity the losses on happening of bound contingency in future. It's a written agreement relationship to secure against risks. A number of such definitions are:
1. Within the words of Justice Tindall, "Insurance could be a go for that a total of cash is paid to the assured as thought of insurer's acquisition the chance of paying an oversized total upon a given contingency."

2. Within the words of E. W. Patterson, "Insurance could be a contract by that one party, for compensation referred to as the premium, assumes significantly risks of the opposite party and guarantees to pay him or his campaigner a precise or determinable total of cash on a nominal contingency."

3. Within the words of Justice Channel!, "Insurance could be a contract whereby one person, referred to as the insurance firm, undertakes reciprocally for the in agreement thought referred to as premium, to pay to a different person referred to as the insured, a total of cash or its equivalent on nominal event."

1.5.4. AIMS OF LIC:

Life Insurance Corporation of India has come into force with the following aims:

1. To assure full protection to the policy holder.
2. To encourage & mobilize public savings.
3. Effective utilization of those savings in different forms of investments for national & economic development.
4. To create liquidity position in public.
5. To motivate saving habits in public.

1.5.5. OBJECTIVES:

Indian life insurance industry has undergone a sea change. It has experienced new challenges of intense competition and struggle for survival since the introduction of insurance reforms since 1999. The reforms in the insurance sector are continuous and they should be made more transparent, viable and sound in the changing economic environment. The future of the liberalized insurance industry is a big challenge to many stakeholders. The variables which reflect the growth and development aspects of the life insurance industry include among others new business, product development, social obligations, profitability, distribution channels and customer servicing. Hence, the major focus of the present study is on the following objectives:
• To study the patterns of growth and development of life insurance industry in India during ten-year period (2005 to 2014) of insurance liberalisation and also opening up of the insurance to the private sector;

• To identify, select and analyze the variables determining the growth and development of life insurance industry in India during the study period;

• To suggest suitable measures, wherever necessary to the policymakers concerned for improving their performance, productivity and profitability.

• To know working aspects of LIC

• To evaluate the various aspects related to insurance business like sum assured, Premium received, Claim, Claim settlement etc.

• To understand the organisational structure of LIC.

• To refer problem and challenges before LIC.

• To suggest the better option for managerial requirement.

1.6 OTHER RELATED CONCEPTS:

Few terms of LIC which need to be understood at this level are as follows.

1.6.1 HUMAN LIFE PRICE

Human life thought propounded by S. S. Huebner of the writer faculty of Finance and Management, US, has been progressively accepted for measurement the quantum of life assurance one ought to move into for, to supply for his family. Each object has its own amount, could also be a house, land, car, TV or the other merchandise.

In a materialistic atmosphere one typically thinks of the worth of tangible assets, one loves, and cherishes life and prays for an extended one. But, astonishingly, several tend to overlook that one’s own life is of nice amount to ones dependents.

The head of the family is liable for meeting the varied social and economic desires of his married person, son and female offspring.
“The success of the many enterprises depends upon work of 1 or 2 key people. His price is set by his character, judgment, insights, trade vision, and creative thinking so on - none of that features a scope of measure. So human values don't seem to be calculable precisely, they, are however real. The belief is that human lives are priceless.”

Apart from this, he’s the nucleus around whom the dependents weave their dreams for a sound supply and bright future. The son expects a decent education and sound begin in life; the female offspring aspires for a decent tutorial accomplishment and hopes to marry her suitor fittingly, married person dreams of owning a house. These are additionally to his primary responsibility of providing basic wants of the family.

*The net price of these contributes in different words is "The Human Life price" which is also known as “Human Life Value”.

As long because the head of the family is alive & active, he provides the required economic support for the current.

Assuming for a flash the wage earner unexpectedly wilts away, what happens to the hopes of his dependents for building a stronger and brighter future? Ought to they be caught within the whirlpool of sorrow and tears? Ought to their aspirations for a rosy future disintegrate? "No" says the life assurance and it plays a significant role in continued the economic potential of the wage earner.

Till recently life assurance was thought-about as associate degree economic succor to offset the immediate loss of financial gain thanks to the death of the wage earner. This read is bit by bit dynamical thanks to the economic conditions of the society. It's true that the essential issue, that determines the earning or economic potential of a private, is his longevity. Although longevity could be a variable one and totally different from person to person, still it's attainable to assess the capitalized price of probable web future financial gain and this is often the elemental yardstick to live the economic potential or Human Life price of someone.
The assessment of economic potential closely follows the elemental principles of economic managements. The Human Life price takes into consideration the earnings of a private, earned foundation for the young members within the family.

In a shell, the agent ought to arrange life assurance of his shopper in such the way that a minimum of policy holder’s gift monthly financial gain contribution is offered to the family just in case his family is bereft of this financial gain thanks to any unforeseen event.

Human Life price thought ponder that the Agent ought to arrange life assurance desires of his shoppers in such the way that he creates associate degree estate, which is able to give the typical financial gain required by the family to take care of the quality of living that they were conversant in, financial gain to finance the education of youngsters and especially the finance which will be needed to clear the mortgages on properties and the other liabilities incurred by the shopper throughout the course of discharging his responsibilities.

Generally all are attracted by high interest yielding investments except for guaranteeing; the economic security of a family there's no substitute for all times insurance. life assurance is that the solely suggests that by that one associate degree guarantee total protection to once family just in case the family gets orphan thanks to the untimely death of the wage earner.

Life insurance has become a lot of and a lot of engaging thanks to the ever-increasing bonus that's being proclaimed by LIC and what's a lot of, bonus declaration is currently associate degree annual feature.

We hope that our field folks currently have a broad plan of the thought of Human Life price printed here. They need to provide a serious thought to Human Life price thought whereas mercantilism the life assurance.

1.6.2. FINANCIAL LOSS

Moral Hazard involves straightness, character, personal name, occupation, atmosphere, speculation, relationship, etc. of the human. In any proposal the quantum of insurance ought to be connected with the capability to pay. However, it should be noted that it's troublesome to ascertain financial loss.
Some common things, which can produce to financial loss, are:

- **Insurable interest doesn't exist.**
- **Insurance planned isn't commensurate with the financial gain of the advocate.**
- **The proposal is submitted at an area apart from the traditional residence of the advocate.**
- **Seeking great amount of insurance for initial time at advanced age.**
- **Non-disclosure of previous insurance history concerning declinature or additional charged.**
- "The proposer might have numerous reasons deliberately hide or distort that info or unknowingly do so thinking it as of no importance."

Moral Hazard is assessed from proposer's reaction to human relations, occupation, social and monetary standing, personal habits; he respects rights and obligations, capability to face up to stress and strain reception, in workplace and outside.

An insurance firm isn't curious about ethical judgment however departure from accepted mode of social conduct will cause hyperbolic risks leading to additional mortality. Such additional mortality cannot be measured. Additional premium will be charged for physical hazard however no quantity of premium will adequately compensate financial loss.

In order to shield the life fund from anti-selection, the underwriter needs to exercise reasonable care and caution.

Moral Hazard reports by Development Officer, Branch Manager, etc. are needed to be submitted for big quantity to supply info concerning object of insurance, monetary underwriting, etc. thus on modify the insurance firm toward off choice against the insurance firm

### 1.7. DISTINCTION BETWEEN ASSURANCE AND INSURANCE

The terms, ‘Assurance’ and ‘Insurance’ are normally employed in insurance contracts. On historical purpose of read, the word 'Assurance is a lot of older employed in every kind of
insurance contracts by the tip of sixteenth century. But, from the year 1826, this term is employed to point life assurance solely and therefore the word 'Insurance' for all different styles of insurance like marine, fire, etc. this is often as a result of that in life assurance, there's associate degree assurance from the insurance firm to create payment of the policy either on the maturity or on death. Thus, the word 'Assurance, indicates certainty. On the opposite hand, the word insurance is employed against indemnity insurance, like insurance, marine insurance, etc. In these styles of insurance, the insurance firm is prone to indemnity solely just in case of loss to property or merchandise, otherwise not. In brief, the variations, between the 2 terms are given within the following table below:

**Difference between Assurance and Insurance**

*(Or life assurance and Indemnity Insurance)*

<table>
<thead>
<tr>
<th>Sr. No.</th>
<th>Basis of Difference</th>
<th>Assurance</th>
<th>Insurance</th>
</tr>
</thead>
<tbody>
<tr>
<td>1</td>
<td>Scope</td>
<td>This term is used only in life insurance and therefore the scope is comparatively limited.</td>
<td>This term is used for all other types of insurance and therefore the scope is wider than assurance.</td>
</tr>
<tr>
<td>2</td>
<td>Element of Investment</td>
<td>This element is present in here as there is certainty of receiving payment either on date or maturity of policy.</td>
<td>Insurance lacks this element as there is no certainty of receiving payment.</td>
</tr>
<tr>
<td>3</td>
<td>Certainty of Receiving Payment</td>
<td>There is certainty of receiving payment on death or maturity of policy in assurance.</td>
<td>There is no certainty of receiving payment in insurance but the amount is paid only in the case of loss of the property insured.</td>
</tr>
<tr>
<td>4</td>
<td>Renewal of Policy</td>
<td>Assurance does not</td>
<td>The life insurance</td>
</tr>
</tbody>
</table>
42

provide such facility. contract remains continue and will not lapse unless the premium is regularly paid.

<table>
<thead>
<tr>
<th>5</th>
<th>Certainty of Event</th>
<th>There is certainty of event that it will happen sooner or later.</th>
<th>There is no certainty of the event insured against may happen or not.</th>
</tr>
</thead>
</table>

| 6 | Insured Sum | Under assurance, insurance policy can be taken for any amount or any numbers. | Under this, the policy amount is restricted to the market value of insured asset not more than that. |

1.8. NATURE AND CHARACTERISTICS OF INSURANCE

Insurance follows vital characteristics. These are as follows:

1. SHARING OF RISK:
2. CO-OPERATIVE DEVICE:
3. ANALYSIS OF RISK:
4. PAYMENT OF HAPPENING OF NOMINAL EVENT:
5. QUANTITY OF PAYMENT:
6. SIZABLE AMOUNT OF INSURED PERSONS:
7. INSURANCE ISN’T A GAMBLING:
8. INSURANCE ISN’T CHARITY:
9. PROTECTION AGAINST RISKS:
10. SPREADING OF RISK:
11. TRANSFER OF RISK:
12. ASCERTAINING OF LOSSES:
13. A CONTRACT:
14. BASED MOSTLY UPON BOUND PRINCIPLE:
15. INSTITUTIONAL SETUP:
16. INSURANCE FOR PURE RISK SOLELY:
17. SOCIAL DEVICE:
18. SUPPORTED MUTUAL GOODWILL:
19. REGULATION BENATH THE LAW:
20. WIDE SCOPE:

1.9 SIGNIFICANCE OF INSURANCE:

Life insurance industry has assumed a *pivotal role* in the face of the rapid changes such as liberalization, globalization and privatization and also the related technological and market changes. The efforts of the industry are to be distinctly identified and every sphere of activity must be *integrated vertically and horizontally* to deliver significantly the service of an industry so as to get good business results. Life insurance management, as a distinct discipline, has been playing prominent role and *gaining ground slowly* and firmly in the present day post liberalization scenario. The breakthrough achievements can come only from the untiring, sincere and diligent efforts of all the stakeholders. The major change of the life insurance industry in India is the opening up to private and global players. With this, the monopolistic character of the public sector giant i.e. LIC of India, has been replaced by competition subject to the regulatory conditions of the IRDA. Insurance has become a matter of persuasion rather than solicitation. The customer can choose now among industry players, schemes available, nature and types of risks and also the costs involved therein. Life insurance is a long-term business with a focus on long-term financial solutions to customers. Taking a report after ten years of liberalization to some extent, may be adequate enough to draw some initial inferences on the success or failure of the initiatives taken by the industry and find out whether these have been moving in the right direction or not.

As the historic period comes with cut throat competition, the possibilities of uncertainty are increasing day by day. Insurance plays vital role for not solely a private or for a family however its touch the whole system of the state. In line with the illustrious thinker J. Royce, Insurance Principles involves are a lot of and a lot of used and helpful in trendy affairs. Not solely will it serve the ends of people, it tends a lot of and a lot of each to interpenetrate and rework our trendy social order. It brings into new synthesis, not just pure and applied sciences, however non-public and public interests, individual prudence and an oversized regard for the overall welfare larceny and charity.
One illustrious author named “Dinsdale” additionally explains the importance of insurance as beneath.

“No one within the present time will afford to be while not insurance” Insurance provides numerous blessings to numerous fields. One will classify the importance as beneath.

1.10. FUNCTIONS OF INSURANCE:

Insurance becomes terribly helpful in today's life. It plays vital role during this competitive era. One ought to grasp the functions of insurance. In line with Sir William economist the functions of insurance is divided into 3 classes as beneath

1.  Primary functions
2.  Secondary functions
3.  Indirect functions
4.  As per section – 6 of LIC Act - 1956

1.10.1. PRIMARY FUNCTIONS:

(A) TO PROVIDE PROTECTION:
(B) TO PROVIDE CERTAINTY:
(C) DISTRIBUTION OF RISK:
(D) CLAIM AND SETTLEMENT:

1.10.2. SECONDARY FUNCTIONS:

A. HELPS IN ECONOMIC PROGRESS:
B. IT PREVENTS LOSSES:
C. BOOSTING INDUSTRIAL GROWTH:
D. MUTUAL FUND
E. SUBSCRIBING TO DEBENTURE AND BONDS
F. SHARE HOLDING
G. DISBURSING LOANS
H. UNDERWRITING
I. INVESTMET
1.10.3. INDIRECT FUNCTIONS:

(A) A FORCED SAVINGS:

(B) PROMOTE FOREIGN TRADE:

(C) Socially oriented

(D) OTHERS:

1.10.4. AS PER SECTION – 6 OF LIC ACT – 1956:

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

1. Subject to the principles, If any, created by the central government during this behalf, it shall be the overall duty of the corporation to hold on life assurance business, whether or not in or outside Asian nation, and the corporation shall therefore exercises its powers beneath this Act on secure that life assurance business is developed to the simplest advantage of the co millimeter unity.

2. While not prejudice to the generality of the provisions contained in sub section I, however subject to the opposite provisions contained during this act. The corporation shall have power.

To carry on capital redemption business, regular payment bound business or insurance business in to this point intrinsically insurance business appertains to life assurance business,

Subject to the principles, if any, created by the Central Government during this behalf, to take a position the funds of the corporation in such manner because the corporation might imagine work and to require all such steps as could also be necessary or expedient for the protection or realization of any investment, as well as the seizing of and administering any property offered as security for the investment till an appropriate chance arises for its disposal.

To acquire, hold and get rid of any property for the aim of its business.
To transfer the entire or any part of the life assurance business carried on outside Asian nation to the other person or persons, if within the interest of the corporation it's expedient therefore to try to.

To advance or lend cash on the safety of any movable or immovable property.

To borrow or raise any cash in such manner and upon such security as corporation might imagine work.

To carry on either by itself or through any subsidiary business in any case wherever such other business was being carried on by a subsidiary of Associate in Nursing insurance firm whose controlled business has been transferred to and unconditional within the corporation under this Act.

To carry on the other business which can appear to the corporation to be capable of being handily carried on in reference to its business and calculated directly or indirectly to render profitable business of the corporation.

To do all such things as could also be incidental or semiconducting to the correct exercise of any of the powers of the corporation.

3. Within the discharge of any of its functions the corporation shall act to this point as could also be on business principles.

Section 4, the LIC Act, 1956 explains the constitution of the Corporation.

1. The Corporation shall incorporates such no. of persons not Olympian fifteen because the Central Government might imagine acceptable appoint there to and one among them snail be appointed by the Central Government to be the Chairman there from.

2. Before appointing someone to be a member, the Central Government shall satisfy itself that person can don't have any such money or alternative interest as is probably going to have an effect on prejudicially the exercise or performance by him of the functions as
member, the Central Government shall conjointly satisfy itself from time to time with relevance each member that he has no such interest and a person who is or Whom the central government proposes to appoint and who has consented to be, a member shall, whenever needed by the central government therefore to try to, furnish to its such data because the Central Government considers necessary for the performance of its duties beneath this sub-section.

3. A member who is in any approach directly or indirectly curious about a contract created or projected to be created by the corporation shall, as presently as attainable when the relevant circumstances have come back to his information, disclose the matter of his interest to the corporation and the member shall not participate in any deliberation or discussion of the corporation with relevance that contract.

**TABLE 1.10.4**
**CLAIMS SETTLEMENT OPERATIONS**
**(INCLUDING CLAIMS WRITTEN BACK)**

<table>
<thead>
<tr>
<th>Year</th>
<th>Amt (in Crores)</th>
</tr>
</thead>
<tbody>
<tr>
<td>2009-10</td>
<td>6677.04</td>
</tr>
<tr>
<td>2010-11</td>
<td>7583.18</td>
</tr>
<tr>
<td>2011-12</td>
<td>9211.30</td>
</tr>
<tr>
<td>2012-13</td>
<td>11637.98</td>
</tr>
<tr>
<td>2013-14</td>
<td>14519.25</td>
</tr>
</tbody>
</table>

*Source: 45th LIC Annual Report*
1.11. VITAL TERMS EMPLOYED IN INSURANCE

Different terms are employed in the speculation and follow of insurance. Vital among them are given below:

1. **INSURED:**
   The party or the individual who seeks protection against a nominal risk and entitled to receive payment from the insurance firm within the event of happening of declared event is thought as insured. Associate degree insured is generally associate degree contract holder.

2. **INSURER:**
   The party who guarantees to pay indemnity the insured on the happening of any contingency is thought as insurance firm. The insurance firm is associate degree insurance underwriter

3. **BENEFICIARIES:**
   The person or the party to whom the policy takings are paid within the event of the death or happening of any contingency is termed the beneficiary.
4. POLICY:
The term policy springs from the Italian word 'polizza', which suggests "receipt". The document that contains the terms and conditions of the insurance contract and issued by the insurance firm is thought as contract.

5. PREMIUM:
The amount that is paid to the insurance firm by the insured in thought to insurance contract is thought as premium. It should be paid on monthly, quarterly, half-yearly, yearly or as specified. It's the value for associate degree contract.

6. INSURED TOTAL:
The total that the chance is insured is termed the insured total, or the policy cash or the face price of the policy. This is often the utmost liability of the insurance firm towards the insured.

7. PERIL:
A peril is an incident that causes a private or property loss, by fire, windstorm, explosion, collision, premature death, sickness, floods, dishonesty, etc.

8. HAZARD:
Hazard could be a condition which will produce, increase or decrease, the possibilities of loss from a given peril.

9. EXPOSURE:
An exposure could be alive of physical extent of the chance. A private who owns a business house could also be subjected to economic loss and individual loss owing to his business and private exposures.

10. PROBABILITY OF LOSS:
It is the probable variety of times in any given variety of exposures that loss can occur. The very best probability of loss is a hundred per cent meaning the loss in bound. Once the possibility of loss is zero, the degree of risk is additionally zero.
1.12 THE ELEMENTAL PRINCIPLES OF INSURANCE

The mechanism of insurance involves a written agreement within which the insurance agrees to supply financial protection against a nominal set of risks for a value referred to as the premium. It's thence basically a degree intangible product. The insurance client cannot see or feel the merchandise he or she is shopping for. And although the policy document will offer the comfort that the coverage is on; typically no real service is delivered till a claim happens.

In traditional industrial transactions, the legal maxim "Caveat customer," Latin for "Let the client Beware," operates. This implies that the client takes the chance concerning the standard or condition of the property purchased. This, in turn, implies that the client has the chance to look at the merchandise before purchase. Since, in sight of what's declared within the preceding paragraph, the insurance client has no such chance, insurance transactions would like be ruled by special principles so as to shield the interests of the catching parties, significantly the client.

It is in sight of this that the contracts are ruled by bound special elementary legal principles. These build insurance contracts terribly distinctive and totally different from different kinds of economic contracts. As we tend to shall see below, there are, however, variations between life and general insurance with regard the appliance of the principles. We tend to shall indicate these within the course of the discussions.

The fundamental principles are:

A. The Principle of Utmost Good Faith: The duty of the insured and therefore the insurance firm to disclose all relevant facts. This is often relevant to each life and general insurance.

B. The Principle of Insured Interest: The right to insure - it's a requirement for associate degree insurance contract to own validity. This principle is additionally relevant to each life and general insurance.

C. The Principle of Indemnity: It determines the extent of insurer's liability within the case of loss. The necessity for determinant the liability is, however, for the most part applicable to general insurance alone.
D. The Principle of Contribution: A corollary of the indemnity-principle solely applicable to general insurance. It tells U.S.A. however the liability is to be met once the insured has taken insurance with over one insurance firm.

E. The Principle of Subrogation: Another corollary of the indemnity principle and once more solely applicable to general insurance, refers to the rights that an insurance firm acquires vis-a-vis the insured once the insurance firm has paid him associate degree indemnity, and

F. The Principle of Proximate Cause: The rule that determines a way to proceed with process a claim lodged by associate degree insured, once a loss may apparently be derived to over one event, a number of that don't seem to be coated by the insurance contract.

**1.13 LIMITATIONS OF INSURANCE:**

In spite of range of benefits of insurance, it's bound limitations. On account of such limitations, the advantages of insurance couldn't be availed fully. These limitations are:

1. **All the risks cannot be insured.** Solely pure risks are insured and speculative risks don't seem to be insured.

2. **Insurable interest (financial interest) not the topic matter of insurance either at the time of insurance or at the time of loss, or at each the days should be gift, within the absence of that the contract of insurance becomes void.**

3. **In case the loss arises from the happening of the event cannot be valued in terms of cash, such risks don't seem to be insured.**

4. **Insurance against the chance of one individual or a tiny low cluster of persons don't seem to be suggested, since it's not practicable attributable to higher price concerned.**

5. **Another necessary limitation is that the premium rates area unit higher in our country and in and of itself, bound class of individuals cannot avail the advantage of insurance. The most reason for the upper rate of premiums is that the higher disbursal.**

6. **It becomes troublesome to regulate ethical hazards in insurance. There are a unit bound folks that mystifies the insurance plans for his or her self-interest by claiming false claims from insurance corporations.**
7. Insurance isn't a profitable investment. Its main object is to produce security against risks; insurance business cannot be a supply to amass profits.

8. Certain such risks is insured with co-operation of the govt. only; like, state insurance, economic condition of banks, food insurance, etc.

1.14 OBJECTIVES OF LIC OF INDIA

1. Spread life assurance wide and particularly to the agricultural areas and to the socially and economically backward categories with a read to reaching all insured persons within the country and providing them adequate monetary cover against death at an affordable price.

2. Maximize mobilization of people's savings by creating insurance-linked savings adequately engaging.

3. Bear in mind, within the investment of funds, the first obligation to its policyholders, whose cash it holds in trust, while not losing sight of the interest of the community as a whole; the funds to be deployed to the most effective advantage of the investors furthermore because the community as a whole, keeping in sight national priorities and obligations of engaging come.

4. Conduct business with utmost economy and with the complete realization that the moneys belong to the policyholders.

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

6. Meet the varied life assurance wants of the community that might arise within the dynamic social and economic setting.

7. Involve all individuals operating within the Corporation to the most effective of their capabilities in furthering the interests of the insured public by providing economical service in a well mannered way.

8. Promote amongst all agents and workers of the Corporation a way of participation, pride and job satisfaction through discharge of their duties with dedication towards action of company objectives.

1.15 ORGANISATIONAL STRUCTURE OF LIC OF INDIA:

Indian life insurance industry has undergone a sea change. It has experienced new challenges of intense competition and struggle for survival since the introduction of insurance reforms since 1999. The reforms in the insurance sector are continuous and they should be made more
transparent, viable and sound in the changing economic environment. The future of the liberalized insurance industry is a big challenge to many stakeholders. The variables which reflect the growth and development aspects of the life insurance industry include among others new business, product development, social obligations, profitability, distribution channels and customer servicing.

1.15.1. THE INTEGRAL FOCUS OF LIC:

The major focus of the present study is on the following objectives:

1. The Organization of the Corporation is on the pattern generally indicated within the life assurance Corporation Act. 1956. Divisional Offices, 42 in range and with outlined territorial jurisdiction for the event of recent business within the various areas, area unit answerable for the whole conjugation of recent insurance policies from the time of acceptance of proposals to settlement of claims. co-ordination and general management vest within the 5 zonal offices and the main office, the main office being answerable for the formulation of broad policies and procedures. Investment of funds is that the sole responsibility of the workplace.

2. The Chairman is that the Chief govt. of the Corporation. The 15 members constituting the Corporation manage the affairs of the Corporation. The work of the Corporation is conducted through numerous committees like govt. Committee, Investment Committee, Service and Budget Committee, additionally, for every zone, consultative Boards and workers and Agents Relations Committee are brought about and they functioned in as consultative capability, since thirty first August 1971, these committees have conjointly been brought about in every of the Divisional Offices. The opposite authorities mentioned within the Act and the rules area unit the Managing administrators, govt. administrators and Zonal Managers.

3. Once the Corporation was brought about on the 1st Sep 1956, the work of desegregation into one organization the controlled business of 243 units engaged within the dealing of life assurance business in India was obsessed. In crucial the structure discovered, it absolutely was thought of necessary to avoid, to the most extent attainable, dislocation within the conjugation of the prevailing policies throughout the amount of shift. For this reason the machinery provided by the
previous Head workplace Units of the insurers was left for the most part undisturbed. However, as a primary step towards final integration, all the top offices brought about at the Zonal Head Quarters were integrated into restricted range of body units. In the city of urban center, for example, there have been fifty Head Offices of Indian insurers, nine Principal Offices of Foreign insurers and fifteen Head Offices of Provident Societies. The workplaces below the primary 2 classes were combined into nine integrated head office (IHO) teams. Another cluster referred to as associate degree integrated branch workplace unit was fashioned comprising the branch offices of insurers with one pension fund and of fifteen provident societies in urban center. Thus, integrated head workplace teams, and integrated branch workplace teams were handling the conjugation of existing policies within the urban center town. At centers apart from zonal headquarters, all the top workplace units and all branch workplace units of the previous insurers had been classified along and were treated as a part of the Divisional workplace, in whose space the various IHO units or IBO units were set.

4. The fusion of existing business was handled by IHO and IBO Units additional or less on identical lines as was being done by the various head offices and Branch offices of the insurers involved before the appointed day. However, in every of the IHO and IBO teams, steps have been taken for achieving uniformity in practice and, for this purpose, the work of a number of the departments of the varied units, wherever there was over one unit during a cluster, had been integrated, similarly, a simplified system of accounting had been introduced, so the work of the money and accounts department was done on a standardized pattern. The mixing work was being pursued with a watch to prompt disposal of labor and economical fusion of policies. Further, existing policyholders had conjointly been given the advantage of the additional liberal policy conditions offered by the corporation for its own policies e.g., discharge of premiums below whole life policies when the assured attains age eighty or has paid premiums already for thirty five years whichever is later, removal of war risk further premium and different restrictions on policies issued to military personnel, etc.

5. This arrangement for the conjugation of recent policies proved a short lived one, it was absolutely meant that ultimately all policies issued before 1st September, 1956 should be serviceable by the Divisional Offices of the Corporation under which
jurisdiction the policyholders resided. This method of decentralization concerned transfer of policy records from the prevailing central office to the involved Divisional Offices so as to confirm that the method of decentralization was accelerated while not dislocating service to the policyholders, the Corporation has discovered associate degree Integration Department at the main office to handle the decentralization of policies and issue directions to the prevailing units during this behalf furthermore on subsume complaints.

1.16. IMPORTANT FUNCTIONS OF LIC:
Main functions of Life Insurance Corporation of India are as follows:

1. To ensure full protection to the policy holder.
2. To encourage & channelize public savings.
3. Effective and efficient utilization of savings in different forms of investments for national & economic development.
4. To create liquidity position in public.
5. To motivate saving habits in public.
7. To ensure absolute security as the first and foremost function to the prospective insured of life insurance.
8. Underwriting the important activities of Life Insurance Corporation i.e. scrutinizing and making decisions on the proposals for the insurance.
9. Issuing policy documents to the policy holders as an evidence of the Insurance contract.
10. Life insurance mainly protects the common man by providing cover through individual policies, group schemes and social security schemes.
11. To create employment opportunities in rural & urban areas.
12. To make intensive and extensive publicity drives in public for channelizing insurance business.
13. To encourage mobilization for development through shaping up of savings and also to have better utilization of those savings.
14. To contribute social oriented investment to improve the quality of the society, especially with respect to electricity, water supply, housing and agro based industries.
15. Life Insurance Corporation has been giving high priority for rendering various services to policy holders.
16. Other important functions are maintaining accounts, management of personnel, processing of data, formulating policies, procedures, setting up of objectives and goals, compliance with regulations and law of the country.

1.17. ORGANISATION AND MANAGEMENT OF LIC OF INDIA:
The LIC’s main office is set in urban center i.e. Mumbai. It’s seven Zonal Offices, 102 Divisional Offices and 2048 Branch Offices in India and 3 Branches outside India. The subsequent table presents the distribution of every class of its offices.

**Table No.1.17**

**LIC Structure**

<table>
<thead>
<tr>
<th>Zones</th>
<th>Divisional Offices</th>
<th>Branch Offices</th>
</tr>
</thead>
<tbody>
<tr>
<td>North</td>
<td>16</td>
<td>322</td>
</tr>
<tr>
<td>North – Central</td>
<td>11</td>
<td>247</td>
</tr>
<tr>
<td>Central</td>
<td>07</td>
<td>140</td>
</tr>
<tr>
<td>Eastern</td>
<td>18</td>
<td>357</td>
</tr>
<tr>
<td>South – Central</td>
<td>16</td>
<td>314</td>
</tr>
<tr>
<td>South</td>
<td>12</td>
<td>261</td>
</tr>
<tr>
<td>Western</td>
<td>22</td>
<td>407</td>
</tr>
<tr>
<td><strong>Total</strong></td>
<td><strong>102</strong></td>
<td><strong>2048</strong></td>
</tr>
</tbody>
</table>

*Source: LIC Diary 2014-15*

1.17.1. OFFICES OF THE LIC & DEPARTMENTS:
For the effective management and management of the LIC, the offices of the Corporation area unit divided into:

1. Central Office
2. Zonal Office
3. Divisional Office
4. Branch Office

1. THE MAIN OFFICE (CENTRAL OFFICE):
The main office of Corporation is set in Mumbai. It’s the very best dominant purpose of the Corporation. This workplace functions below the care of Board of administrators and completely different committees of the Corporation.

A. FUNCTIONS:
The necessary functions of the main office area unit as under:

- Determination of requisite policies and plans.
- Problems directions to Zonal and Divisional Offices from time to time.
- Establishing co-ordination between Zonal and Divisional workplace.
- Exercise management over Divisional and Branch Offices through Zonal Offices.
- Investment of Funds of the Corporation.
- Organizing conferences of Zonal Managers and Annual General Conferences of Divisional Managers.
- Management of the activities of Divisional and Branch Offices and auditing of their accounts.
- The Standardization of labor strategies, fixation of premium rates, arrangement of re-insurance, publicity, etc.

B. IMPORTANT DEPARTMENT IN MAIN OFFICE:
For the aim of discharging these functions, some departments are discovered within the main office. The necessary departments are:

- Development Department
- Investment Department
- Company Department
- Organization designing Department
- Policy holder conjugation Department
- The Finance and Accounts Department
The estimator Department
Audit and review Department
Legal and Mortgage Department
Cluster and Superannuation Department
Personal Department
Vigilance Department
Electronic processing Department
Integration Department
Content Department
Foreign Department

1.17.2. ZONAL OFFICES:
The Zonal Offices of LIC is at Kanpur, Hyderabad and Madras. It brings uniformity within the activities of their jurisdiction. Is set in urban center, Calcutta, Delhi, is that the main duty of the Zonal Offices to varied Divisional Offices operating below

Functions of Zonal Offices area unit as below:

1. To control the functioning of the officers and workers to arrange the event designing of insurance business within the specific zone.
2. It evaluates the quantum of risk concerned in revival of policies, that area unit on the far side the powers of Divisional workplace.
3. To take policy choices in technical matters received from subordinate offices within the zone.
5. It conjointly plays consultative role in personnel and legal matters, management of corporation's workplace buildings, purchase of stationary, article of furniture and instrumentation, printing of forms and different documents, etc.
6. The roles of 2 committees’ area unit important with organization and management of zonal offices. They are:
A. **ZONAL CONSULTATIVE BOARD/COMMITTEE:**
Every zonal workplace has the ability to line up a Zonal planning board below each zone. This board provides necessary recommendation to involved zonal manager in matters regarding business policies. This board is brought about by eight to twelve members.

B. **EMPLOYEES AND AGENTS RELATIONS COMMITTEE:**
There is provision within the Insurance Act to line up workers and agents relations committee. This committee constitutes with five hundredth members from workers and five hundredth from agents. Its main operate is to advise the zonal manager in welfare matters and employers and agents.

C. **ZONAL MANAGERS:**
The Chief workplace of the Zonal workplace is that the Zonal Manager who manages and controls the functioning of Zonal Office and executes the orders and directions from the main office. Zonal Managers area unit answerable for the subsequent functions:

1. Makes arrangement for social control development and coaching activities.  
   Enlargement of branches & development of insurance agents.
3. Playing the role of “Appeal Office” for out of doors aggrieved individuals.

**B. IMPORTANT DEPARTMENT IN ZONAL OFFICES:**
1. The non-public and Industrial Relations Department
2. The event Department
3. The Estates Department
4. The Legal and Mortgage Department
5. The Accounts Department
6. The estimator Department
7. Building and Engineering Department
8. Workplace Services Department
9. Zonal coaching Department
**1.17.3. DIVISIONAL OFFICES:**

The purposeful areas of seven zonal offices of LIC are distributed to a variety of offices. Divisional Offices is a crucial purposeful space purpose of the corporation. It provides numerous forms of services to policyholders, furthermore on the agents, development officers, workers and branch offices.

Divisional Manager is answerable for all the functions of Divisional workplace. He discharges his functions below the direct management of Zonal Manager. He evaluates the plans and budgets of branch offices and a report is distributed to Zonal Manager.

There is a provision for putting in place a management committee in Divisional workplace. This committee establishes coordination between completely different departments of divisional workplace. It conjointly determines the final objectives of Divisional workplace. The subsequent is that the constitution of this committee.

**A. FUNCTIONS OF DIVISIONAL OFFICES**

1. Chief of Divisional workplace as Chairman.
2. All the Department heads area unit appointive members.
3. A meeting of the committee is command once in fortnight, gathering is four members in person attending the meeting.
4. The functions of this committee include:
5. Approval of the budget proposals of branch / divisional workplace. Valuate the monthly progress reports.
6. Accepting the proposals of common management.
7. Issues of directions for bury division cooperation.
8. Give suggestions to prime officers for improvement in policies towards work strategies and policies.
9. Efforts to extend goodwill of the corporation.
10. Consideration of matters wherever collective efforts area unit required. Discharging of functions delegated by prime authority.
11. To consider the matters, that improves the potency of each unit of the corporation.
B. IMPORTANT DEPARTMENT IN DIVISIONAL OFFICES:
The departments below divisional offices are as follows:

1. Designing Department
2. Policy holder conjugation Department
3. Accounts and money Department
4. Claim Department
5. New department
6. Workplace Service Department
7. Legal and Mortgage Department
8. Promoting Department
9. Personal and Industrial Relations Department
10. Processing Department
11. Branch Support Department
12. Institution Department
13. Mailing Department

1.17.4 BRANCH OFFICES:
Branch Offices are discovered below the direct management of Divisional Offices. Branch Offices are the first centers of LIC through that the insurance business is obtained. A serious part of the LIC workers and officers are operating in Branch Offices. The issues of policyholders’ principally resolved by the Branch Offices. Nearly 2/3rd of the full financial gain of the LIC is earned through the Branch Offices. Nearly seventy fifth of the social control expenses are spent by the Branch Offices. Branches are a unit initial contacting place for the proposer's.

The Branch Manager is head of the Branch and he's answerable for effective functioning of the Branch workplace. There’s provision for putting in place a management committee at each branch workplace. Nowadays 2008 Branch Offices are unit functioning within the country, this includes ninety nine new branches opened throughout the year 1993-94. The zone wise distribution of branch offices has been given within the previous chapter.
A. IMPORTANT DEPARTMENT IN BRANCH OFFICES:
Usually the subsequent departments’ area unit setup during a branch workplace.

1. New department
2. Policy holder conjugation Department
3. Account Department
4. Workplace Service Department
5. Sales and Development Department
6. Claim Department
7. Machine Department

1.18. CAPITAL OF THE CORPORATION:
The original capital of the corporation shall be 5 crores of rupees provided by the central government when due appropriation created by parliament by law for the aim and the terms and conditions regarding the supply of such capital shall be like could also be determined by the central government.

The central government could on the advice of the corporation, cut back the capital of the corporation to such extent and in such manner because the central government could confirm.'

1.19 INSURANCE LAWS IN INDIA:
There are unit chiefly four laws area unit involved with the insurance business of Bharat area unit as follows.
A. Insurance Act, 1938
B. Life Insurance Corporation Act, 1956
C. General Insurance Business (Nationalization) Act, 1972
D. Insurance Regularity and development authority Act, 1999 (IRDA)

1.20 INTRODUCTION TO IRDA, IT'S REGULATIONS AND SALIENT FEATURES:
In 1999, the Government of India incorporated Insurance restrictive and Development Authority IRDA to fulfill the legislative needs to curtail insurance grievances. It was set-up to
produce reforms for the institution of associate authority, for shielding the interests of policy holders of insurance sector, to manage, promote and protect nondepository financial institution’s orderly growth of the insurance transactions and for many other matters concerned thereupon or incidental to it. With the enaction of IRDA, the govt. simultaneously amended many other insurance laws like the insurance Act, 1938, the life assurance Corporation Act, 1956 for the sake of correct holding at apex level.

1.20.1. INTRODUCTION:

It was imminent to make changes in insurance industry after Malhotra committee report was published. Unfortunately, because of instability at Central Government, required changes in regulations could not become feasible in the parliament. The final decision was taken in the year 1999. On 16th March, 1999, the Cabinet of India approved The Insurance Regulatory Authority (IRA) Bill which was specially designed for the liberalization of the insurance sector. However, the BJP Government fell in April 1999 and the deregulation of insurance sector was put on hold once again. An election was held in later part of 1999 and again new BJP-led government came to power. On 7th December, 1999, this new government showed green signal to the Insurance Regulatory and Development Authority (IRDA) Act. This Act curtailed the monopoly conferred to the Life Insurance Corporation in 1956.

The authority which was incorporated by the Act is now famous as IRDA. It has total ten members. Later on IRDA conferred new licenses to private companies (mentioned in below table). IRDA has bifurcated insurance business into life, non-life and reinsurance. Therefore, it was necessary for a company to have separate licenses for each line of business and each license has its own capital fund requirements (which is around USD24 million for life or non-life and USD48 million for reinsurance).

The Insurance Regulatory and Development Act of 1999 were set out as follows.

“To provide for the establishment of an Authority to protect the interests of holders of insurance policies, to regulate, promote and ensure orderly growth of the insurance industry and for matters connected therewith or incidental thereto and further to amend the Insurance Act, 1938, the Life Insurance Corporation Act, 1956 and the General Insurance Business (Nationalization) Act, 1972.”
The Act effectively and efficiently reinstituted the Insurance Act of 1938 with marginal modifications whatever was not explicitly explained in the 1999 Act referred back to the 1938 Act.

(1) Creation and functioning of an Insurance Advisory Committee which sets out codes of conduct.

(2) It clarifies the role of the “Appointed Actuary”. The appointed actuary should be a fellow of the Actuarial Society of India. For life insurers the Appointed Actuary should be an internal company employee, but for non–life insurance company, the appointed actuary may be an external consultant. The Appointed Actuary would be held responsible for reporting a detailed account of the company to the Insurance Regulatory and Development Authority.

(3) As per the “Actuarial Report and Abstract”, pricing of products should be given in detail. It includes details of the basic assumptions for valuation.

(4) It lays down certain requirements for an agent. For example, insurance agents should have at least a high school diploma along with training of 100 hours from a recognized institution.

(5) Under “Assets, Liabilities, and Solvency Margin of Insurers”, the IRDA has set up strict guidelines for asset and liability management of the insurance companies along with solvency margin requirements.

   (A) The required solvency margin is based on mathematical reserves and sum at risk, and the assets of the policyholders’ fund;

   (B) The available solvency margin is the excess of the value of assets over the value of life insurance liabilities and other liabilities of policyholders’ and shareholders’ funds. For general insurers, this is the higher of RSM-1 or RSM-2, where RSM-1 is based on 20% of the higher of (i) gross premiums multiplied by a factor A, or (ii) net premiums; RSM-2 is based on 30% of the higher of (i) gross net incurred claims multiplied by a factor B, or (ii) net incurred claims.

(6) Under the “Registration of Indian Insurance Companies”, it sets out codes of conduct of registration of an insurance company along with renewal requirements. It emphasis to give detailed background of each of the following
key personnel: Chief Executive, Chief Marketing Officer, Appointed Actuary, Chief Investment Officer, Chief of Internal Audit and Chief Finance Officer. Details of sales force, activities in rural business and projected values of each line of business are also required.

(7) Under “Insurance Advertisements and Disclosure”, details of insurance advertisement in physical and electronic media has to be detailed with the Insurance Regulatory and Development Authority. The advertisements have to comply with the regulation prescribed in section 41 of the Insurance Act, 1938. The Act of 1938 says, “No person shall allow or offer to allow, either directly or indirectly, as an inducement to any person to take out or renew or continue an insurance in respect of any kind of risk relating to lives or property in India, any rebate of the whole or part of the commission payable or any rebate of the premium shown on the policy, nor shall any person taking out or renewing or continuing a policy accept any rebate, except such rebate as may be allowed in accordance with the published prospectus or tables of the insurer.”

(8) All insurers are required to provide some coverage for the rural sector. It is called the “Obligations of Insurers to Rural Social Sectors”

1.20.2. REGULATIONS:

On July 14, 2000, the Chairman of the IRDA, Mr. N. Rangachari set forth a set of regulations in an extraordinary issue of the Indian Gazette those details of the regulation.

The first covers the Insurance Advisory Committee that lightens upon the rules and regulation regarding functioning of insurance sector.

The second stated that the "Appointed Actuary" should be a Fellow of the Actuarial Society of India. It is also mentioned that there has been a dearth of actuaries in India with the required qualification of a Fellow of the Actuarial Society of India, and this becomes a requirement of large order. As a result, many companies were not able to attract a qualified Appointed Actuary (Dasgupta, 2001). To overcome this situation, the IRDA is planning to set the process of replacing the Actuarial Society of India by a newly formed institution known
as the Chartered Institute of Indian Actuaries (which is modelled in the line of the Institute of Actuaries of London).

**Third,** the Appointed Actuary would be held responsible for reporting of a detailed account of the company to the IRDA.

**Fourth,** minimum qualification for insurance agents is least a high school diploma along with training of 100 hours from IRDA recognized institutions.

**Fifth,** the IRDA has set up strict guidelines on asset and liability management of the insurance companies along with solvency margin requirements.

**Sixth,** the disclosure requirements have been kept rather vague. This has been done despite the recommendations to the contrary by the Mukherjee Committee recommendations.

**Seventh,** all the insurers are forced to provide some coverage for the rural sector.

1. In respect of a life insurer, (a) five percent in the first financial year; (b) seven percent in the second financial year; (c) ten percent in the third financial year; (d) twelve percent in the fourth financial year; (e) fifteen percent in the fifth year (of total policies written direct in that year). 2. In respect of a general insurer, (a) two percent in the first financial year; (b) three percent in the second financial year; (c) five percent thereafter (of total gross premium income written direct in that year).

**1.20.3. SALIENT FEATURES:**

The Government introduced IRDA Bill in 1999 which was passed by the parliament. The salient options of IRDA Act, 1999 area as under:

The authority can frame rules and laws pertaining to numerous matters like fees with special reference to registration of insurers, methods of suspension or cancellation of registration, methods and procedure of disinvesting excess share capital, time associated manner of investment of assets control by an nondepository financial institution etc.
"Indian Insurance Company" outlined to mean a corporation registered below the businesses Act, 1956 with foreign equity not exceptional 26% of total equity holding as well as equity holding of Non-resident Indians (NRI), Foreign Institutional Investors (FIIs), and Overseas company Bodies (OCBs) are allowed to hold on Insurance Business (Life Insurance, General Insurance and Re-insurance).

After commencement of insurer, the Indian promoters will hold over twenty sixth of the whole equity holding for a amount of 10 years, the balance shares being control by non promoter Indian Shareholders which will not embody equity of foreign promoters, and shareholding of FIIs. N'RIs adds OCBs.

After the permissible amount usually years, excess equity on top of the prescribed level of twenty sixth are disinvested as per a phased programmed to be indicated by IRDA.

Out of foreign promoters, the utmost of twenty sixth can continuously be operational. They’ll so be unable to carry any equity on the far side this ceiling at any stage.

The insurer, within the event of shares area unit sought-after to be transferred by a personal, Firm, Group, Constituents of a gaggle or Body company below an equivalent management, conjointly or severally exceeds one hundred and twenty fifth of the paid capital of the insurer, shall register such transfer solely once getting the previous approval of the authority.

All the powers presently being exercised below the Insurance Act, 193 eight by the Controller of Insurance (COI) are transferred to the Insurance restrictive and Development Authority (IRDA)

The Central Government by notification replaces the Authority for such amount not exceptional six months and appoints someone to be the Controller of Insurance. This power is to be exercised solely within the event the Authority is unable to perform its functions or discharge its duties or has persistently defaulted in yielding with the Central Government directions or once such super-session is critical publicly interest.
The minimum quantity of paid capital is Rs. a hundred large integer just in case of life assurance similarly as general insurance and Rs. two hundred large integer just in case of re-insurance.

Solvency margin (excess of assets over liabilities) to be maintained at not but Rs. fifty large integer for keeps similarly as general insurers and Rs. a hundred large integer for re-insurer.

Insurance corporations to deposit in money and/or approved securities with RBI add capable one hundred and twenty fifth of the gross premium written in Asian country in any twelvemonth commencing on 31st March, 2000 subject to a most of Rs.10 crores. However, just in case of re-insurance business the utmost limit is Rs. 20 crores. In non-life sector, IRDA would provide preference to corporations providing insurance.

No nondepository financial institution shall directly or indirectly invest the funds of the policyholders outside Asian country. The authority could specify the time and manner and alternative conditions of the investments of assets of the nondepository financial institution and should additionally issue directions relating to it.

Insurance agents to endure coaching for an amount not exceptional twelve months and to pass the examination as could also be such by laws to be framed by the authority. Existing License Holders area unit but exempt from it.

The negotiant and/or insurance negotiant will have to be compelled to endure a twelve months coaching and can be needed to pass the required examination. Negotiant can embody insurance brokers, re-insurance brokers, insurance consultants, surveyors and loss assessors.

Every nondepository financial institution shall offer life assurance or general insurance policies (including insurance for crops) to the persons residing within the rural sector, staff within the unorganized or informal sector or for economically vulnerable or backward categories of the society and alternative classes of persons as could also be such by laws created by IRDA.
Failure to meet the social obligations would attract a fine of Rs. twenty five lacks just in case the obligations area unit still not consummated, license would be off.
### 1.21. MILESTONES OF INSURANCE LAWS WITHIN THE TWENTIETH CENTURY:

**Table No-1.21**

**MILESTONES OF INSURANCE LAWS WITHIN THE TWENTIETH CENTURY:**

<table>
<thead>
<tr>
<th>Year</th>
<th>Legislative Changes</th>
</tr>
</thead>
<tbody>
<tr>
<td>1912</td>
<td>The Indian Life Insurance Company Act.</td>
</tr>
<tr>
<td>1928</td>
<td>Indian Insurance Companies Act.</td>
</tr>
<tr>
<td>1938</td>
<td>The Insurance Act: Comprehensive to Regulate Insurance Business in India.</td>
</tr>
<tr>
<td>1956</td>
<td>Nationalisation of Insurance Business in India with a Monopoly Awarded to Life Insurance Corporation of India.</td>
</tr>
<tr>
<td>1972</td>
<td>Nationalization of general insurance business in India with the formation of a holding company General Insurance Corporation</td>
</tr>
<tr>
<td>1993</td>
<td>Setting up of Malhotra Committee.</td>
</tr>
<tr>
<td>1994</td>
<td>Recommendations of Malhotra Committee Published.</td>
</tr>
<tr>
<td>1995</td>
<td>Setting up of Mukherjee Committee.</td>
</tr>
<tr>
<td>1996</td>
<td>Setting up of (Interim) Insurance Regulatory Authority (IRA)</td>
</tr>
<tr>
<td>1996</td>
<td>Recommendations of (Interim) IRA Published</td>
</tr>
<tr>
<td>1997</td>
<td>Mukherjee Committee Report submitted but not made public</td>
</tr>
<tr>
<td>1997</td>
<td>The Government gives greater autonomy to Life Insurance Corporation, General Insurance Corporation and its subsidiaries with regard to the restructuring of boards and flexibility in investment norms aimed at channeling funds to the infrastructure sector.</td>
</tr>
<tr>
<td>1998</td>
<td>The cabinet decides to allow 40% foreign equity in private insurance companies- 26% to foreign companies and 14% to Non-resident Indians and Foreign Institutional Investors.</td>
</tr>
<tr>
<td>1999</td>
<td>The Standing Committee headed by Murali Deora decides that foreign equity in private insurance should be limited to 26%. The IRA bill is renamed the Insurance Regulatory and Development Authority Bill.</td>
</tr>
</tbody>
</table>
1999 | Cabinet clears Insurance Regulatory and Development Authority Bill.

2000 | President gives Assent to the Insurance Regulatory and Development Authority Bill.

Source: - Tapan Sinha, CRIS Discussion Paper Series- 2005 III, The University Of Nottingham, Mexico

1.22 KINDS OF INSURANCE

LIC offers various kinds of insurance plans for various needs. People need different types of plans which can meet their different requirements, so LIC has to offer variety of plans which can meet the requirements of people. Followings are the main types of plans which LIC offers to the public by and large.

1. WHOLE LIFE INSURANCE:
Whole life assurance guarantees a benefit cowl throughout the course of life, provided the desired premiums area unit paid.

The advantage of whole life assurance is that the policy, if unbroken current, covers you over your entire life, as opposition term 'insurance' that covers you merely for a definite term of years. Whole life assurance policies disburse on the death of the assured, whenever it happens. Premiums might have to be paid throughout the lifetime of the assured, or a lesser restricted amount.

2. TERM INSURANCE:
Term Insurance pays a benefit to the legal heirs if the person insured dies throughout the term of the policy.

Such a policy provides protect such amount solely and should be delineated as temporary insurance.

Term 'insurance plans' supply pure risk cowl with none part of saving. Hence, they're the foremost cheap. The add assured is collectible given that the insured dies throughout the
chosen amount. Just in case the insured doesn't die throughout the tenure of insurance, nothing is collectible.

Term insurance plans may be of the subsequent completely different types-

A. DECREASING INSURANCE:
Under this set up, the premium is constant throughout the term; however the profit decreases over an amount of your time. Hence, the number collectible on death depends on the temporal order of the death, albeit the premium being paid is constant.

This set up is suited to cases wherever there's a short lived would like, that is reducing.

For example, wherever a real estate loan must be repaid, that reduces on a monthly or annual basis.

B. RENEWABLE INSURANCE:
Though term 'insurance' is for a hard and fast amount, a renewable Term policy provides the correct to renew the policy while not submitting contemporary proof of health. The new premium but, is augmented to mirror the augmented age of the life insured.

C. CONVERTIBLE INSURANCE:
Such an idea includes a conversion privilege, which provides the proposer the correct to convert the policy to a permanent set up (endowment) while not proof of health. If such associate choice is exercised, the premium for the new set up should be the quality rate for such an idea and therefore the actual age of the life insured on the date of conversion of policy.

Convertible policies area unit helpful for people that have low financial gain these days and thus cannot afford to pay high premium within the initial years.
D. INCREASING INSURANCE:
Under this set up, the premium similarly because the profit quantity will increase sporadically as agreed. The will increase may be at a hard associated fast proportion or in line with a united index.

This set up is useful to keep the advantages in line with the duration of cash, in order that inflation doesn't erode the worth of the advantages received.

E. LEVEL TERM INSURANCE:
Under this set up, there's a standardized premium and profit throughout the term of the policy. Within the event of death anytime throughout the term, an equivalent adds assured is collectible. Wherever the term is for over a year; the renewal premium is that the same annually.

This policy set up is that the most well-liked term 'insurance set up mainly' owing to its simplicity. It’s a solution to a short lived would like that neither will increase nor decreases over that amount of your time. For instance, a payment quantity that is due at a definite purpose of your time.

3. ANNUITIES:
Annuities area unit a type of pension within which associate insurer makes a series of periodic payments to someone (annuitant) or his or her dependents over variety of years (term), reciprocally for the money paid to the insurer either in a very payment or in installments.

Annuities begin wherever life assurance ends. It's known as the reverse of life assurance. Rented stops on death of someone, whereas in theory, life assurance starts on the death of the assured.

Annuities are of 2 types-

1. POSTPONED ANNUITIES:
Under a postponed regular payment set up, the regular payment payments to the recipient start at some such as time or such as age of the recipient. This sort of regular payment is funded either by one payment or a series of normal payments.

The regular payment starts when the lapse of a specific amount referred to as the deferral amount.

Other than the higher than, the subsequent 2 varieties of policies are in style in India-

2. **IMMEDIATE ANNUITIES:**
Immediate annuity begins directly or forthwith on termination of the selected amount. Immediate annuity is purchased with one premium known as terms. This kind of annuity is usually purchased once someone reaches retirement age and encompasses a lump sum to speculate.

If the person shopping for the annuity dies throughout the term, his/her legal heirs or nominees get the remaining installments of the annuity.

4. **ENDOWMENT INSURANCE:**
Pure endowment may be a set up wherever the profit is collectible to the insured solely on survival of the required term. Combining the options of term assurance and pure endowment area unit endowment policies that disburse either on the death of the assured, whenever it happens, or once a hard and fast variety of years.

Should someone survive the term of the policy, the policy is claimed to mature. Hence, the claim, below associate endowment policy, could arise either by death or by maturity.

5. **WITH PROFITS AND WITHOUT PROFITS:**
The nondepository financial institution charges premiums supported mortality rates, interest earned on investments and expenses. If these factors are favorable to the life assurance corporations, then they'll earn a profit or surplus. The excess generated should be preserved. A significant portion of the excess, however, is distributed to the policyholders.
A life assurance policy, that has extra amounts value-added to the total assured, or paid singly as money bonuses, *as a result of a surplus or profit created on the investment of the fund by the life assurance company*, is termed a *WITH PROFITS POLICY*.

*The surplus generated by the nondepository financial institution that is distributed to the policyholders is thought as BONUS.*

*Policies that aren't entitled to bonus are referred to as while NOT PROFIT POLICIES.*

There are varied completely different strategies of hard the bonuses—

**A. BONUS ON ACCUMULATION ACCOUNT:**
This is a recent introduction wherever the bonus is calculated on the quantity that is still within the accumulation account of the client, when the commissions and expenses are subtracted.

**B. EASY REVISIONARY BONUS:**
This is a total value-added to the quantity collectible on death or maturity of a 'with profits policy'. The bonus is value-added if the life assurance company features a surplus or a profit on the investment of its life funds.

**C. TERMINAL BONUS:**
This is an extra quantity value-added to payments created on maturity of Associate in nursing contract or on the death of Associate in nursing somebody. This is often a one-time addition created at the discretion of the life assurance company.

**D. COMPOUND INTEREST BONUS:**
This is a variation to easy interest bonus wherever the bonus that is asserted attaches to the policy and will increase the total assured. Thus, future year's bonus is calculated on the new total assured.
6. **UNIT LINKED POLICIES:**
A unit coupled policy could be a life assurance policy during which the advantages rely upon the performance of a portfolio of shares.

Each premium paid by somebody is split. A region is employed to produce life assurance cowl, whereas the balance is employed to shop for units in a very unit of Investment Company when deduction of prices, expenses, etc. during this approach, a little capitalist will get pleasure from investment in a much managed fund while not creating an oversized money commitment. The unit-linked policies will go up or down in price as they're coupled to the worth of the shares.

7. **HEALTH INSURANCE:**
Under the Insurance Act, 1938, insurance against illness and medical treatment isn't a part of the life assurance business. It's coated beneath the miscellaneous insurance business that could be a part of the overall insurance business. In several alternative countries, this is often not the case. They take into account insurance as a part of the life assurance business.

On an effort basis, LIC of Asian nation coated health connected risks at the side of ancient life assurance policy once they floated 'Asha Deep'. This was a close-ended theme from 07.9.93 to 30.11.93. This set up offered bound fastened payments to the life assured just in case they suffered from any of the required four major diseases, particularly cancer, excretory organ bother requiring transplantation, heart issues needing by-pass surgery or palsy.

The payment to the life assured isn't within the nature of compensation of medical expenses. The fundamental life cowl isn't littered with these payments. They're additions.

This experiment was a grand success. Inspired by this, LIC has introduced alternative schemes like 'Asha Deep II' and Jeevan Asha II etc.

After liberation of the insurance sector, new entrants have entered into the Indian market with innovative plans, to assist policy-holders cowl health connected risks with varied riders.

*Some samples of these riders are as follows*-
1. Critical Illness Rider
2. Dreaded Disease Rider
3. Major Surgical Assistance Benefit Rider
4. Accident Disability Benefit Rider

In these cases, payment is created to the life assured on identification of a terminal illness or once a significant surgery needs being undertaken or once there's incapacity due to an accident.

These riders are additions to the life assurance Policies and can't be issued as a separate policy.

Also, the rider advantages connected with life assurance policies cannot exceed the fundamental total assured.

8. TERM INSURANCE WITH RETURN OF PREMIUMS:
Under pure Term Assurance plans, if death of the life assured does not happen inside the chosen term, the policy involves associate in docs endways completion of term and premiums collected already aren't refunded. However, a variation of this set up has been devised whereby all the premiums collected are refunded, if the life assured survives the term. In effect, it implies that the interest earned on the premiums is used to stay the policy in effect further on grant a free term protect a couple of years on the far side completion of the term, despite the fact that the premiums collected are refunded.

 Having understood what bonuses are and the way they're calculated, we tend to conjointly got to grasp the subsequent terms-

1. RIDERS:
A rider is outlined as a special policy provision or cluster of provisions which will be value-added to a policy to expand or limit the advantages otherwise collectible.

Policy riders are extra advantages that supplement the fundamental good thing about total assured. This are
A. REVIVAL OF POLICY:
If the assured fails to pay the premium in time then the policy lapses. However, the assured is given the privilege of restorative the policy by paying the outstanding premium with interest.

B. DAYS OF GRACE:
It is given that the policy won't lapse if the renewal premium is paid inside 'Days of grace'. Thus, premiums are going to be accepted inside days of grace with none charge of interest or any penalty and no matter the health of the life assured.

C. NON-FORFEITURE REGULATION:
This is a really valuable privilege to the life assured just in case the premiums aren't paid. The non-forfeiture laws apply once the policy has no inheritable a surrender price.

1.23. LIC’s INTERNATIONAL OPERATIONS:
We envision LIC because the most popular international organisation business to the insurance and money desires of Non Resident Indians (NRIs) and other People of Indian Origin (PIOs) especially and of the worldwide market normally. LIC is present in 13 countries abroad through Branch Offices / Joint Venture Companies and Wholly Owned Subsidiary. The details are as follows:

A. BRANCH OFFICES:

- United Kingdom (Wembly)
- Mauritius
- Fiji

B. JOINT VENTURE SUBSIDIARIES:

1. KENINDIA ASSURANCE CO. LTD., KENYA:
A composite insurance company formed in 1978 by LIC of India, New India Assurance Co. LTD., Oriental Insurance Co. LTD., United India Insurance Co. LTD., National Insurance Co. LTD. and local (Kenyan) Shareholders'.
2. LIC (International) B.S.C. (C) Bahrain:

A venture Offshore Company promoted by the life assurance Corporation of Asian nation. Operations commenced in Gregorian calendar month 1989 with the subsequent objectives:

A. To supply US$ denominated policies to cater to the insurance desires of Expatriate Indians.
B. To produce insurance services to the holders of Asian nation registered policies of LIC of India presently residing in Gulf. NRIs of alternative countries will avail themselves of the services of the corporate through order business.

The company operates altogether 5 GCC countries through Chief Agents, within the Kingdom of Bahrain (M/s International Agencies Company Ltd.), Kingdom of Asian country (M/s Al Hamidi catching local time. Co.), State of Kuwait (M/s Warba nondepository financial institution. SAK), Qatar (M/s Investec WLL), and Dubai (M/s Kingstar Insurance Agencies), though the full-fledged branch workplace within the land of Sultanate of Oman (Chief Agent - M/s Gulf nondepository financial institution LLC).

3. LIC (Nepal) Ltd.:

A venture with the Vishal Group of industries, Nepal (which is listed on the Stock Exchange i.e. Nepal Stock Exchange) commenced its operation in December, 2001. The corporate operates through five Sales Centers at Kathmandu, Brat Nagar, Nepalgaunj, Pokhara and Butwal and 15 Branch Offices.

4. LIC (Lanka) Ltd.:


The company operates through 24 Branch Offices within the cities of capital of Sri Lanka, Ganpaha, Jaffana, Anuradhpura, Kandy, Puttalam and Batticaloa, Development Centers and 18 Distribution retailers.

5. SAUDI INDIAN CO. FOR CO-OPERATIVE INSURANCE, K.S.A.:
A composite insurance company promoted jointly by LIC of India, LIC (International) B.S.C. (c) Bahrain, New India Assurance C. Ltd. and Al Hokair Group of Saudi Arabia. The company is listed on the Saudi Stock Exchange (Tadawul).
<table>
<thead>
<tr>
<th>Country</th>
<th>New Business</th>
<th>Business in Force</th>
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</thead>
<tbody>
<tr>
<td></td>
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<tr>
<td>KENINDIA ASSURANCE CO. LTD., KENYA</td>
<td>7404</td>
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<td>LIC (INTERNATIONAL) B.S.C. (C) BAHRAIN</td>
<td>21085</td>
<td>683.95</td>
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<td>LIC NEPAL LTD</td>
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<tr>
<td>LIC LANKA LTD.</td>
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</table>

*Source: LIC Diary – 2014-15*
1.25. NEXT CHAPTER PLAN

Chapter – 2

REVIEW OF RELATED LITERATURE

1. Review of Related Literature
2. References
REFERENCES