

ADMINISTRATIVE REFORMS COMMISSION

Report
of the
WORKING GROUP

on

LIFE INSURANCE ADMINISTRATION

October 1968.

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LETTER OF TRANSMITTAL

TENNETI-VISWANATHAM,MP
CHAIRMAN,
Working Group on Life
Insurance Administration.

Camp: Bangalore.

October 7,1968.

Dear Sri Hanumanthaiya,

I have pleasure in presenting to you the Report of the Working Group on Life Insurance Administration. It has taken us longer than originally expected to complete our labours principally due to our anxiety to make the Report as complete and thorough as possible, as also to the unavoidable preoccupation of two of us with Parliament and to some upset of our schedule due to physical injuries sustained by Shri B.K.Shah in the last stages of our work confining him to bed for nearly four months when he was obliged to work from his sick bed.

I take this opportunity of thanking you for extending the time for submission of our Report.

We have made concrete suggestions regarding democratisation and effective decentralisation of the administration of the Life Insurance Corporation. We have also provided some in-built machinery which will provide corrective action from time to time. We hope that our recommendations, when implemented, will achieve the objectives of nationalisation effectively and speedily and make the Life Insurance Corporation the biggest factor in building up the country's economy on a sound basis giving satisfaction to the largest number of people in the country. The considerations of the administrative cost vis-a-vis the benefits to the society have been constantly kept in view. We will be amply rewarded if it helps the Administrative Reforms Commission in solving the administrative and other problems pertaining to the Life Insurance Administration.

On behalf of myself and Members of the Working Group I express our gratitude to Shri B.K.Shah, a Member of the Group, for the vast knowledge and experience of the insurance industry which he has brought to bear on our deliberations and recommendations.

I feel it my duty to mention here about the excellent help and cooperation which we have received from Shri S.S. Sharma, Secretary of the Working Group. I place on record our appreciation of Shri Sharma's contribution to our task - notably in the drafting of the Group's Report.

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I also record my grateful thanks to the Secretariat of the Group, namely S/Shri B.N. Bagchi, V.D.Seth and S.R. Kukkar for the valuable assistance given by them.

Yours sincerely,

sd/-
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INTRODUCTION

Nationalisation of Life Insurance.

Under an Ordinance promulgated on the 19th January 1956 all life insurance business was nationalised by Government. The Life Insurance Corporation of India was established on the 1st September, 1956 under the Life Insurance Corporation Act, 1956. In his broadcast to the nation at the time of nationalisation, the Finance Minister, Shri C.D. Deshmukh, stated that the nationalisation of life insurance would be another milestone on the road the country had chosen in order to reach its goal of a Socialistic Pattern of Society. Nationalisation of life insurance was conceived in a genuine spirit of service to the people and to introduce into the lives of millions in the rural areas a new sense of awareness of building for the future in the spirit of calm confidence which insurance alone could give.

Appointment of Working Group - Terms of Reference.

2. During its twelve years of existence, the Life Insurance Corporation has attracted the attention of the Parliament on more than one occasion. Therefore, as a part of its enquiry into the Administration, the Administrative Reforms Commission appointed the Working Group on Life Insurance Administration on the 11th August, 1967. A copy of the Commission's Order constituting the Working Group is at Appendix I.

INTRODUCTION

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The terms of reference of the Working Group are :-

- (i) to examine the organisation and the working of the Life Insurance Corporation of India in the light of the requirements that the Corporation shall so exercise its powers as to secure that life insurance business is developed to the best advantage of the community' and that in discharging its functions it 'shall act as far as may be on business principles
- (ii) to make suitable recommendations for the improvement of the business of the Corporation and the service provided by it to the policy-holders; and
- (iii) to suggest in-built agency or agencies for securing corrective action as well as furthering the growth of business.

3. The Estimates Committee of Parliament (1950-51), examined in detail the Estimates of the Life Insurance Corporation of India and submitted their Hundred and Thirty-fourth/^{Report}(Second Lok Sabha, in April, 1951.

Previous Enquiries.

Thereafter, the working of the Corporation up to the year ending 31st March, 1954 was examined by the Committee on Public Undertakings (Third Lok Sabha, in 1954-55, who submitted their Fourth Report in March 1955. A summary of the conclusions and recommendations

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INTRODUCTION

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contained in the Reports of the two Parliamentary Committees is given in Appendices II & III. We may, however, mention in passing that some of the important recommendations of these two Committees, like review of the surrender values of the Corporation's policies, premium rates and loan schemes, simplification and liberalisation of the procedure for sanction of policy loans, re-organisation of the Corporation etc., have not been implemented by the Corporation so far.

Questionnaires.

4. The first meeting of the Working Group was held at New Delhi on the 6th September, 1967. In October 1967 the Working Group issued a detailed questionnaire to the Life Insurance Corporation of India. A short questionnaire was also issued to the associations of the Officers and the Staff of the Corporation at the Central, Zonal, Divisional and Branch levels and also to Members of Parliament and important persons interested in life insurance administration (Appendix IV).

Replies.

5. The replies of the Life Insurance Corporation to our questionnaire were received in two batches on 28th December 1967 and 5th February 1968. Our questionnaire to the Corporation and its replies thereto will be found in Appendix V. A list of Members of Parliament and other important persons who sent replies to our questionnaire will be found in Appendix VI. A list of Associations

INTRODUCTION

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and other bodies who submitted Memoranda to the Group is given in Appendix VII.

5. The Group interviewed the representatives of (i) the Federation of Life Insurance Corporation of India Class I Officers' Association; (ii) the National Federation of Insurance Field Workers of India; (iii) the Life Insurance Agents' Federation of India; and (iv) the All-India Insurance Employees Association and recorded their evidence. A gist of the evidence recorded is given in Appendices VIII to XI. All these bodies, except the All-India Insurance Employees Association, also submitted written Memoranda which are re-produced in Appendices XII to XIV. The Group toured Zonal Centres and some Divisional and Branch Centres and recorded oral evidence of some of the Zonal, Divisional and Branch Managers. The Group also recorded evidence of the representatives of the Associations of Officers, Staff, Agents and others at these centres. The names of the centres visited and the representatives of Associations and other persons who tendered oral evidence are given in Appendix XV. We regret that owing to our other pre-occupations we could not visit some of the States to study their problems. We had no opportunity to visit any of the Foreign Offices of Life Insurance Corporation to study their working and, therefore, our views on the Corporation's foreign business are based only on the materials available to us.5

Evidence and
Memoranda.

INTRODUCTION

5.

Finalisation
of the Report.

7. The Group met the L.I.C. Management in September 1967. The Group held altogether 44 meetings and discussed specific issues at its meetings held in New Delhi, Bombay and Bangalore and finalised the Report at Bombay at its meetings from the 16th to 18th August, 1968.

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CHAPTER I
MESSAGE OF LIFE INSURANCE

CHAPTER I

MESSAGE OF LIFE INSURANCE

The Message. 1.1. (i) Every bread-winner of a family has to provide for his old age and, at the same time, ensure basic necessities of life for his family not only when he is alive but also after he is removed from the scene. This means that he has to save regularly a portion of his current income and forego temptations to spend the money on less urgent requirements of life.

(ii) An average family needs the continuance or at least 50% of the income of its bread-winner for 6 to 10 years in case of his death to enable it to maintain a minimum living standard and reestablish the family on its own feet. There is no better way than life insurance to provide such an income.

(iii) Life insurance is a unique method of savings. There is no other medium of investing one's savings which can, besides family protection, take care of building up a retirement benefit and cultivate the habit of compulsory savings without temptation of easy withdrawals.

(iv) Life insurance is the only form of savings which creates a sizeable capital immediately on payment of first premium and a promise to pay subsequent premiums. In case of all other forms of savings the capital is built up only to the extent of actual savings made.

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CHAPTER I

(v) Life Insurance offers benefits of sound management of individuals' savings through a well planned and diversified investment portfolio of a life company. Moreover, the savings effected through life insurance cater for liquidity in the sense that an insured can get at short notice either a policy loan or surrender value of his life policy to meet any financial emergency.

(vi) Life Insurance inculcates the habit of thrift and regular savings amongst the people. A nation which has developed this habit widely benefits indirectly through many other qualities which are thereby fostered among the people. For example, people become self-reliant, as many of the worries and uncertainties are eliminated through the protection offered by life insurance against unforeseen and unexpected calamities. People also look to future with calm confidence as they are enabled to plan ahead intelligently and strive for a betterment in life for themselves and their children through life insurance.

(vii) Life insurance, if successfully developed, lays strong foundations for a politically and socially stable and an economically viable society.

CHAPTER I

(viii) Thus, life insurance, whilst offering variegated benefits, creates a sense of security for every insured family and, at the same time, garners maximum resources, in the form of small savings of individual families, for a planned socio-economic development of a country. The resultant prosperity of a nation leads, in turn, to a greater potential for life assurance as further savings are generated in the national economy. To appreciate the snow-balling effect of the savings through life insurance business, one has only to look at the dizzy heights attained by the U.S. economy where savings through life insurance are Rs.4,002 crores annually, or to the U.K. economy where the annual savings through life insurance are Rs.582 crores.

What life insurance can do in India.

1.2. In India, the per capita income is estimated at as low as Rs.482 per annum (1955-57 quick estimate) 80% of the people live in villages and their income is intermittent and dependent on the vagaries of the weather and the people are generally unable to accumulate savings to take care of misfortunes that befall them due to disease, drought and early death. In such conditions, life insurance is an urgent economic and social need.

CHAPTER I

1.3. Dynamic development of life insurance business should:-

- (1) bring stability and protection to the vast majority of the families in the country;
- and (2) collect small savings of the people which may amount to as much as Rs.1,000 crores per annum.

1.4. It is now clearly recognised that the prosperity and progress of the nation depends on the development of agriculture for which massive capital investment is required. An investment of Rs.1,500 per acre on irrigation, or digging wells, or installing pumps or other machinery, will help to increase the annual income of a farmer by about Rs.5,000. Therefore, an investment of Rs.500 crores each year for these purposes will perhaps result in an increase of about Rs.1,500 crores in the national income. Such an increase in rural incomes will lead to increased savings capacity which would be effectively harnessed for life insurance thereby providing added security and protection to the rural families and increasingly larger investments in the national economy. Such investments should help the nation to build more fertiliser factories, dams to control floods and generate electricity, and so on.

CHAPTER I

1.5. . What the nation needs most today is capital and life insurance can bring it into the national economy by effectively mobilising the savings of the people.

1.6. . A brief history of the development of life insurance is given in Appendix XVI.

CHAPTER II

NATIONALISATION OF LIFE INSURANCE AND ITS
OBJECTIVES

CHAPTER IINATIONALISATION OF LIFE INSURANCE AND ITS OBJECTIVESCircumstances leading to nationalisation of life insurance.

2.1. The considerations which led the Government to nationalise life insurance business in India are well known. Prior to nationalisation, no serious efforts were being made by companies engaged in life insurance business to develop it intensively with the result that life insurance touched only the fringe of the community and its immense benefits to the family, the society and the country remained unknown to large sections of the people. The life insurance industry in India had to be geared up for the execution of the Plan programmes on which the country had embarked. One of the main objectives of planned development was to build up rapidly a Welfare state and it was, therefore, essential that the benefits of life insurance should be made available to every family in the country and that life insurance should be conducted with the utmost economy by the management acting in a spirit of trusteeship and canalising the life funds into the country's development programmes. These were the hopes and aspirations of the Government and the people.

Preparatory step towards nationalisation.

2.2. By the Life Insurance 'Emergency Provisions, Ordinance, 1956, promulgated by the President of India on the 19th January, 1956, the management and control

CHAPTER II

of life insurance business in India, including the foreign business of Indian insurers and the Indian business of foreign insurers, vested with immediate effect in the Central Government, and the business of life insurance passed from the Private Sector into the Public Sector. This was the first step towards complete nationalisation of life insurance business in India, a step never before attempted anywhere in the world on such a gigantic scale and one which opened a new chapter in the history of Indian Insurance.

2.3. The Life Insurance (Emergency Provisions) Act, 1956 was passed by Parliament in March, 1956. Thereafter, a comprehensive piece of legislation completely nationalising life insurance business, i.e., Life Insurance Corporation Act, 1956, was passed by Parliament. The Act came into force on the 1st July, 1956 and the Life Insurance Corporation was established on the 1st September, 1956. A copy each of the Finance Minister's broadcast speech on the 19th January, 1956 and the speeches in Parliament at the time of introducing the legislative measures are given in Appendices XVII to XIX.

CHAPTER IIObjectives
of nationalisation.

2.4. The objectives of nationalisation as contained in the Statement of Objects and Reasons of the Life Insurance Corporation Bill, 1955 and as defined in the Finance Minister's speeches are summarised below :-

- (i) Spread of message of life insurance as far and as wide as possible reaching out beyond the more advanced urban areas well into the hitherto neglected rural areas;
- (ii) Effective mobilisation of the people's savings;
- (iii) Complete security to policyholders;
- (iv) Prompt and efficient service to the policyholders;
- (v) Conducting of business with the utmost economy and with the full realisation that the money belongs to the policyholders;
- (vi) Investment of funds in such a way as to secure maximum yield consistent with the safety of capital;
- (vii) Economic premium rates;
- (viii) Development of a dynamic and vigorous organisation under a management conducted in a spirit of trusteeship; and
- (ix) Formulation of schemes of insurance to suit different sectors of the community.

Corporation's
progress
during 1956-

68.

2.5. In Appendix XX we give a resume of the Corporation's progress since its inception up to 31st March, 1958.

2.6. We shall discuss in the subsequent chapters how far and to what extent this nationalised institution has fulfilled the objectives of nationalisation and has discharged its obligations to the Government, the country and the people

CHAPTER III

THE PERFORMANCE OF THE LIFE INSURANCE
CORPORATION OF INDIA WITH REFERENCE TO
THE OBJECTIVES OF NATIONALISATION.

CHAPTER III: THE PERFORMANCE OF THE LIFE INSURANCE CORPORATION WITH REFERENCE TO THE OBJECTIVES OF NATIONALISATION.

SECTION 1. SPREADING THE MESSAGE OF LIFE INSURANCE.

Nationalisation -
Spreading the
message of
life insurance.

- 3.1.1. 'With the profit motive eliminated, and the efficiency of service made the sole criterion under nationalisation, it will be possible to spread the message of insurance as far and as wide as possible, reaching out beyond the more advanced urban areas well into hitherto neglected, namely, rural areas'. (from the speech of the Finance Minister in Parliament in 1956).

It was argued at the time of nationalising life insurance in 1956 that the activities of the then existing private insurers were mainly confined to urban areas and, there too, to limited categories of people and that they were not prepared to penetrate deep into the remotest corners of the country to bring every family on their books as the private insurers were too small individually and as it meant slower returns to the shareholders and large capital expenditure. The Life Insurance Corporation of India, when it was formed, was, therefore, expected to do the pioneering job of spreading the message of life insurance to the lower income groups in urban areas and beyond the more advanced areas well into the hitherto neglected rural areas so as to provide life insurance protection to every family and thus mobilise public savings.

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3.1.2. The success or failure of the Life Insurance Corporation of India in spreading the message of insurance as visualised at the time of nationalisation of life business can best be judged by the extent of improvement in the percentage of families brought on its books in both urban and rural areas. Since the Corporation has been vested with the special responsibility of spreading the message of insurance throughout the country we enquired from it as to the extent to which this objective had been achieved by the Corporation and the percentage of families covered by life insurance. We reproduce below extracts from the Corporation's reply to our question

Corporation's
achievement in
spreading the
message of life
insurance.

"In the statement of the Objectives and Reasons of the LIC Act 1956, it is made clear that Government decided to nationalise life insurance business in India 'to spread insurance more widely and in particular to rural areas and as a further step in the direction of effective mobilisation of public savings. This may, therefore, be considered as one of the primary objectives of the LIC. It would, however, be unrealistic to assume that even with the most effective sales effort, insurance could be extended to every household in the country. There are bound to be large sections of households who are not in a position to save enough to pay insurance premiums and others who find it more advantageous to direct their savings into channels other than life insurance."

....16.

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"It is difficult to ascertain from the LIC's records the number of individuals or families who hold life insurance policies. Some useful information on this point was brought out by the N.C.A.E.R. surveys referred to above. These surveys showed that during the respective reference years 15.6% of urban households and 1.6% of rural households paid life insurance premiums."

".....It may be expected that the proportions of insured households would have increased appreciably during the period which has elapsed since the dates of the surveys. It is probable however that while in urban areas the proportion of insured households is much higher than 10%, in the rural areas it is still less than 10%."

3.1.3. We are constrained to state that the Corporation's approach to the basic problem of spreading the message of insurance to every nook and corner of the country is not constructive and lacks the zeal required of a nationalised undertaking especially charged with this responsibility. It is indeed a pity that even after 12 years of its establishment the Corporation has no statistics of its own regarding the number of individuals or families who held life insurance policies and had to rely on the N.C.A.E.R.

.....17.

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Surveys to answer our question. It will be relevant to note that these surveys were conducted in 1960 in respect of urban households and in 1962 in respect of rural households and were based on a small sample of 4,381 urban households and 8,527 rural households which represent an insignificant fraction of the households in the country. Therefore, the conclusions derived by the Corporation on such small sample surveys are subject to wide margins of error. The number of Corporation's policies in force as on 31st March 1967 in India was 120.17 lacs. A very large percentage of insured persons especially in the higher income brackets have more than one policy and in some cases the number of policies are more than half a dozen. Even allowing for the increase in the proportion of insured households after the NCAER Surveys it seems to us that the number of households on the books of the Corporation will not be more than 40 to 50 lacs, i.e., between 4 to 5%. Since there has been no appreciable increase in the rural business during the last six years, the proportion of insured households will not perhaps be higher than 15.6% of urban households and 1.6% of rural households who paid life insurance premiums in the reference years of the NCAER Surveys.

3.1.4. We are, therefore, led to conclude that the

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Corporation has not even touched the fringe of the problem of carrying the message of life insurance to every home and that the basic objective for which life insurance was nationalised remains yet to be achieved.

Corporation to collect its own statistical data.

3.1.5. We believe that with an army of more than 1,60,000 Agents, 8,500 Development Officers and 3,000 Officers, and with 1.20 crores policies on their books it should not have been difficult for the Corporation to collect its own statistics about its policyholders as also of the insured families to make an assessment of its own success in spreading the message of life insurance and to make a determined and planned effort towards achieving the objective.

We recommend that the Corporation should devise ways and means of collecting statistical data regarding the number of individuals and households on its books and publish the data in its Annual Report.

Potential for life insurance.

3.1.6. The per capita national income in India in 1966-67 according to quick estimates is Rs.432. The average income of a household could, therefore, be taken at Rs.2,410 or say Rs.2,400 per annum. Normally, for an average household with no capital or savings to fall back upon, a life insurance protection of at least

CHAPTER III - SECTION 1

3 years' income should be considered as reasonable. As against this, the life insurance protection per household presently is about Rs.475/- only representing less than 2½ months' income which is trivial in the context of the national needs. The immediate objective of the Corporation should, therefore, have been a provision of life insurance protection of a modest amount of at least one year's income, viz., Rs.2,400 per household. On this basis, the Corporation should have easily achieved a total life business in force of the order of Rs.24,000 crores and an annual premium income of about Rs.500 to Rs.1,000 crores.

3.1.7. Even on the basis of NCAER statistics quoted by the Corporation which according to it "may be considered as reflecting the potential for insurance in different sections of the population" we have prepared a rough estimate of the potential for life insurance. This estimate will be found in Annexure I. For the purpose of this estimate we have assumed that the Corporation should have made as much concentrated effort to canvass business from the lower income brackets as from the higher ones. Further, in view of about 50% increase in per capita income (at current prices) since the NCAER Surveys 1960-62, the households in the relevant income

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brackets will now have much higher incomes and, therefore, an increased capacity for insurance. On this basis also it may be justifiably concluded that the Corporation should have achieved a total business in force of about Rs.23,000 crores.

3.1.8. The same conclusion can be reached by yet another method also. According to the N.C.A.E.R. Surveys quoted by the Corporation 42.5% of the urban households and 46.6% of the rural households had annual incomes below Rs.1,000 and Rs.900 respectively. These sectors of the population should, according to the Corporation, be considered to be below subsistence level and, therefore, are not in a position to insure. On this reckoning, the insurable households will be 57.5% and 53.4% urban and rural households respectively, i.e., 1.15 crores urban and 4.30 crores rural households, i.e., 5.45 crore households. The Corporation has on its books about 50 lacs households and, therefore, about 5 crore households have still to be reached by the Corporation. As already pointed out by us there has been about 50% increase in per capita income over 1960-62 levels. The average size of the corporation's policy during 1966-67 was Rs.5,456 and the 5 crore insurable households alone represent a potential of more than Rs.25,000 crores of

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life business. On this basis also the Corporation should have achieved a life business in force of more than Rs.24,000 crores.

3.1.9. From the NCAER statistics it will be noted that 15.5% of the urban households, i.e. 31 lacs urban families out of the estimated 2 crore families paid life insurance premium. Even amongst the employed population in the urban areas only about 15% had life insurance. Evidently the Corporation has not made any serious efforts to insure even the employed population in urban areas. It is also obvious that the lower and middle income group households have been neglected by the Corporation.

Spread of
business in
urban areas.

3.1.10. In reply to our question as to what Plans the Corporation had made to bring all the employed population under life insurance, the Corporation has replied that the Group Insurance Scheme and the Salary Savings Scheme were specially introduced by it with the intention of providing life insurance protection for all the employed population. Under the Group Insurance Scheme, the Corporation offers, for terms over 15 years, a 8-1/3% reduction over the tabular premium. Under the Salary Savings Scheme, the employer deducts the premium from monthly salary of insured employee and pays it to the Corporation. The advantage to the insured person

Plans for
bringing
employed po-
pulation under
life insurance.

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is that the premium is paid in convenient monthly instalments without the usual additional 5% charged for monthly mode of premium and also the usual reduction of 75% or 37% per thousand sum assured per annum as is allowed for the yearly mode of payment having regard to the Plan of Assurance, is given to the insured.

Salary
Savings
Scheme.

3.1.11. The total new business under Salary Savings Scheme in 1955-57 was 3.05 lacs policies assuring Rs.121 crores. The Corporation's total business completed under the Scheme from 1958 to 31st March, 1967 was about Rs.549 crores on 16.43 lacs policies. The Scheme provides for payment of premiums by monthly deduction from the salary of the employees by the employer. The Scheme has been introduced by certain Central Government/State Government Departments/Public Undertakings, etc. Collection of premium at source from the salaries of the employees is a facility which has certain advantages. It reduces lapses and also collection expenses. The Government employees enjoy this facility already under Postal Life Insurance scheme and also under certain State Government Department Schemes. Even though the Committee on Public Undertakings recommended that Salary Savings Scheme should be introduced in all the Central Government Departments/

CHAPTER III - SECTION 1.

Public Undertakings, the Government have decided to introduce this scheme with minor changes with a view to avoid premium deduction passing through Government account as an experimental measure in the Central Government offices at Bombay, Madras, and Delhi in respect of non-gazetted staff only. The Comptroller and Auditor General of India has also agreed to the introduction of this Scheme to the non-gazetted employees of Maharashtra Government also. The Railway Board has also agreed to the introduction of the Scheme in the Diesel Locomotive Works at Varanasi and Integral Coach Factory at Perambur.

3.1.12. It would also be interesting to note the views of the Life Insurance Agents' Federation of India as communicated to the working Group in their Memorandum:-

Views of t
Life Insur.
Agents'
Federation
India.

"It (Government) must introduce the system of 'pay-deduction facility' in all Government Departments, Central as well as State, and streamline collection from members, crediting such collections monthly to the LIC. This may be extended to all the Undertakings and Establishments in the Public and Private Sectors. It must make it compulsory to convert a major share of the 'employees quota' in the provident fund schemes towards insurance".

CHAPTER III - SECTION 1Recommendations regarding Salary Savings Scheme.

3.1.13. We do not share the Corporation's view that the Salary Savings Scheme is specially designed to reach all the employed persons as we find that the Scheme has still not permeated to the employees in the lower income brackets. Secondly, since the Scheme provides for deduction of premiums by the employer, the Agent ceases to have any contact with the policyholder once the insurance is taken. Thirdly, in actual practice, it has been found that there are time-lags in the receipt of premiums from the employer and inordinate delays by the Corporation in adjusting the premiums in the accounts of the policyholders. These administrative and procedural delays create unnecessary difficulties for the policyholders as the policies are treated as lapsed until the premiums are adjusted.

We recommend that the procedure relating to deduction of premiums, their remittance to the Corporation and adjustment thereof should be simplified and rationalised in the interests of the policyholders. We also recommend that the policy should not be treated as lapsed once the premium is deducted from the pay of the employee by the employer regardless of the fact whether it has actually been remitted to the Corporation and adjusted in its

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books. Where, however, the Corporation feels that the employer is regularly defaulting in remittance of premiums, the Corporation will be justified in asking the employer to keep in deposit with the Corporation an amount equivalent to two months' Salary Savings Premium Deductions, failing which the facility of the Scheme should be discontinued by giving proper notice, say, of two months to the employees.

3.1.14. It seems to us that the Corporation has not fully passed on to the policyholders the benefits of the special features of the Salary Savings Scheme. Policies under the Scheme reduce collection expenses of the Corporation in respect of the premiums. Moreover, the employed persons are a select group of people with regular incomes and more often than not entitled to some kind of medical facilities provided by the employer. Therefore mortality experience on such select lives should be much better than that of the general-run of the policyholders.

We recommend that the Corporation should pass on the benefits of these two special features to the insured by way of lower rate of premium under the Salary Savings Scheme than at present. Since under the Scheme the Agent does not render any post-sales service

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to the policyholders there will be scarcely any justification to pay the full renewal commission. The benefit of reduction in the renewal commission should also be passed on to the policyholders under the scheme.

3.1.15. We further recommend that the Scheme should be introduced in all the remaining Central Government Departments and Public Undertakings without further delay. The State Governments should be requested to introduce the Scheme in all Government Departments, Quasi-Government bodies and local bodies, etc., under them.

GroupLife
Insurance
Scheme.

3.1.16. It is our considered view that the Group Insurance Scheme is a more effective means of bringing the employed population in the country within the scope of life insurance. The Corporation has not, however, succeeded in making such schemes popular. As on 31st March, 1967 the Corporation had sold only 220 Group Insurance policies with sum insured and bonuses totalling Rs.39 crores only. There is a vast scope for development of this class of business particularly if the employer can be persuaded to pay a part of the premium for each insured employee. The principal reason why the Group Insurance Scheme has not made rapid strides is that the Corporation's premium rates

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for this class of business are unduly high and unattractive. Group insurance leads to savings in expenditure on administration, medical fees and underwriting and, therefore, the rates should be only nominally higher than the net cost of life insurance. Even then the Corporation gives a reduction of only 8-1/3% in the tabular rates. We find that the premium rates of British Life Offices for individual proponents under the One Year Term Insurance Plan are lower than the Corporation's One Year (Group) Term Insurance rates in respect of select class of lives. In this connection we might also mention that the One Year (Group) Term Insurance Rates are always lower than the corresponding rates for One Year Term Insurance for individual proponents due to savings in expenses on medical examination, underwriting and administration under a Group Insurance scheme. In the table below we compare the rates charged by the Corporation under the Group insurance plan with the premium rates of British Life Offices for one year renewable (Group) Term Insurance :-

<u>Age at entry</u>	<u>Premium per thousand sum assured</u>	
	<u>L.I.C.</u>	<u>British Life Office</u>
30	6.40	2.00
35	7.15	2.00
40	5.05	3.00

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It would be observed that the Corporation's rates are 200 to 250% higher than the J.K. rates and there is no wonder that Group Insurance Scheme has not become popular as it should have been and brought under its scope practically all the employed population in the country. It is obvious that the Corporation has failed to tackle the problem of Group Insurance Scheme on business principles.

Recommendation regarding Group Insurance Scheme.

3.1.17. We recommend that Group Insurance rates should be reduced sizeably and the Corporation should intensify its efforts to bring the employed population under the Group Insurance Scheme.

Industrial Assurance Schemes.

3.1.18. The Corporation has not introduced any Industrial Assurance Schemes even though such schemes are very popular in U.K. and Germany. This concept of industrial assurance as is practised in U.K. and Germany has to be adapted to Indian conditions where wages are not on weekly basis but where service at the door as under the Industrial Assurance is both essential and desirable. It may also be worthwhile to popularise the concept of a round figure premium per month which will purchase certain amount of insurance. Industrial Assurance requires a special type of agency organisation. We have considered this question in Chapter VI Section 3.

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We recommend that the concept of Industrial Assurance especially all service at the door of the insured should be introduced in both rural and urban sectors.

3.1.19. From the preceding paragraphs, it would be clear that the selling of life insurance in the urban areas has not been done intensively and that cost of life insurance under Salary Savings Scheme or Group Insurance Scheme is too high. We are of the view that at least 50% of the urban households, i.e. 1 crore families, should have been given life insurance protection within the first 10 years of the Corporation's establishment. The average sum assured per policy issued by the Corporation during 1966-67 was Rs.5,456 and since the urban households have higher incomes than the average Indian households it would have been quite feasible for the Corporation to give an average sum assured of Rs.8,500 to one crore urban families. On this reckoning the urban business alone should have accounted for Rs.8,500 crores vis-a-vis the Corporation's total business in force of Rs.4,735 crores as on 31st March, 1967. We are of the opinion that the Corporation's failure in this direction is attributable to its unimaginative management and ineffective sales organisation. These aspects are

Conclusions regarding urban business.

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discussed by us in detail in subsequent Sections/ Chapters.

Rural
Business
Irregular
Development.

3.1.20. As pointed out by us in paragraph 3.1.3. the Corporation has no statistics of its own regarding the number of insured households in rural areas. According to the NCAER statistics 1.6% of the rural households paid insurance premiums in 1962. In other words, 98.4% of the rural households were without insurance protection. While the percentage of insured households in rural area may have gone up slightly since 1962, it is unlikely that it has materially increased. Even the Corporation in its reply to our questions has stated that it is less than 10% (how much less has not been indicated). This is a sad commentary indeed on a nationalised Corporation especially charged with the responsibility of spreading life insurance into the hitherto neglected rural areas.

3.1.21. In the following table we give the volume of new rural business from 1962-63 to 1967-68:-

<u>Year ending.</u>	<u>New Business in rural areas</u>	
	<u>No. of policies</u> <u>in lakhs.</u>	<u>Sum assured</u> <u>(Rs. crores)</u>
31.3.63(15 Months' period).	6.8	233.5
Equivalent annual figures of the above.	5.4	186.8
31.3.1964	5.9	209.4
31.3.1965	5.2	197.8
31.3.1966	5.6	220.6
31.3.1967	5.1	217.2
31.3.1968	5.1	235.8

.....31.

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3.1.22. It would be observed that the Corporation's development of rural business has been erratic. The per capita income at current prices has gone up from Rs.332.5 in 1962-63 to Rs.481.5 in 1966-67. The savings potential of the rural sector has considerably increased in recent years but this increase is not reflected in the Corporation's new rural business.

3.1.23. According to the Corporation the following characteristics of the rural community are responsible for limiting the scope of life insurance in the rural areas:-

Special characteristics of rural community.

- (i) The need for life insurance in rural areas is not as basic as in the urban areas.
- (ii) Habits of savings and assets formation are less conducive to growth of life insurance.
- (iii) A farmer leaves on his death means of livelihood in the form of land.
- (iv) Joint family system is widely prevalent in rural areas.
- (v) Agriculturists experience variations in income from year to year due to the vagaries of weather.
- (vi) A large proportion of households find it more advantageous to invest their savings in physical assets rather than in financial assets (e.g. life insurance).

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- (vii) Rural population has a tendency to keep their savings in liquid form.
- (viii) A large proportion of households do not make any savings.

3.1.24. It is not that the Life Insurance Corporation has suddenly discovered these new facts of socio-economic life in rural India. The erstwhile private Insurers and the Government were also aware of these factors and the limitations on the scope of life business in rural areas. It was, however, the conviction of the Government that if "a new sense of awareness of building for the future in the spirit of calm confidence which insurance alone can give" were to be brought about, it could be only through the channels of a public sector enterprise which was imbued with a high sense of its social obligations and that if these factors were to be tackled, it could be only through such an agency. The Corporation, therefore, cannot justify its inertia and indifference to its vital task of spreading life insurance to the hitherto neglected rural areas by merely citing the factors responsible for limiting the scope of life insurance in the rural sector and take the business as it comes without actively adopting ways and means to combat the limiting factors.

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3.1.25. We would, however, like to make the following observations on the factors cited by the Corporation:-

- (i) Life Insurance is a basic social necessity both for rural and urban households and should rank next only to food, clothing and shelter.
- (ii) In every progressive country it is the responsibility of the life insurance industry to promote habit of thrift by selling life insurance the hard way and thus provide security to the family in the event of death of the bread-winner. The Corporation, when it was created, was not expected to be just an idle spectator to the socio-economic changes taking place in the country. It was expected to exert its best to be in the vanguard of institutions promoting habit of thrift and savings in the country. In the prevailing socio-economic conditions, the primary responsibility for fostering the growth of life insurance business necessarily rests with the Corporation itself.
- (iii) A farmer leaves on his death means or livelihood to the family in the form of land

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and other agricultural implements no doubt. Nevertheless, availability of insurance money on the death of a farmer would enable the family to make up for the loss of services of the bread-winner. After all, a farmer is a self-employed person and the need for insurance in his case is all the more necessary.

- (iv) Existence or otherwise of the joint family system is no bar to successful development of life insurance since the need for life insurance even for members of a joint family is as great as for any other person. Moreover, the joint family system is rapidly disintegrating.
- (v) It is true that the agricultural incomes are subject to wide fluctuations. It is, therefore, all the more necessary for the Corporation to devise some special schemes to suit the needs of the agriculturists to enable them to effect planned savings for future contingencies.
- (vi) Preference for investment in physical assets to financial assets is also a matter of habit which can be changed by "hard selling" and by impressing upon the agriculturists

CHAPTER III - SECTION I

the advantages of life insurance. Again, even if the farmer wishes to put his savings in land and physical assets, he can do so only by building up his savings from year to year and there cannot be a better method than life insurance to help him in compulsory savings besides covering the risk of death.

- (vii) As a matter of fact, liquidity is an integral part of life insurance provided the policyholders can obtain a loan on the policy or surrender value of the policy speedily.
- (viii) The fact that a large proportion of rural households do not make any savings can be partly attributed to the failure on the part of the Corporation in educating the population about the advantages of life insurance and selling it to them the hard way. The role of life insurance cannot be merely to share in the common pool of available savings. Inasmuch as life insurance is the only mode of saving which offers family protection in case of death, it has a definite edge over other forms of savings. Therefore, it is in an advantageous position of inculcating the habit of savings and thrift even where there was none before.36.

CHAPTER III - SECTION 1No special concession for rural business.

3.1.26. While the Corporation has listed different characteristics special to the rural population, it does not consider it necessary to make any adjustment in its machinery for canvassing business in the rural areas and in the existing facilities provided by it for rural policyholders and prospects, such as provision of better facilities for collection of premiums, special training of its agents for canvassing business bearing in mind special rural characteristics, incentives to agents to procure maximum business in rural areas, etc. The maximum relaxations the Corporation has found necessary to meet the special characteristics and requirements of the rural side are the introduction of non-medical schemes and giving of concessions for renewal of policies in times of droughts and floods. These do not constitute any special concessions to the rural population as similar concessions are available in the urban areas also.

Insurance for the masses.

3.1.27. The type of life insurance offered by the Corporation is based on the pattern of life insurance in the industrialised West where a majority of the population has regular incomes. The Corporation has not evolved any special scheme to suit the needs of the rural masses. In this connection we reproduce the views of the National Federation of Insurance Field

Workers of India communicated to the Working Group in their Memorandum:-

"Masses live in Rural India and Rural India lives on land (agriculture). How will insurance go to the masses? Actuaries and insurance experts will have to take up the challenge of finding out methods and procedures of taking insurance policy within the reach of the poorest of the poor. The rich only should not be reached by insurance, if Socialism or Socialistic Pattern and all that talk has any meaning".

3.1.28. Since 80% of our population lives in villages where incomes are intermittent, it was imperative for the Corporation to evolve a special type of life insurance policy to cater to their special needs particularly from the point of view of premium payments.

Our own conception of such a policy which we recommend for adoption by the Corporation will firstly include a system of collecting a deposit of two/three years' Term Insurance premium along with the First Premium for every policy so that if the premiums fall in arrears for two/three years, the policyholder will continue to enjoy the life insurance cover for the full sum assured and reinstatement of the policy will not involve any complications like medical examination but only simple recovery of arrears of premium with interest. Such a system will help to keep the policy alive when the life insured is unable to pay the premium in time because of late crop realisations or because

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of inability to pay the premium due to failure of crops. Secondly, the policy should be so designed as to permit the collection of as many premiums as possible at odd intervals and to allow interest on deposits at an attractive rate of interest. Thirdly, the policy must have built-in advantages, particularly for the farmer, such as borrowing facilities for productive purposes equivalent to 'n' times his deposits ('n' having defined values) with suitable security. Such a facility will act as a big incentive for this section of the community to place as high a deposit as possible with the Corporation.

Need for
Collection
of premiums
at the door.

3.1.29. Collection of renewal premiums from the agricultural sector of the population who have intermittent incomes as also other pressing demands on their meagre income requires almost the same degree of intensive efforts and hard work as selling of life insurance itself and collection of the first premium. It is, therefore, essential that the Corporation should make arrangements for collection of premiums at the door of the insured at intermittent intervals when the policyholder is in funds. The Corporation has no such machinery at present and has authorised only seven Agents throughout the country in both urban and rural areas to collect the premiums. Further, the Corporation is of the opinion that authorising and permitting the Agents to collect premiums in the rural

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areas is neither necessary nor desirable. The Corporation has, however, made arrangements for collection of premiums through Co-operative Banks, where possible, and through some selected Post Offices.

The Corporation's approach to the basic problem of a really efficient premium collection machinery especially for rural areas is wrong. We recommend that for conservation of rural business and proper servicing premiums should be collected at the door of the rural policyholders at intermittent intervals as and when agricultural incomes are available.

3.1.30. The Corporation has apparently not developed an Agency force entrusted with the responsibility of developing intensively and exclusively particular rural areas. One of the methods adopted by the Corporation for developing the business in rural areas is what is known as 'sectorwise' planning. The areas are divided into compact groups and one or two agents are given the responsibility of developing intensively one such compact group. This is apparently a paper plan only since the Corporation has also stated that an Agent can work anywhere in India and that it does not collect statistics regarding the average quantum of business procured by an Agent in the rural areas. If the agent is at the same time free to work anywhere in the country, it is but natural that he will not be

Lack of Agency Force in rural Areas.

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interested in putting in intensive effort in the rural area which is exclusively allotted to him for development of business. He will rather prefer to procure easy business from anywhere in the country to the neglect of his allotted rural area.

Conclusions
regarding
rural
business.

3.1.31. It would be noted from the above that the Corporation's record of propagation of the message of life insurance in rural sector is dismal as more than 90% of the rural households are still without insurance cover. We are of the view that at least 30% of the rural households, i.e. about 2.4 crores households out of 8 crores should have been given life insurance protection within the first 10 years of the Corporation's existence. Since the average sum assured per policy issued by the Corporation is Rs.5,456 and the savings potential of the rural sector has increased considerably, it should have been quite feasible for the Corporation to have given a policy of average sum assured of Rs.5,000 to 2.4 crores rural households. On this basis the rural business should have been to the tune of Rs.14,400 crores. The reasons for the Corporation's failure in developing rural business are discussed by us in subsequent Sections/Chapters.

Sales
Organisation.

3.1.32. The Corporation has pointed out that one of the limiting factors in the expansion of life insurance business in this country is the difficulty experienced in increasing

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the efficiency and effectiveness of the Agency Force which arises mainly from the fact that youngmen with the necessary aptitude and calibre are unwilling to take up life insurance Agency as career. The Corporation also feels that it appears unlikely that in the immediate future an Agency Force with the capacity to cope with the volume of business of the magnitude which would give an annual increase in the life fund of the order of Rs.1,000 crores could be built up. This is indeed a counsel of despair. The deficiency in the Agency Force must be made good. So far the Corporation has had no systematic plan to build up the profession of Insurance Agents and has worked on the basis of casual Agencies and benami Agencies related to rich prospects, which is the biggest deterrent to the development of the profession of Agents. There should be no insurmountable difficulty in the Corporation's Agencies to be made lucrative yielding an independent income of Rs.5,000 to Rs.7,000 annually in about 5 years' time in the urban areas and Rs.2,000 to Rs.3,000 in the mofussil. The most important need will be to make these Agents exclusively responsible for a Block of families. Agents of higher calibre should be able to earn more than the minimum specified. The sales organisation is discussed by us in detail in Chapter VI.

CHAPTER III - SECTION 1

Final Conclusion - Corporation has failed.

3.1.33. The very fact that the Corporation has not been able to reach more than 15% of the urban households and 1.6% of the rural households makes it abundantly clear that it has not succeeded in its mission of "spreading the message of life insurance as far and as wide as possible reaching out beyond the more advanced urban areas well into the hitherto neglected namely rural areas."

3.1.34. At the time of passage of the Life Insurance Corporation Bill, 1956 the then Finance Minister stated

"It has been claimed on behalf of private enterprise that it was confident of increasing the total life business in force from a little over Rs.1,200 crores to Rs.8,000 crores and the per capita insurance from Rs.25 to Rs.200 per head in the course of the next 10 years. While I have very little doubt that the nationalised life insurance will be able not only to achieve it but exceed it,

3.1.35. Even after 11 years the Corporation's life business in force on 31.3.67 was only Rs.4,736 crores and per capita insurance only Rs.95. Therefore, there is no wonder that the Deputy Prime Minister, Shri Morarji Desai, while addressing the Delhi Insurance Institute as recently as 9th Oct., 1967, stated that nationalised life insurance had failed to fulfil the hopes the Government had cherished at the time of nationalisation. We are of the view that if our recommendations are implemented it will enable the Corporation to fulfil these hopes in the shortest possible time.

Section I - Annexure I

ESTIMATES OF LIFE INSURANCE POTENTIAL

Old Income Range Rs.	No. of house- holds as per NCAIA survey's Proportions. (in 000s).	Age of house- holds that could be on LIC books.	No. of house- holds insura- ble (in 000s)	Average Premium per insured house- hold. Rs.	Average Assured insured house- hold. Rs.	sum Potenti- al Premium Rs. crores
<u>U R B A N (Families 2 crores)</u>						
0-999	85,00	15	12,75	20	500	2.6
1000-2999	86,20	75	64,65	200	5,000	129.3
3000-7999	24,20	80	19,36	600	15,000	116.2
8000-14999	3,00	90	2,70	1,200	30,000	32.4
15000 & above.	1,60	90	1,44	4,000	1,00,000	57.6
	<u>200.00</u>		<u>100,90</u>			<u>338.1</u>
						Equiva- lent sum of assur- ed about Rs. 8,500 crores.
<u>R U R A L (Families 10 crores)</u>						
0-900	372,80	3	11,18	20	500	2.2
901-2400	346,00	50	173,00	140	3,500	242.2
2401-7200	74,20	70	51,94	400	10,000	207.7
7201 & above.	7,00	90	6,30	2,000	50,000	126.0
	<u>800,00</u>		<u>242,42</u>			<u>578.1</u>
						Equiva- lent sum Assured about Rs. 14,400 crores.

...

CHAPTER III - THE PERFORMANCE OF LIFE INSURANCE CORPORATION WITH REFERENCE TO THE OBJECTIVES OF NATIONALISATION.

SECTION 2. EFFECTIVE MOBILISATION OF THE PEOPLE'S SAVINGS.

Massive capital needed for economic development.

3.2.1. The objective of our planned national endeavour is to ensure richer and fuller life to the people through higher standards of living. The dimensions of the problem can be gauged by comparing the levels of per capita income prevailing in our country with those abroad. For example, the per capita income in our country which was placed at Rs.421 per annum in 1964-65 is very insignificant as compared to that of U.S.A. and J.K. at Rs.12,811 and Rs.6,503 respectively. Even amongst the developing countries Ceylon and Egypt (U.A.R.) (1961) have higher per capita incomes of Rs.599 and Rs.765 respectively than that of India.

3.2.2. It is, therefore, of paramount importance to accelerate the rate of growth of the economy through planned investment outlays. How to mobilise maximum domestic resources for the purpose is the crux of the problem. It is rightly said that savings are the prime mover of economic development of a country. Effective mobilisation of savings by widening and deepening all possible channels can substantially step up the rate of capital formation in the country and lead to higher levels of national income. This, in turn, would lead to

CHAPTER III - SECTION 2.

a still higher rate of savings to be ploughed back into industry and agriculture producing thereby massive capital resources needed for the successful implementation of our planned programmes.

3.2.3. Since life insurance fulfils the dual role of family protection and promotion of savings it can be made the most effective instrument for mobilisation of savings of the people. Life Insurance has, therefore, to play an increasingly predominant role in mopping up savings of the people for a planned development of our economy. This can happen only if a dynamic, efficient and economic life insurance organisation is built up. Such an organisation alone can make people at large fully conscious of the benefits of life insurance which gives them a sense of economic security and compels them to save for the rainy day.

Life insurance most effective instrument for mobilisation of savings.

3.2.4. No doubt, in a predominantly agricultural country like ours where more than 80% of the population lives in rural areas, it is likely that a large proportion of the households invest their savings in physical assets rather than in financial assets. However, with the growth of rural wealth and the increasing literacy in recent years there should naturally be a better appreciation of the value of life insurance by the general public.

CHAPTER III - SECTION 2.Nationalisation of life insurance business for effective mobilisation of public savings.

3.2.5. The life insurance business was nationalised in 1956, with the object of effective mobilisation of public savings for financing the National Plans. The Finance Minister stated then:

'The nationalisation of life insurance will be another milestone on the road the country has chosen in order to reach its goal of a socialistic pattern of society. In the implementation of the Second Five Year Plan, it is bound to give material assistance. Into the lives of millions in the rural areas it will introduce a new sense of awareness of building for the future in the spirit of calm confidence which insurance alone can give. It is a measure conceived in a genuine spirit of service to the people. It will be for the people to respond, confound the doubters and make it a resounding success.'

Growth of Life Fund.

3.2.6. The Corporation's achievements in the direction of mobilisation of savings and its contribution to the country's needs for long-term capital for economic development can be measured by the accretions to the Life Fund. During the last five years the accretions to the Life Fund have been as under :

	(% in crores)
1962/63 (15 months)	89.11 (corresponding annual figure Rs.71 crores).
1963/64	87.66
1964/65	93.25
1965/66	75.95
1966/67	146.34*

Yearly average: Rs.94 crores.

*Includes Rs.11.65 crores on account of devaluation adjustment.

CHAPTER III - SECTION 2.

The Life Fund increased from Rs.631.59 crores as on 31st December 1961 to Rs.1123.90 crores as on 31st March 1967, registering an increase of 77.95%.

3.2.7. Growth of life insurance fund and the growth in other media of savings during this period were as

Comparison of other media savings.

under :-

Year	L.I.C. Life Fund		Small Savings		Savings Deposits Commercial Banks	
	Amt.	Increase.	Amt.	Increase.	Amt.	Increase
1962-63	721	89*	1144	75	393	59
1963-64	808	87	1271	127	477	84
1964-65	902	94	1399	128	579	102
1965-66	978	76	1550	151	716	137
1966-67	1124	146**	1613	93	836	120
Average Increase.		94		115		100

*For 15 months.

**Rs.12 crores due to devaluation adjustment.

Source: Reserve Bank of India Bulletins.

It will be observed that while the Small Savings and Commercial Banks Savings Deposit registered an average annual increase of Rs.115 crores and Rs.100 crores respectively, the life fund had the smallest annual increase of Rs.94 crores only during this period. We may, however, mention that life insurance is not only a savings medium but also provides for family security and has, therefore, a definite edge over other savings media. In this context the performance of the Corporation in mobilisation of public savings vis-a-vis other media of savings appears48.

CHAPTER III - SECTION 2.

even more disappointing.

national
income
domestic
savings and
life
insurance.

3.2.8. In the following table we give the growth in national income, domestic savings, premium income and life business from 1960-61 to 1965-67 :-

	1960-61	1965-66	1966-67	Increase or decrease between 1960-61 and 1966-67 (+) or (-)
	(Rs. crores)	(Rs. crores)	(Rs. crores)	
1. National Income.	14,000 (at current price)	21,064 (C.S.O.)	24,157 (C.S.O. figures - at current prices).	+ 72.5%
2. Domestic Savings.	1,190 (8.5% of (1))	2,212 (10.5% of (1))	2,536 (10.5% of (1)).	+ 113%
3. Premium income.	101*	180	197	+ 95%
4. Business in force.	2,738 (Calendar year 1961)	4,394	4,736	+ 73%
5. Percentage of (3) to (2).	8.5	8.1	7.8	- 0.7
6. Percentage of (3) to (1)	0.72	0.85	0.82	+ 0.10
7. Percentage of (4) to (1)	19.56	20.86	19.61	+ 0.05

* Prorata.

It will be observed from the above that while the national income and domestic savings increased by 72.5% and 113% respectively during this period, the premium income

.....49:

CHAPTER III - SECTION 2.

and the business in force of the Corporation increased by 55% and 73% only. It is, therefore, evident that the development of life insurance has not kept pace with the increased national income and domestic savings. In fact, the percentage of premium income to domestic savings decreased from 8.5% in 1950-51 to 7.8% in 1955-57. Therefore, the conclusion is obvious that life insurance is not being developed intensively by the Corporation.

3.2.9. Since the Corporation is a monopolistic undertaking there is no real yardstick available to us for judging its performance except by comparing the growth of the Corporation's life fund with that of life companies in J.K. and U.S.A.

Comparison
with J.K. and
U.S.A.

In the following tables we compare the amount as well as the increase in -

- (1) life insurance fund,
- (2) Business in Force, and
- (3) Premium Income,

in India with those in U.K. and U.S.A.

Year**	L.I.C.		J.K.		U.S.A.	
	Amt.	Increase	Amt.	Increase	Amt.	Increase
1962	721	89*	8,961	-	63,318	-
1963	808	87	9,871	910	67,023	3,705
1964	902	94	10,888	1,017	71,013	3,990
1965	978	76	11,903	1,015	75,478	4,465
1966	1124	146	12,869	986	79,325	3,847

....50.

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** year ending is 31st December except for LIC. LIC's year ends on 31st March of the following year. Therefore, 1962 indicates the year 1962-63 for LIC and so on.

* For 15 months.

Source: Life Insurance Fact Book and The Life Offices Association.

ORDINARY, INDUSTRIAL AND GROUP (Rs. in crores)
LIFE BUSINESS IN FORCE
\$ = Rs.4.75
£ = Rs.13-1/3.

Year**	U.S.A.		J.K.		L.I.C.	
	Amt.	Increase.	Amt.	Increase	Amt.	Increase
1962	321,000	-	23,559	-	3,165	427 (15
1963	347,000	26,000	25,960	2,401	3,571	406 months,
1964	379,000	32,000	29,653	3,693	3,878	307
1965	428,000	49,000	32,960	3,307	4,394	516
1966	468,000	40,000	37,080	4,120	4,736	342

** Year ending is 31st December except for LIC. LIC's year ends on 31st March of the following year. Therefore, 1962 indicates the year 1962-63 for LIC, and so on

Source: Life Insurance Fact Book 1967 and Life Assurance in the United Kingdom 1962-66.

ORDINARY, INDUSTRIAL AND GROUP
LIFE INSURANCE PREMIUM INCOME. (Rs. in crores)
\$ = Rs.4.75
£ = Rs.13-1/3.

Year **	U.S. Companies		J.K.		L.I.C.	
	Amt.	Increase.	Amt.	Increase.	Amt.	Increase
1962	6,981	-	1,108	-	151	38 (15
1963	7,603	622	1,243	135	147	27* months,
1964	8,094	491	1,344	101	162	15
1965	8,713	619	1,348	4	180	18
1966	9,298	585	1,456	108	197	17

* On the assumption of Rs.120 crores for 12 months ending March 1963.

** Year ending is 31st December except for LIC. LIC's year

CHAPTER III - SECTION 2.

ends on 31st March of the following year. Therefore, 1962 indicates the year 1962-63 for LIC and so on.

Source: Life Insurance Fact Book 1967 and Life Insurance in the United Kingdom 1962-65.

From the above it is clear that the growth of life insurance in India bears no comparison with U.S.A. and U.K. The disparity assumes more serious proportions when we take into account the vast untapped potential in the country which has been referred to by us already in Section I.

3.2.10. It would also be interesting to compare the increase in Life Fund of the Corporation with that of the two comparable leading individual insurers in J.K.

Comparison of Corporation's growth with two comparable Insurers.

A comparative table is, therefore, given below :-

(Rs. in crores).

Year end	L.I.C.		Legal & General		Prudential	
	Life Fund.	Increase.	Life Fund.	Increase.	Life Fund.	Increase.
1957	410	-	397	-	522	-
1958	448	38	443	46	572	50
1959	495	47	492	49	634	62
1960	560	65	550	58	700	66
1961	632	72	611	61	775	75
1962	721	89*	672	61	849	74
1963	808	87	750	78	939	90
1964	902	94	839	89	1040	101
1965	970	76	924	85	1150	110
1966	1124	146	1008	84	1260	110

* Increase for 15 months. £ = Rs. 13-1/3.

**Year ending is 31st December except for LIC since 1962. The LIC's year ends on 31st March of the following year. Therefore, 1962 indicates the year 1962-63 for LIC, and so on.

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It would be observed from the above that the growth of Corporation's Life Fund during the last five years averaged Rs.94 crores vis-a-vis Rs.80 crores and Rs.97 crores respectively of Legal & General and Prudential which are working under competitive conditions in a country where the population is already well insured.

Corporation's
assessment of
its per-
formance.

3.2.11. Our question to the Corporation whether the life insurance was being propagated intensively enough and what steps were proposed so as to build up Life Fund at the rate of about Rs.1,000 crores per annum has been answered by it in an indirect and rather evasive manner. The Corporation has stated that to judge whether the pace of growth of Life Insurance in a country is satisfactory the following criteria have been used :-

- (i) Comparison between the growth of life insurance premium income and life fund with the growth of national income and household sector's savings;
- (ii) Comparison between the growth of life insurance and that of other savings media; and
- (iii) Comparison with growth of life insurance in other countries.

We have already dealt with these three criteria in the preceding paragraphs and have arrived at the conclusion that the growth of life insurance in India has not kept pace with the rise in national income and domestic savings and growth of other savings media and bears no

CHAPTER III - SECTION 2.

comparison at all with the growth of life insurance in U.S.A. and U.K. Notwithstanding this, the Corporation's self-complacency is evident from its reply -

"the rate of growth of life insurance during recent years in this country can be considered as satisfactory. Having regard to the present stage of development of the national economy and the life insurance industry in this country, the target of an annual increase in the life fund of the order of Rs.1,000 crores appears grossly unrealistic."

3.2.12. Similarly, in reply to our question - whether the cost of life insurance is high compared to other countries and whether the Corporation agreed that this factor combined with ineffective selling techniques and poor servicing is responsible for the slow growth of life fund - the Corporation has inter alia stated that it would not be correct to compare the cost of life insurance in one country with that in another without taking into account the effect of the prevailing conditions. The Corporation has argued that in our country the average sum assured is lower and agency remuneration higher than in other countries, services rendered by the Agents poor, career Agents are few and intermediaries for supervision more. The vastness of the country, the general low level of education and lack of insurance consciousness also add up to the increase in the cost of servicing the policies in India. Here also, without answering the question directly the Corporation has stated

CHAPTER III - SECTION 2.

that while there was considerable room for improvement, it was not felt that in the prevailing circumstances the selling techniques are entirely ineffective or that the servicing is very poor thus admitting by implication only that the selling techniques and servicing leave much to be desired. The Corporation has in the same strain highlighted its performance by comparing the growth of life insurance business in India with that in U.S.A. and J.K. as under:-

Rate of growth per annum compound:

	<u>J.S.A.</u> <u>%</u>	<u>J.K.</u> <u>%</u>	<u>INDIA</u> <u>%</u>
Business in force.	9.5	10.9	12.8 (1955-67)
Premium	6.0	8.7	11.0 (1957-67)
Life Fund	5.4	9.8	11.5 (1957-67)
	(1956-65 period)	(1954-61 period)	

3.2.13. On the basis of the above comparison which, we are afraid, we do not accept as valid as percentage increases are apt to give a distorted picture of the growth of business inasmuch as the bases for these three countries are not comparable, the Corporation has concluded that the "growth of life insurance business in India can be regarded as not unsatisfactory".

3.2.14. The larger increases in U.S.A. and J.K. in life business have taken place notwithstanding the fact that the population is, on the whole, well insured and life insurers have to compete with various competing

CHAPTER III - SECTION 2.

avenues of savings and investments. For example, in J.S.A. 83% of the families have at least one member of the family insured as against 4% to 5% of the families insured in India.

3.2.15. From the two replies of the Corporation about its performance quoted by us in the preceding paragraphs, we are inclined to think that the Corporation is not serious about propagation of life insurance intensively in the country. The very fact that the Corporation has on its books between 4 and 5% only of the households in the country is proof positive of the Corporation's indifferent attitude. It is, therefore, no wonder that the Corporation has not even cared to indicate the steps proposed to build up life fund at the rate of about Rs.1,000 crores per annum and has simply brushed aside the question by stating that "an annual increase in the life fund of the order of Rs.1,000 crores appears grossly unrealistic". In section I we have already dealt with the potential for life insurance in the country and have arrived at the conclusion that in view of the vast untapped potential ready to be harvested, the Corporation could have achieved a total business in force of more than Rs.23,000 crores and an annual premium income of about Rs.1,000 crores. We are of the view that the Corporation's management lacks imagination and

Our views on
the Corpora-
tion's
assessment.

CHAPTER III - SECTION 2.

dynamism necessary for the growth of life business in consonance with the needs of the individuals for family protection and of the country for mobilisation of public savings for development purposes.

Role of life insurance in generating habit of thrift and savings.

3.2.16. In our view a dynamic Life Insurance organisation should generate the habit of thrift and savings even amongst the poorest sections of the society and should not depend on its share of the national pool of savings generated in the natural course by the community. It should be possible for the Corporation with purposeful endeavour to accelerate the savings rate amongst both the urban and rural households. The Corporation has argued that savings in U.S.A. through Life Insurance amount to about 25% of the household sector's savings. This is not relevant in so far as the conditions in India are concerned. In U.S.A. the growth of Life Insurance has already climbed high levels and there are various alternative competing methods of investing household sector's savings which are more profitable. On the other hand, in India, the life insurance coverage is between 4% and 5% of the families as against 83% in U.S.A. and is for an average of less than 2½ months' income per family as against 23 months' disposable income in U.S.A. The need for thrift and saving is, therefore, of paramount

CHAPTER III - SECTION 2.

importance in India and life insurance should have the highest priority in terms of savings after food, clothing and shelter.

3.2.17. Even in industrially advanced countries, life insurance plays the most significant role in mobilisation of people's savings, supplying long-term capital to the national economy and accelerating the processes of self-generation of gross national product and savings. This is applicable more so to less developed countries like India where the need for providing long-term capital is of vital importance.

We quote the Finance Minister again:

"The nationalisation of life insurance is a further step in the direction of more effective mobilisation of the people's savings. It is a truism which nevertheless cannot too often be repeated, that a nation's savings are the prime mover of its economic development."

Life insurance performs a dual function by protecting the policyholder's dependents and at the same time channelising the savings of the people for productive purposes. Both in J.K. and J.S. . life insurance accounts for a large proportion of national savings and is in fact the largest single medium of regular thrift. The reason for this is that it offers the policyholders an excellent return with unparalleled

CHAPTER III - SECTION 2.

security. "Savings invested in life assurance are effectively immune from market risks. This is due to the practice of spreading investments widely - both for security's sake and to obtain the maximum return. The resultant surplus, once established, is distributed as bonuses which cannot be withdrawn. This principle of 'spread with flexibility' gives the life offices complete freedom of manoeuvre to modify their investment policies. In this way they can anticipate major shifts in the economic climate which are apt to modify severely the value of, and prospects for, specific classes of security." (Life Assurance in the United Kingdom -- 1951-1955,

What Corpora-
tion should
contribute to
long-term
capital.

3.2.18. The Corporation's contribution to the country's needs of long-term capital has to be judged in the context of the family security and national needs. The Draft Fourth Five Year Plan envisaged a capital outlay of more than Rs.4,000 crores annually. Life Insurance business has to make its proper contribution to the development plans as by its very nature it is best suited to gather the small savings of the people. In fact, this is the only method of saving which creates an immediate capital for family protection.

CHAPTER III - SECTION 2.

The poorer the family, the greater is the social and economic need for such protection. Therefore, even if the per capita income in our country is lower than that in other countries, there is imperative need to earmark a part of it for life insurance. In this context, it would perhaps be relevant to quote from the Finance Minister's speech in the Lok Sabha on the 29th February 1956:

"It is, therefore, clear that it is not the low per capita income in India which can explain satisfactorily the comparatively poor progress of insurance in this country. The reasonable explanation may be that the insurance companies, by and large, were governed by short-term considerations and consequently their activities were confined to urban areas and there too perhaps to limited categories of people".

3.2.19. Even in an advanced country like U.S.A. where long-term capital is easily available from various other sources, life insurers provide about 5% of the financial capital added to the nation's economy from all investment sources. As compared to this, the contribution of the Corporation to the long-term capital in the country can be only 3.5% of the annual capital outlay envisaged in the Draft Fourth Five Year Plan. Surely, as pointed out by us in Section 1, on an average sum assured of Rs.2,400 per family, the Corporation could achieve a total business in force of the order of Rs.24,000 crores and an annual

.....60.

CHAPTER III - SECTION 3.

premium income of Rs.1,000 crores.

3.2.20. If the Corporation is able to achieve an annual premium income of Rs.1,000 crores, as it should, by 1971 its contribution to long-term capital should be of the order of about Rs.700 crores annually. Such a massive contribution will act as a catalytic agent for accelerating the pace of development and generating national income at a much faster pace. This will substantially step up the per capita income which will, in turn, make available further savings through life insurance. The contribution of the Corporation to the national economy will, therefore, rise in arithmetical progression and reach up to Rs.1,500 crores by about 1980. The Corporation is thus poised for more and more effective mobilisation of the people's savings for economic development of the country.

Reasons for Corporation's Failure to effectively mobilise savings.

3.2.21. The Corporation's failure to effectively mobilise public savings is due mainly to its failure in spreading the message of insurance thereby bringing under life insurance all insurable households in the country for adequate amounts which we have already discussed in Section 1. The other factors, which have

CHAPTER III - SECTION 2.

contributed to this are :

- (1) Inadequate security to policyholders;
- (2) Poor and inefficient service to policyholders;
- (3) Inadequate return on life policies on account of the Corporation's investment policy;
- (4) High premium rates; and
- (5) Poor and unimaginative Management.

These aspects will be discussed by us in the subsequent Sections and Chapters V & VI.

CHAPTER III

PERFORMANCE OF LIFE INSURANCE CORPORATION
WITH REFERENCE TO THE OBJECTIVES OF NATIONALISATION.

SECTION 3 - COMPLETE SECURITY TO EVERY POLICYHOLDER.

Need of complete security of life insurance Policy.

3.3.1. If Life Insurance is to constitute one of the principal media for the mobilisation of national savings, a life insurance policy must symbolise to the insureds - both urban and rural - not only complete security but also liquidity and stability of their savings. The message of life insurance cannot be spread as widely as desired unless people are confident that their savings are safe with the Corporation and that they or their families will get the money when due or earlier, if needed. If this confidence is not generated people would prefer to keep their savings in cash, ornaments or tangible goods under their own control.

Tests of complete Security.

3.3.2. The concept of complete security to every policyholder, however, is not synonymous with the mere ability of the life office to pay the sum assured under the Policy. While the ability to pay the sum assured is certainly a basic requirement, there are other factors which are equally important to ensure complete security to the policyholder. These are :-

- (a) and security of basic sum assured and prompt settlement of claims on death and maturity.

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- (b) Adequate and reasonable surrender values and loans on policies, with facility to obtain them as quickly as is the case with a depositor who withdraws his deposit from his Bank account.
- (c) Adequate return on the policy through attractive bonuses comparable with that on any other media of savings.
- (d) Protection of savings of the life policyholders against depreciating value of currency, at least to the same extent as could have been possible had the life policyholder pursued a prudent policy of investment.
- (e) Service to policyholders at their door in the context of Indian conditions.

It is necessary to examine how far the Corporation has succeeded in meeting the above tests of complete security.

3.3.3. The Corporation has accumulated a large amount in the Life Fund, and the Government has also guaranteed the payment of the sums assured and the bonuses declared on the Corporation's policies under Section 37 of the Life Insurance Corporation Act, 1956. The policyholders may rest assured that their money is safe and their claims, if any, will be paid by the Corporation. However, if the claims are not paid promptly, the concept of complete security loses its meaning. This seems to have

Security of S
Assured and
prompt settle
of claims.

CHAPTER III - SECTION 3.

actually happened in practice. There are numerous complaints of delays in payment of claims. In the year 1956-57, there were 2,683 complaints to the Central Office about delays in settlement of claims. In addition to this the Zonal and Divisional Offices received another 2,655 complaints. In our country where there is a high percentage of illiteracy, complaints are probably made by only a fraction of the people who have real grounds for complaint. The large number of persons actually affected by the delays can, therefore, well be imagined.

3.3.4. It is to be noted that the Corporation has been writing back claims totalling Rs.50 lacs in the average every year. It has written back Rs.53 lacs in the year 1956-67. One may naturally inquire what people would think of security offered by the Corporation when they find that every year people who had insured for amounts totalling Rs.50 lacs did not receive their claims.

3.3.5. During the course of inspection of Divisional Offices and Integrated Head Office Units, the Inspection Officers of the Corporation take a sample of claim cases dealt with in the six months preceding to the date of inspection. The sample for each office consists of about 50 death claims

CHAPTER III - SECTION 3.

and 25 maturity claims selected at random. During the year 1955-57, the sample selected by the Inspection Officers consisted of 1,435 cases of death claims and 927 cases of maturity claims in 36 offices. The results of the Sample Study revealed that 36% of the maturity claims are settled in time, while the remainder took an average of 95 days. Out of the death claims, only 3% were paid within one month of the intimation of death and for the remaining death claims the average period was 199 days or 343 days, depending on whether the claim needed investigation or not.

3.3.5. The Sample Studies made by the Corporation bring out the following facts:-

- i) the policy files are incomplete in respect of age proof, nomination, assignment, etc.
- ii, simple formalities like filling up of forms take inordinately long time to be completed as there is no service to policyholders at their door.
- iii) the administrative procedures are cumbersome and the administration inefficient.

We are of the opinion that there should not be any difficulty in keeping the policy files complete in every respect. We recommend that the delays caused by the administrative procedures should be eliminated by making

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the procedures simple and understandable and by providing maximum service to the policyholders personally at their door.

3.3.7. The delays due to the fact that claimants have not proved their age when the policy was issued, or had made no nominations, or have not completed the legal requirements, only bring out the fact that the Agent is not rendering the proper type of service. It also means that the agent does not perform his functions at the initial stage by not obtaining age-proof and by not getting nomination form completed. Later, he fails to keep contact with the insured, and is not able to render any assistance to the insured in complying with the formalities of making a claim. These difficulties can be overcome only by requiring the Agent to render maximum service at the door. This point has been dealt with by us in detail in Chapter VI

3.3.8. In this context it would be relevant to note the views of the Life Insurance Agents' Federation regarding payment of claims :

".....Claims must be settled on date of maturity or with electric speed after death. Efficiency in this respect, **decides** the future inflow of insurance."

"We charge the LIC with the responsibility for lowering its prestige by its witch-hunt in respect of 'pre-mature claims' - or is it premature deaths."

CHAPTER III - SECTION 3.

During evidence also we found expression given to widespread dissatisfaction against the delays in the matter of payment of claims.

3.3.9. We are, therefore, constrained to observe that notwithstanding the categorical assurance given in 1956 by the then Minister of State for Finance that claims would be settled by the Corporation more expeditiously than was being done by the erstwhile insurers, there has been no improvement in this direction so far. We recommend that maturity claims should be paid on the date of maturity and death claims within a week of intimation of death. We appreciate that on the spot investigations may be necessary in a small percentage of claims. Such investigation must be very prompt, and should not ordinarily take more than a month. The importance of expeditious settlement of claims cannot be over emphasised, for most of the families on the death of the bread winner depend for their sustenance principally on the life insurance claims proceeds.

3.3.10. Security to the policyholders also depends upon how far the surrender values of policies are reasonable, adequate and attractive. These surrender values should be comparable with the premium already

Adequate
Surrender Value.

CHAPTER III - SECTION 3.

paid by the policyholder after taking into account expenses and the cost of death benefits.

3.3.11. In the table below a comparison of the surrender values, as percentage of premiums paid, is made in respect of Without-Profit Endowment Assurance of the Corporation and that of two J.K. Insurers:

SURRENDER VALUES AS PERCENTAGES OF PREMIUMS
PAID- ENDOWMENT ASSURANCE - WITHOUT PROFITS.

Age at Entry : 30 years.

<u>Endt. Term</u>	<u>Duration</u>	<u>L.I.C.</u>	<u>Eagle Star</u>	<u>Prudential</u>
15	5	56	77	95
	10	76	92	108
20	5	46	69	90
	10	60	85	104
	15	80	94	116

It will be observed that there is a wide gap between the surrender values of the Corporation's policies and those of the J.K. Insurers.

3.3.12. The Estimates Committee (1960-61) had observed that the surrender values on LIC policies were extremely low as compared to the surrender values granted by some erstwhile insurers. The Committee, therefore, recommended that the matter may be examined so as to bring the surrender values of the policies on par with the leading insurance companies abroad.

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CHAPTER III - SECTION 3.

Similarly the Committee on Public Undertakings had commented as under :-

"....as low surrender values adversely affect the limits to which loans can be given to the policyholders against their policies, no time should be lost by the Corporation to raise the surrender values of the Corporation's policies."

3.3.13. The recommendations of the two Parliamentary Committees regarding enhancement of the surrender values of the Corporation's policies have been practically ignored by the Corporation. Further, the Corporation's attitude to this problem is indifferent as is evident from the Corporation's replies to our questions which are reproduced below :-

"Do you agree that the rates of surrender and Loan Values on policies are an indication of the quality of the security offered by a Policy?"

Answer:

"The security offered by the insurance policy of the Corporation is excellent; not only are the contractual obligations of the L.I.C. well covered by the funds built by the L.I.C., but the ultimate guarantee is provided by the Government under Section 37 of the L.I.C. Act."

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"The surrender values are deliberately kept low to discourage surrenders and to afford to the beneficiary the full protection intended at the time the assurance was taken."

Q: "Do you think that the present Surrender and Loan Values are reasonable?"

Answer:

"Yes, the present surrender and Loan Values are reasonable. However, the review of Surrender Values will be taken up after the report of Committee of Actuaries appointed by the Corporation for review of premium rates is received."

3.3.14. The apparent contradiction between the two replies is self-evident and brings into bold relief the Corporation's misplaced complacency in this vital matter and its lack of understanding of the security aspect of a policy to include adequate Surrender and Loan Values. We cannot imagine how "The present Surrender and Loan Values are considered to be reasonable" when "the surrender Values are deliberately kept low." It is, perhaps, not appreciated by the Corporation that Surrender Values also affect the limit to which loans can be advanced against the Corporation's policies. We may mention

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CHAPTER III - SECTION 3.

that only policyholders who are in dire need or financial distress, wish to surrender their policies which generally involves a sizeable loss.

The Corporation's approach should, therefore, be human and sympathetic and the Corporation should not penalise the policyholders by keeping the surrender Values deliberately low. The Corporation proposes to review the Surrender Values after the Report of the Committee of Actuaries appointed by the Corporation for review of premium rates is received. We confess we are unable to appreciate why it should be necessary for the Corporation to wait for this Report. We are of opinion that the Corporation should have a rational approach towards the needs of the policyholders and realise that the present help is worth two of a future promise. We recommend that the surrender Values of the Corporation's policies should be stepped up forthwith.

3.3.15. From the information supplied to us, we find that the procedures for granting loans are also cumbersome, complicated and smack of red-tapism.

Besides, there is an inordinate delay in the settlement of loans and surrender values. This results in a lot of harassment to the policyholder and the security of his

Promot settle-
ment of loans
and surrender
values.

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CHAPTER III - SECTION 3.

life policy loses its meaning for him. These delays appear to be cruel when one realises that people who ask for loans or surrender values are, generally, in financial distress.

3.3.15. At our instance the Corporation conducted a Random Sample Study of 100 transactions each of surrender values and loans relating to the Bombay Divisional Office which revealed that settlement of surrender values and grant of policy loans take on an average 28 to 31 days respectively. Since these transactions pertain to a Division which is reputed for its efficiency, the average period taken for settlement of surrender values and grant of policy loans in other Divisions would be very much longer.

3.3.17. According to the Corporation the time lags in payment of surrender values, granting loans and settling claims are criteria for measuring the efficiency of service to the policyholders, but the quality of the security is not impaired. According to us, this is not correct as the security is vitally affected if the liquidity of the security offered is impaired in any way. If a life policyholder does not get a loan

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CHAPTER III - SECTION 3.

against his own savings immediately, the liquidity of the policy is impaired and it ceases to be a first class security.

Utility of a loan or surrender value if promptly settled can make a world of difference to a policyholder who desires a loan or surrender under circumstances that demand urgent funds. If on such occasions, there is no prompt settlement, although the security may be there, it will not be of real use.

3.3.18. If the objective of nationalisation of life insurance, viz., to provide economic certainty and security, is to be realised the policyholder should be able to get surrender value or loan on his policy and maturity claims the same day and the death claims should be paid within a week.

Therefore, to make life insurance attractive to the common man, we recommend that the surrender values and policy loans are made available to the policyholders with the same speed, simplicity and facility as withdrawal of a bank deposit from a Bank and should be settled the same way.

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3.3.19. Further, we feel it should not be beyond the ingenuity of an efficient administration to work out a scheme whereby loans or surrender values up to specified maximum amounts are paid by banks and debited to the Corporation after receiving from the insured the policy, loan or surrender form and a certificate from the Development Officer that the premiums are paid up to a specified date.

Simplification of loan procedure.

3.3.20. Even though the Committee on Public Undertakings recommended, in paragraphs 184 to 186 of their Fourth Report, simplification and liberalisation of the rules for sanction of loans, the Corporation has not yet succeeded in doing so even after a lapse of three years. The Corporation has, however, empowered about 33 per cent of the Branches to grant loans. This is decentralisation only but simplification involves procedural simplification besides decentralisation.

We reproduce below the view communicated to us by the National Federation of Insurance Field Workers of India on the subject :-

"While paying loans against the security of insurance policy, LIC should not make the policyholder execute a loan bond on a stamped paper. Instead, a suitable endorsement should be made on the back of the policy over the signature of the party. This will help quick payment of loans."

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The Life Insurance Agents Federation have also suggested that Policy loans should be given on a uniform stamp duty of Re.1/- on loan bond or preferably without loan bond. The policy loans can also be given by mere endorsement as is done by Banks.

3.3.21. Similar views were expressed before us during evidence and we found a persistent demand for disbursement of policy loans in the same way as commercial Banks sanction and disburse loans by means of a simple assignment of the policy by the policyholder to the Corporation and without execution of loan bonds which attract heavy stamp duty. We recommend that the procedure followed by Commercial Banks in this matter should be adopted by the Corporation forthwith. We also recommend that the Corporation should immediately authorise all its Branches to grant policy loans.

3.3.22. The basic factors in determining the capacity of a life insurer to pay bonuses are the bonus loading, its experience as regards interest yields, mortality rates, and the expense ratios. Majority of the policies of the Corporation are with-profit policies. The premiums are on an average loaded by about 17½% as

Bonus rates.

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CHAPTER III - SECTION 3.

compared to premiums for Without Profit policies which are already on the high side. It is, therefore, natural for the policyholders of With-Profit policies to expect bonuses not only commensurate with the loading factor but also substantially higher on account of margins on other factors such as interest rates, mortality rates, etc., assumed while calculating with and Without Profit rates.

3.3.23. It will be noted that since 1956, gross interest yields have progressively gone up from 4.58% in 1957 to 5.75% in 1966-67 and there has been an improvement in mortality by about 20% over that experienced in 1953-54. Further, the Corporation, being a monopoly, had ample opportunities to reduce its cost by streamlining and rationalising its administrative and organisational structure.

3.3.24. Despite these favourable factors, the bonus to the policyholders has gone up from Rs.12.80% on Endowment policies and Rs.16% on Whole-life policies in 1957 to Rs.16% and Rs.20% respectively in 1967 representing an increase of Rs.3.20% and Rs.4.00% only during the decade. The Corporation feels that

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bonuses declared by it are not only commensurate with the premiums paid by the With-Profit policyholders but also significantly higher than the bonus-loading contained in the premium. In our considered opinion, this is not enough.

3.3.25. The Committee on Public Undertakings observed that the bonus declared by the LIC was lower than the bonus declared on the policies issued by Oriental, New India, Bombay Mutual, United India, Bombay Life, Western India and Empire of India. The Committee recommended that the earnest efforts should be made to enhance the rates of bonus.

3.3.26. We also give below the bonuses declared by the Corporation and by the two comparable British Companies, viz., Legal & General and Prudential:

Comparison with JK Companies.

Bonus declared by L.I.C.

<u>Valuation year</u>	<u>Bonus per thousand sum assured.</u>	
	<u>Endowment</u>	<u>Whole Life</u>
1957	12.80	16.00
1959	12.80	16.00
1961	12.80	16.00
1963	14.00	17.50
1965	16.00	20.00
1967	16.00	20.00

CHAPTER III - SECTION 3.Bonus declared by Legal & General and Prudential:Reversionary Bonus per thousand sum assured

<u>Year</u>	<u>Legal & General Compound</u>	<u>Prudential simple</u>
1956	22.50	21.00
1959	25.00	25.00
1962	28.75	31.00
1965	30.00	31.00

It will be observed that the bonuses declared by the Legal & General and Prudential increased by 7.50% and 10% respectively. Moreover, the bonuses of Legal and General are compound in character. In contrast to this, notwithstanding the extraordinarily favourable mortality experience and improvement in interest rates the Corporation's bonus increased by only 3.20% and 4% during the decade.

3.3.27. We also give below last bonus rates in respect of 5 U.K. Insurers:

<u>Name of the Company.</u>	<u>Date of Valuation.</u>	<u>Rate of Reversionary Bonus per thousand sum assured.</u>	<u>R e m a r k s .</u>
Prudential Assurance.	31.12.65	31 simple.	Excluding the final bonus
Legal & General.	31.12.65	30 Compound.	Excluding the Special Bonus.

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CHAPTER III - SECTION 3.

bonuses declared by it are not only commensurate with the premiums paid by the With-Profit policyholders but also significantly higher than the bonus-loading contained in the premium. In our considered opinion, this is not enough.

3.3.25. The Committee on Public Undertakings observed that the bonus declared by the LIC was lower than the bonus declared on the policies issued by Oriental, New India, Bombay Mutual, United India, Bombay Life, Western India and Empire of India. The Committee recommended that the earnest efforts should be made to enhance the rates of bonus.

3.3.26. We also give below the bonuses declared by the Corporation and by the two comparable British Companies, viz., Legal & General and Prudential: Comparison with UK Companies.

Bonus declared by L.I.C.

<u>Valuation year</u>	<u>Bonus per thousand sum assured.</u>	
	<u>Endowment</u>	<u>Whole Life</u>
1957	12.80	16.00
1959	12.80	15.00
1961	12.80	15.00
1963	14.00	17.50
1965	16.00	20.00
1967	16.00	20.00

CHAPTER III - SECTION 3.Bonus declared by Legal & General and Prudential.Reversionary Bonus per thousand sum assured.

<u>Year</u>	<u>Legal & General</u> <u>Compound</u>	<u>Prudential</u> <u>simple</u>
1956	22.50	21.00
1959	25.00	26.00
1962	28.75	31.00
1965	30.00	31.00

It will be observed that the bonuses declared by the Legal & General and Prudential increased by 7.50% and 10% respectively. Moreover, the bonuses of Legal and General are compound in character. In contrast to this, notwithstanding the extraordinarily favourable mortality experience and improvement in interest rates the Corporation's bonus increased by only 3.20% and 4% during the decade.

3.3.27. We also give below last bonus rates in respect of 5 U.K. Insurers:

<u>Name of the Company.</u>	<u>Date of Valuation.</u>	<u>Rate of Reversionary Bonus per thousand sum assured.</u>	<u>Remarks.</u>
Prudential Assurance.	31.12.65	31 simple.	Excluding the final bonus.
Legal & General.	31.12.65	30 Compound.	Excluding the Special Bonus.

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CHAPTER III - SECTION 3.

Norwich Union.	31.12.66	Whole Life 43.75 Simple.	/ For policies with / simple bonus / (series closed / Dec.31, 1964).
		Endowment 38.75 Simple.	/
		28.75 Compound.	/ For policies with compound bonus (series opened Jan.1,1965).
Commercial Union.	31.12.66	32.5 Compound.	
Eagle Star.	31.12.66	30 Compound.	

In this context, the Corporation has stated that in making comparison of the bonuses declared by the J.K.Companies with that of the Corporation, different conditions of working between two countries, including certain statutory restrictions regarding investment of funds should be borne in mind and if this is done, the Corporation's bonuses can be considered as being "not unsatisfactory". We feel that even after taking into account these factors the Corporation does not appear to have properly channelised and effectively utilised its resources to ensure higher bonuses to its policyholders. It may be noted in this connection that one of the major factors for higher bonuses paid by the J.K.Companies, is their expense ratio, notwithstanding their lower premium rates vis-a-vis those of the Corporation.

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Yield on Corporation's policies vis-a-vis J.K. Insurers.

3.3.23. In the table below we give the return available at maturity on with-Profit policies of the Corporation and three comparable J.K. Insurers:-

ENDOWMENT ASSURANCE - WITH PROFITS

<u>Age at Entry</u>	<u>Term</u>	<u>L.I.C.</u>	<u>Commercial Union</u>	<u>Legal & General.</u>	<u>Prudential.</u>
30	20	2.3	4.6	4.8	4.1
	25	2.0	4.6	4.7	3.9
	30	2.0	4.5	4.7	3.8
35	20	1.8	4.5	4.8	4.0
	25	1.8	4.4	4.7	3.8
	30	1.6	4.4	4.6	3.7
40	20	1.5	4.3	4.6	3.8
	25	1.3	4.3	4.5	3.5

It will be observed that the Corporation's policies provide a return of 1% to 2% per annum compound interest to the policyholders as against 4% to 5% by J.K. Companies.

Corporation must step up Bonus Rates.

3.3.25. We are of the view that if one of the objectives of the Corporation, viz., to provide a fair return to the policyholders is to be achieved, the Corporation's bonus has to be stepped up substantially. In our opinion, the Corporation's inability to declare better bonuses in spite of the favourable experience in interest yield and mortality

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CAPITAL III - SECTION 3.

rates is due to its high overall expense ratio. The expense ratio can be drastically reduced, if the Corporation curtails its administrative and other expenses substantially and the Agent is made to render every type of service at the door of the insured. The bonus rates can be further stepped up if the Corporation follows a dynamic investment policy in respect of its investments/so as to secure higher yields. We recommend that the Corporation should make earnest efforts to enhance the rates of bonus.

3.3.30. The rupee has depreciated by about 50% between 1955-56 and 1966-67. The life insured finds his sum insured has lesser purchasing power now than that/what it had when he effected savings to pay for his life insurance. This depreciation in the value of currency acts as a disincentive to save through life insurance. A life insurance company, therefore, has to invest its life fund in such a way so as to insulate as much as possible the policyholder's savings against such depreciation. Most of the Life Companies abroad pay higher bonuses consequent to investment gains due to depreciation in currency and higher values. It is regrettable to note that in India no effective steps have been taken by the Life

Protection to policyholders against depreciation in rupee value.

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Insurance Corporation to protect the policyholders against depreciation in the value of their policy amounts.

3.3.31. With dynamic administrative machinery and more imaginative investment policy, it is possible for the Corporation to step up its bonuses substantially which should mitigate to some extent at least the hardships suffered by the policyholders as a result of depreciation in the value of rupee.

3.3.32. We fear that if the Corporation fails to take effective steps in this matter on the lines of life insurance companies abroad, the security to the policyholders will be vitally affected.

Agents'
Service
at the door.

3.3.33. Under the present organisational set-up of the Corporation, an average policyholder feels insecure. He cannot comprehend the complicated policy conditions, the procedures of the Corporation to which he is subjected before he can obtain any facilities on the policy and the confusion which ensues from his ignorance about office/s of the Corporation which he should visit or correspond with to obtain a particular facility on his policy. He rather fears to make any change under his policy, even as simple as a

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CHAPTER III - SECTION 3.

change in his address, lest it may impair the Corporation's service to him. Such a state of affairs is due to the absence of anybody to guide him personally in these matters.

Personal guidance to the policyholder is particularly necessary in view of the low educational standards and a lack of knowledge even among the educated classes about the policy conditions, procedures and practices of the Corporation.

3.3.34. The Agent at present renders hardly any service once the insurance policy is sold to an insured. If a policyholder has a readily available facility of a well-trained and qualified Agent rendering all the services at his door, it will add to his feeling of security and make life insurance more attractive to him as a mode of savings. Such an Agent can render service not only in helping the insured to obtain loans and surrender values quickly but also in ensuring prompt settlement of his claims. Once efficient service at the door is made available to the insured through a well trained and qualified Agent, he will live in confidence that in case of his unfortunate death his claimants will also receive the same type of personal attention and guidance of such an Agent. Our recommendations in this regard are contained in the succeeding

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CHAPTER III - SECTION 3.

Section.

Conclusions.

3.3.35. For the reasons given in the preceding paragraphs it will be observed that the Corporation cannot be said to have afforded complete security to the policyholders. Our conclusions are summarised below:-

- (a) Delays in settlement of claims have created a sense of insecurity and in turn have lessened the value of security afforded by a policy.
- (b) The surrender values are unattractive; these are deliberately fixed low to penalise the life policyholders who are in distress and who seek surrender of their policies. The policy has very poor liquidity for securing loans and surrender values, and for collecting claim amounts on death and maturity.
- (c) The bonuses are inadequate in the context of bonuses declared by the British Life Offices and excellent interest and mortality margins which the Corporation enjoyed during the last 10 years.
- (d) The Corporation has never been conscious of its responsibility or has shown concern in its role of trusteeship in protecting the savings of their insureds, to the extent possible, from being eroded by falling value of the rupee.
- (e) The Corporation does not give personalised service at the door of the insured and the insured is left to fend for himself.

3.3.36. If Life Insurance is to be a big force in mobilising the savings of the community, it is most imperative that

- (a) The management is efficient, dynamic and most economical;
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CHAPTER III - PERFORMANCE OF LIFE INSURANCE CORPORATION
WITH REFERENCE TO THE OBJECTIVES OF
NATIONALISATION.

SECTION 4: EFFICIENT SERVICE TO THE POLICYHOLDERS.

3.4.1. Prompt, efficient and economic service to the policyholders is a fundamental pre-requisite of life insurance if it has to be socially purposive and economically productive and if people are to be persuaded to go in for life insurance as a contract for financial security and stability.

Service to
Policyholder.

3.4.2. The characteristics of such a service are :

- (1) Simplicity of administrative procedures.
- (2) Shortening of lines of communication.
- (3) Minimum paper work.
- (4) Expeditious disposal.
- (5) Promptness and ease in handling receipts and payments of moneys, reducing vexations and problems for the policyholders.
- (6) Sensitivity of the organisation to the complaints of any kind about its service.
- (7) Awareness of its social obligations and responsibilities.

3.4.3. In the course of his speech in the Lok Sabha on the Life Insurance Corporation Bill, 1956, the Finance Minister laid great emphasis on this aspect of life business and had stated that his concept of a well-run insurance company inter alia meant that it rendered prompt and efficient

CHAPTER III - SECTION 4

service to its policyholders and by its service made insurance widely popular. He had further commented that post-sales service did not exist, lapses continued to be high, claims were not paid promptly, etc. An assurance was then given to the Parliament that with a nationalised undertaking, this state of affairs will change for the better. The findings of the Estimates Committee (1950-51) and the Committee on Public Undertakings (1965) on the subject showed that this had not happened.

3.4.4. We were, therefore, keen to find out what effective steps had been taken by the Corporation since then to improve its service to the policyholders in the light of observations and comments made by the two Parliamentary Committees.

Socio-economic environment.

3.4.5. The nature of service depends upon the class of people constituting the policyholders. It is estimated that 20 million urban and 80 million rural households constitute prospects for life insurance. Their main characteristics are

- (a) Lack of education.
- (b) Lack of understanding of the basic concept and benefits of life insurance.

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CHAPTER III - SECTION 4.

- (c) Lack of initiative.
- (d) Lower levels of income exposing the insureds to the temptation of allowing the policies to lapse and spending the resultant sum on some avoidable items of expenditure.
- (e) Irregular incomes.
- (f) Illiteracy and ignorance of the insured about the procedures and formalities to be followed and about their legal rights and obligations against the Corporation.

3.4.5. Hence, if life insurance is to succeed in protecting the interests of the policyholders and in achieving the basic objectives of the community laid down by the Government, its service has to be attuned to the socio-economic environment and the attitudes, levels of understanding and other characteristics of the policyholders.

3.4.7. A life insurer's responsibility to its policyholders is not over with the issue of a life policy only. It is also an essential part of an insurer's responsibility that the sale of a policy is followed up with a good post-sales service and regular contacts with the policyholder. It is on account of such a post-sales service that the life insurance Agents, unlike other salesmen, receive renewal commission in respect of their past business, renewal commission is not, by its very nature, a gift for the service already rendered but is paid for

Post-Sales
Service -
Agent's role.

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CHAPTER III - SECTION 4.

the continued service the life insurance Agent is expected to render to the policyholder.

3.4.8. The post-sales service embraces the following aspects :

- (i) Admission or age, if not already done.
- (ii) Nomination or assignment in respect of a policy.
- (iii) Ensuring payment of premium in-time by policyholders.
- (iv) Grant or loan or surrender value.
- (v) Alteration in plan or term of assurance.
- (vi) Revival of lapsed policies.
- (vii) Additional insurance.
- (viii) Settlement of claims, etc.

3.4.9. Such a post-sales service has its own rewards for the Agent as, apart from renewal commissions, it gives him an opportunity to keep in touch with the policyholders and to popularise insurance thereby improving his prospects for not only securing further business from the policyholders but also from his friends and acquaintances. Besides, such a service is all the more imperative and has to be at the door of the insured in our country on account of the peculiar characteristics of our socio-economic life narrated earlier.

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Insurance Agent is expected

embraces the following

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in respect of a policy:

time in-time by policyholders.

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on account of the
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3.4.10. The Life Insurance Agents' their Memorandum stated that the Agent after-sales service but the main resp Life Insurance Corporation organisati however, as pointed out to us during Agent at present renders practically service and is rarely seen by the poli the policy is taken. Post-sales servi principally by the Divisional office o In a vast country like ours where dist and economic and literacy standards ar holders' servicing from 35 Divisional Policyholders Servicing Departments on the objective of rendering prompt, effi service to the policyholders and cannot widely popular.

3.4.11. The Corporation has, therefore changes in its procedures and practices service is prompt, efficient and econom the insured to obtain all the faciliti ease.

4.12. In reply to our question what was satisfied with the service rendered

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CHAPTER III - SECTION 4.

holders, the Corporation has stated that it is constantly making efforts to improve the service to the policyholders but what efforts have been made in this direction have not been indicated. The Corporation has also stated that the standard of service by the various agencies in its hierarchy is not uniform. Incidentally, the Corporation has so far made no random sample surveys even after twelve years of its inception, about the quality of service to the policyholders and the difficulties experienced by them.

3.4.13. In regard to another question whether administrative pattern of the Corporation is efficient, economical and satisfying to the insured, the reply is too vague and general and is reproduced below

The policy holders are serviced by the Life Insurance Corporation through its Branches and Divisional Offices, Centralised Cash Collection Centres and Centralised Claims Departments. Any complaints by them against the services are attended to promptly at these places as also the Zonal and Central Offices of the Corporation. Further, utmost vigilance is exercised in checking upon the efficiency of the offices through Inspection and Internal Audit Reports.

The Corporation is always alive to the need for

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CHAPTER III • CONTINUED

improving its services to the Insured. It is also aware that there is considerable scope for improvement in its efficiency. Further, every effort is made to secure economy and to satisfy the insured.

3.4.14. From the Corporation's replies we find that the standard of service by the various agencies of the Corporation is not uniform and the Corporation itself is aware that there is a considerable scope for improvement in its efficiency.

3.4.15. The Life Insurance Agents' Federation have in their Memorandum to the Working Group suggested certain improvements connected with policyholders servicing.

Improvements
in servicing
suggested by
the L.I.A.F.
and N.F.L.F.W

Their suggestions inter alia include No proposal should be considered complete unless accompanied by proof of date of birth and nomination; printing on the policy document or as an Annexure thereto full terms and conditions of the policy, tables of surrender values, photostat copy of proposal, personal statement and medical report for all policies over Rs.10,000 and supplying the same to others on demand at a nominal cost; translation of policy conditions and other literature in the regional language; extension of the grace period for policies over 5 years old from six months to one year; application of the

CHAPTER III - SECTION 4.

automatic paid-up system to LIC policies, etc. Similarly, the National Federation of Insurance Field Workers of India have suggested in their memorandum that admission of age and nomination or assignment must be insisted upon prior to issuance of life policy and that the interest of the policyholders will be better safeguarded if the correspondence is conducted in the regional language and not in English. We have dealt with such of these points as are considered essential from the point of view of policyholders' servicing in the succeeding paragraphs and have made necessary recommendations in regard to them.

Claims
Delays in
Settlement.

3.4.16. We have already referred to the inordinate delays in the settlement of surrender values, loans and claims in Section 3. Here, we deal with the settlement of claims in somewhat greater detail as prompt settlement of claims constitutes one of the important aspects of efficient service to the policyholders.

3.4.17. According to the information communicated to us by the Corporation, the details of claims outstanding for more than six months as at 31st March 1967 are as under.

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<u>Period</u>	<u>Number of outstanding death claims.</u>	<u>Number of outstanding maturity claims.</u>
More than 3 months but less than 6 months.	5,351	5,538
More than 6 months but less than 12 months.	5,048	7,154
More than 12 months.	<u>15,868</u>	<u>36,525</u>
	Total: <u>27,307</u>	<u>54,027</u>

3.4.18. We are of the opinion that the number of outstanding claims is staggering and reflects upon the service rendered by the Corporation to its policyholders.

3.4.19. On the basis of the information supplied to us by the Corporation we give the percentages of maturity claims outstanding on account of various reasons :

Discharge vouchers and other requirements returned by policyholders very late.	58%
Policyholders not traceable.	15%
Exchange control regulations.	7%
Want of age proof.	5%
Other reasons.	5%

3.4.20. Besides, the average time taken for settlement of death claims according to the Corporation is as under :

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	<u>Days</u>
Between date of intimation of death and calling for requirements.	10
Between calling for requirements and receipt of requirements.	135
Between completion of all requirements and issue of discharge voucher.	13
Between issue of discharge voucher and receipt of completed discharge voucher.	28
Between receipt of discharge voucher and date of payment.	9
Total:	<u>195 days.</u>

3.4.21. As against this, the average period taken in settlement of cases requiring investigation was as long as 343 days.

3.4.22. We are unable to appreciate the reasons for inordinate delays in the settlement of the maturity claims. It appears that most of the claims are outstanding on account of the time taken by the policyholders in fulfilling the requirements including return of discharge vouchers. In our opinion, maturity claims should be dealt with like discharge of the Fixed Deposit Receipts by Commercial Banks and paid immediately on maturity. Delays on account of want of age proof, policy holders not returning the discharge vouchers in time and

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also those on account of policyholders being untraceable go to show that no personalised service is rendered to the policyholders. We believe that such an impersonal approach of the Corporation is one of the basic factors impeding its progress in the development of life business in our country. Service at the door by the agent will eliminate the causes of these delays. This aspect is being dealt with by us later in this section.

To eliminate delays on account of want of age proof or nomination as suggested by the Agents and Development Officers Associations we recommend that no proposal should be accepted by the Corporation unless it is accompanied by age proof and nomination.

3.4.23. Earlier in sections 3, we have recommended that normally death claims should be paid within a week of the intimation of death as in most cases the proceeds from life insurance will be the only source of sustenance to the family of the deceased. On the other hand, death claims which require investigation should be finalised within a period of 1 month at the most vis-a-vis the average period of nearly a year as is taken by the Corporation at present. Such delays are unpardonable and cannot be countenanced if life insurance is to form

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and develop as an integral part of the social security system in our country.

Age proof in Rural areas,

3.4.24. During evidence the Group met with persistent demands for simplification of the procedure for age admissions in respect of rural policyholders. Because of the low level of literacy we cannot expect every rural policyholder to furnish a School or other Certificate regarding age. Horoscopes produced by the rural policyholders are not generally accepted as proof of age. There are no Municipalities having records of vital statistics and, therefore, extracts from the birth registers are not easy of production for age proof.

We would, therefore, recommend that in the case of policyholders who have not attended any schools and who are residing in villages, a certificate about age from either the revenue official or the village Panchayat Official or a statement counter-signed by two respectable residents of the village should be accepted for purposes of age admission.

Correspondence with the Policyholders in Regional Language.

3.4.25. During evidence it was pointed out to us that the correspondence by the Policyholders' Servicing Department of the various Divisions with the policyholders is done only in English which the vast majority of policyholders

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cannot understand. The National Federation of Insurance Field Workers of India have stated in their Memorandum to us that the interest of the policyholders will be better safeguarded if the correspondence with them is conducted in the Regional Language and not in English.

We recommend that the Corporation's correspondence with the policyholders and particularly with the rural policyholders, should as far as possible be in the Regional language. All literature pertaining to Life Insurance, forms and policy conditions, etc., should be made available to the policyholders in both English and the Regional Language.

3.4.25. According to the Corporation, Rs.50 lacs on ^{account} of claims and Rs.50 lacs on account of deposits are written back annually (and added back to Life Fund) because the whereabouts of the claimants are not known and efforts to contact them do not succeed. It, therefore, appears that about 1500 to 2,000 claims are being written back annually on this account. Moreover, the writing back of unclaimed deposits would, in our opinion, affect about 15,000 to 20,000 policies which would remain lapsed as a result thereof.

Large amount of Claims & Deposits not paid.

3.4.27. We are unable to understand how such huge amounts can be written back and the policyholders penalised on

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account of the Corporation's failure to contact their claimants. Life insurance business is highly personalised in character and the very fact that about Rs.50 lacs of death and maturity claims are written back annually because the claimants are not traceable and another Rs.50 lacs are written back because the policyholders do not furnish complete data according to the Corporation's requirements clearly proves that the Corporation's business is absolutely impersonal and there is no personal contact of the Agent with the policyholders.

3.4.28. We are of the view that if the Agent is required to develop and maintain personal contacts with all policyholders and to provide service at their door, no such cases need arise.

Complaints. 3.4.29. The number of complaints received by a Life Office is also an indication of the type of service rendered to the policyholders. In the following table we give the number and nature of the complaints received by the Corporation's

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various offices in 1965-66 and 1966-67

Nature of complaints.	Year	Number of complaints received by		
		Central Office.	Zonal Offices.	Divisional Offices.
1. Delay or mistake in issue of Acceptance Letter, First Premium Receipt or Policy for proposals submitted.	1965-66	783	504	1,164
	1966-67	808	389	1,024
2. Delay or mistake in issue of premium receipt or notices, etc.	1965-66	2,175	2,213	4,527
	1966-67	2,087	1,537	3,979
3. Delay or mistake in supplying claim forms/settlement of claims.	1965-66	2,913	560	1,529
	1966-67	2,683	605	2,060
4. Delay or mistake in loan quotation and/or granting loan.	1965-66	582	536	2,604
	1966-67	569	589	3,510
5. Delay or mistake in paid-up or surrender quotation and for making paid-up endorsement or surrender payments or age admission.	1965-66	621	428	795
	1966-67	779	382	1,327
6. Delay or mistake in commission payment.	1965-66	2,751	1,957	4,507
	1966-67	2,891	1,939	4,321
7. Failure to acknowledge or reply to letters not covered by 1-6 above and 9 below.	1965-66	*	194	649
	1966-67	*	347	1,650
8. Miscellaneous complaints not covered by 1-7 above and 9 below.	1965-66	5,287	2,322	5,810
	1966-67	6,078	2,345	5,381
9. Delay in revival of policy or giving revival quotation, etc.	1965-66	*	828	1,467
	1966-67	*	700	1,736
TOTAL:	1965-66	15,212	9,542	23,052
	1966-67	16,295	8,833	24,988

N.B.: Statistics of complaints received at Branch Offices are not compiled at the Central Office of L.I.C.

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3.4.30. It will be observed from the above table that the major causes of complaints are delays/mistakes in issue of premium notices/receipts, commission payment and loan transactions. The number of complaints received by the Corporation also appears to be unusually large. Moreover as pointed out in Section 3, most of the policyholders do not complain even though they have a grievance either because they are reconciled to the deteriorating standards of service or because they are ignorant or illiterate.

3.4.31. From the information supplied to us, we find that out of the total number of 16,295 complaints received at the Central Office during 1965-67, 7,414, i.e. about 45.5% pertained to the Eastern Zone. According to the Corporation, the relatively large number of complaints in the Eastern Zone did not have any adverse effect on its new business in that Zone. This is a strange and unconvincing argument inasmuch as it ignores that much more business could have been effected by the Corporation had it not been for its poor standards of service. The Corporation seems to take complaints for granted. The Corporation also seems to be completely oblivious of the fact that lapse ratio is the highest in

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the Eastern Zone. The Corporation has also not indicated what steps it has taken to remedy the relatively large number of complaints in the Eastern Zone.

3.4.32. Another indicator of unsatisfactory selling and deplorable service is lapsation. It was hoped at the time of nationalisation that through careful selling and effective servicing, the lapse ratio of new life business will be substantially reduced once the life business was nationalised.

High lapse
ratio and
ises.

3.4.33. The Corporation's overall lapse ratio of 7.4% is indeed high. During 1955 the overall lapse ratio of all the private insurers was 7.6%. In this connection it will be relevant to note that inter-company competition prior to nationalisation affected the lapse ratio adversely. As a monopolistic organisation, the Corporation should have done certainly better and it is strange that there has been no improvement in the lapse ratio even after 12 years of its existence.

3.4.34. According to the Corporation, overall lapse ratio for every Zone and Division are not compiled. This is surprising indeed.

3.4.35. Duration-wise analysis of lapses for Zones and

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Divisions has been furnished by Corporation. According to the Corporation, the conclusion based on this analysis is that the lapses vary from region to region due to differences in literacy standards, economic factors, etc. between the regions. This may be partially correct, but in our opinion poor management means poor business and, therefore, high lapses. To quote only one instance, in the first three years of issue of policies Calcutta Division has been showing lapse ratio as high as 65% and 'over 72%' from its new business of 1963/64 and 1964/55 respectively, whereas Bombay Division has shown a lapse ratio of about 21% out of 1963/64 business and about 17% out of 1964/65 business. It cannot be said that the literacy standards or the economic factors have been responsible for this wide disparity in lapse ratios of these two Divisions.

3.4.36. The Corporation has also argued that the lapse ratio in the case of Divisions which are predominantly rural are higher than in other Divisions and that in addition there were continuous droughts in Rajasthan and Bihar with consequent failure of crops. However the statistics do not bear out these sweeping conclusions.

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3.4.37. It may be noted that out of 1955-57 new business of Gauhati and Mizaffarpur Divisions, 11.1% and 7.5% respectively lapsed before the close of the year. The quality of new business is thus unsound. The lapsation in the year of issue of policies to be as high as 4% is not a rare phenomenon with Divisional Offices during the last five years.

3.4.38. In this context it may be relevant to quote the percentage of lapses in the U.S. These percentages include not only the reduced paid-up policies but also surrenders and yet they ranged between 5.0% to 5.7% in the years 1957 to 1966. In 1966 it was 5.2%. This is against the overall lapse ratio of 7.4% in India excluding surrenders.

3.4.39. The Corporation has stated that perhaps the most important reason for lapses is the deterioration in the general economic conditions in the country. We are afraid we cannot accept this as a valid reason at all as on the contrary there has been a substantial improvement in the economic conditions in the country after nationalisation as the per capita income at 1948-49 prices increased from Rs.267.8 in 1955-56 to 298.3 in 1965-66 - an increase of 11%. The other reasons

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adduced by the Corporation for lapses are:

1. Inability of the policyholder to continue insurance.
2. Forgetting to pay premium in time.
3. Inadequate facility for payment of premium.
4. Dissatisfaction with the services of the insurer.
5. Alterations desired in the policy.

3.4.40. The Corporation is stated to be making efforts to ensure that proper initial selection of the proponent is exercised by the Agents and every Agent is also advised and helped to maintain a register indicating due dates of premium and notices of default of premium are sent to the Agent.

3.4.41. With a view to reducing lapsation, the Corporation does not issue policy to the proponent unless the policies lapsed by him in the 3 preceding years are revived.

3.4.42. The Corporation has also under consideration the ways to improve the sales and service to clients. A Development Officer responsible for introducing spurious business is demoted. The number of such demotions is not known.

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3.4.43. The views of the National Federation of Insurance Field Workers of India on this subject are as under :-

N.F.I.F.W.I's
views.

'LIC has become a PLUS - MINUS BUSINESS FIGURE CORPORATION. In their mistaken zeal to show to the Government or to the Parliament or the public at large the make-believe success of the LIC, the management has compelled the Development Officers to procure more and more business anyhow and somehow. Huge lapsation of business has, therefore, been the natural outcome of forced sale of business in the market. Service conditions of the Development Officers have been so devised that they are compelled to bring in business of doubtful quality in order to justify (as the management puts it) emoluments.'

3.4.44. We are afraid we do not agree that the Corporation's attitude is to procure 'more and more business anyhow and somehow'. In our view, there is no effective planning of business by the Corporation or for that matter by the sales organisation with the result that the targets of business appear to be unduly high. In view of the vast untapped potential or business already mentioned by us in Section 1 we do not consider that the targets fixed by the Corporation can be deemed to be unduly high by any stretch of imagination.

3.4.45. We feel that the Corporation has not made any serious endeavour to arrest the high lapse ratio which is,

Kemedy.

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in a large measure, due to the inefficient and ineffective selling. The most important reason given by the Corporation, i.e., 'deterioration in the general economic conditions which we do not accept as correct, should have been taken care of by collecting 'term insurance premium' at the outset as recommended by us earlier. This system will also take care of one more cause for lapsation, viz., 'Inability of the policyholder to continue insurance'. The re-organisation of the Agency Force and the service at the door of the policyholders as recommended by us should help in combating the causes (2) to (5) of lapsation referred to in paragraph 3.4.39. The other possible causes for lapses, viz., delay in the deduction and remittance of the premiums of Salary Savings Scheme and errors and delays on account of concentration of new business in the closing months of calendar and financial years should be eliminated by an efficient and effective administration having proper coordination with the offices under Salary Savings Scheme and effective plans for sale and even-spread of business throughout the year. We do not appreciate the Corporation's decision not to issue Policy to a proponent unless the policies lapsed by him in the three preceding years are revived. This is just penalising the policyholder in an illogical and arbitrary manner and the restriction imposed

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by the Corporation is unreasonable.

3.4.45. In reply to our question whether the Corporation had considered any project of radically simplifying the paper work between the public and the Corporation and rationalising its administrative procedures, record keeping and other operations to enable most efficient management of business and deploying of the administrative staff to more creative work as against mere record keeping and routine functions, the Corporation has replied in the negative. The Corporation has further stated that it has standardised various forms used in rendering service to the insured and has listed some of the simplifications effected which are of a routine character only and cannot be considered to be radical in any manner and cannot obviously have any impact on either efficiency or effectiveness and quickness of service and economy. The above analysis clearly shows that the administrative pattern and servicing by the Corporation are neither efficient nor economical and nor satisfying to the policyholders.

Analysis of Corporation's servicing.

3.4.47. The administrative machinery has, therefore, to be thoroughly overhauled to help the policyholder so that his documentation with the Corporation is kept upto date to enable him or his successor to get prompt policy

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servicing, policy loan, surrender, adjustment of deposits and prompt settlement of claims.

Agents' role.

3.4.48. However, the real answer to the problem of poor, inefficient service under the conditions prevailing in India lies in rendering of service at the door of the policyholders. This can only be done by the Agents of the Corporation.

3.4.49. An insurance Agent is the focal point of contact between the public and the life insurer. It is the Agent who carries the message of life insurance to every nook and corner of the country, sells the concept of life insurance and serves the life insured in all matters regarding his policy throughout its entire term. He is in essence the starting point in the process of mobilisation of the savings of the community. The extent of success of a life insurer in achieving the basic objectives of social security for the community and the type of image which he creates depends largely on the initiative, enterprise, dynamism and efficiency of the Agency Force.

3.4.50. The total number of policies in force as on 31st March 1967 was 1.20 crores. To service this, the Corporation had 1,67,000 Agents and about 8,500 Development Officers

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and about 30,000 administrative staff. On an average, therefore

An Agent had less than 100 life policies to service.

A Development Officer had less than 1500 life policies to service.

An administrative staff had less than 400 life policies to service.

3.4.51. A well planned sales programme can enable an Agent to bring a new life policy on the books with about 6 hours' sales efforts. If 900 active hours are devoted to selling during a year, an average Agent should be able to sell 150 new life policies of an average of Rs.2,000 sum insured, with a total new life insurance sale of Rs.3 lacs per Agent against Rs.40 - 50,000 per Agent, which is the case at present. The average new life insurance sale for a Development Officer should, therefore, be Rs.50 lacs against Rs.7-8 lacs now.

3.4.52. We are constrained to observe from the above analysis that the insurance Agent is incapable under the present set-up to effectively carry the message of life insurance to every home, selling the concept of life insurance and bringing as many families on the books of life insurance as possible.

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3.4.53. Besides, as pointed out earlier, the insurance Agent practically renders no service at present. The Agent just sells and that too poorly. He is rarely seen by the policyholder once the life policy is sold by him.

3.4.54. The functions of the Agents as stated by the Corporation are "bringing new business, servicing the policyholders, keeping business in force and propagating the message of insurance to people". The Corporation has no doubt given the functions of the Agent but has given no reply to our question "In what respects is he wanting in rendering efficient service to the policyholders? Can steps be taken to harness him to render more active and efficient service at the door of the insured?"

3.4.55. The Corporation has stated that efforts are made to train the Agents to maintain Policy records by maintaining policyholders' Register and that a cadre of Senior Agents is contemplated by offering certain fringe benefits. The Corporation has not stated the duties and functions proposed to be entrusted to Senior Agents. Similarly, in the case of Development Officers the Corporation has not replied to the question - "What do you consider are his weaknesses and what steps do you propose to take to harness him so that he will be a

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dynamic force for building up his Agency Force and cultivating better public relationship and rendering greater service to the insured? All that the Corporation has stated in this connection is that it is essential that the Agency Force is of a good calibre, that about 80% of the Agents do not continue for more than 5 years and that the Corporation depends mainly on the efforts of the Development Officers for its new business.

3.4.56. The functions of a Development Officer are as under -

Development
Officers
role.

- (a) To develop and increase the production of new life business in a planned way in the area allotted to them;
- (b) To guide, supervise and direct the activities of all such Agents;
- (c) To recruit and train new Agents so as to develop a stable agency force;
- (d) To activate existing and motivate new Agents;
- (e) To render all such service to policyholders as conduce to better policy servicing;
- (f) To work in the area allotted to him as a representative of the Corporation and perform such duties as the Corporation may call upon him to do.

3.4.57. The performance of the Agents and Development Officers during the years 1960 to 1966-67 will be noted

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from the following table

Year Ending	No. of Development Officers.	Average No. of active Agents per officer.	Average No. of new policies per active Agent.	Average sum insured by active Agent. Rs.
1960	5,803	17.5	12.3	47,900
1961	7,128	17.5	11.7	47,900
1962-63	8,208	17.2	12.4	52,070
1963-64	8,585	16.7	11.5	48,359
1964-65	8,720	16.7	9.8	47,191
1965-66	8,613	17.2	10.5	53,315
1966-67	8,513	16.9	9.8	52,573

3.4.58. It would be observed from the above table that the average number of active Agents per Development Officer is stagnant at around 17 and the average number of policies per active Agent has varied between 10 - 12½. The statistics are revealing indeed and indicate that the Development Officer is not satisfactorily discharging his primary function of motivating and training a dynamic Agency Force. There could be no conceivable difficulty in each Development Officer augmenting his Agency Force by at least 5 to 8 trained active Agents per annum. Even on a very modest assumption of rupees three lakhs new business per active Agent each Development Officer should have produced a business of Rs.50 lacs at least

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as against Rs.7 to 8 lacs now. In fact, for the remuneration received each Development Officer should by himself be in a position to bring in new business of Rs.7 to 8 lacs per annum without having the farce of an Agency Force. Moreover, the type of business procured is of a doubtful quality and is responsible for huge lapsation on the N.F.I.F.W.I's own admission (cf. para 3.4.43). It is, therefore, evident that not only the insurance agent has failed in carrying the message of life insurance to every home, the Development Officer has also failed to fulfil the task assigned to him.

3.4.55. We had enquired of the Corporation "If the Agent is made to render all the services at the door of the insured including premium collection obviating the need for premium notices and premium receipts and all other service, how many of the 52,000 employees will be rendered surplus (a) with the administration fully computerised; (b) with the administration mechanised but not computerised?" The Corporation's reply is that policy-holders servicing can be divided into two parts, namely

<u>Feasibility of service at the door by Agents.</u>
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- (i) Service in the nature of counselling; and
- (ii) Service constituting action in the office.

According to the Corporation, service in the nature of

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counselling would include advising and counselling in matters such as age admission, nomination and assignment which will call for the highly personalised service by the Agent and the Development Officer. However, it has to be noted that neither the Agent nor the Development Officer renders such personalised service at present. There are a large number of policies without age admission, nomination or assignment, with the result that claims settlements are delayed and large amounts of outstanding claims have accumulated.

3. 4.60. According to the Corporation, the following functions fall under the concept of service representing action at the Office, but this could, in our opinion, be safely entrusted to the Agents for the reasons and observations given thereagainst:

(1) Issue of premium notices - With the Agent servicing at the door, a proper procedure could be devised to obviate the issue of premium notices. It will be the Agent's responsibility to visit the policyholder and remind him from time to time about his premium.

(2) Collection of renewal premiums - The Agent should be able to maintain a list of premiums due date-wise, collect and deposit renewal premiums as and when they fall due

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and issue receipts therefor in the premium pass book issued to the policyholder and send to the Branch and the Mechanised Control Section at the Division a statement of premiums received.

(3) Issue of Default Notices - The Agent will know the policy on which premiums are not paid and will be reminding the policyholder regularly. However, to prevent defalcation, default notices should be sent to the life insured and the Development Officer regularly.

(4) Maintenance of individual policyholders' premium accounts - This will be shown in Policyholders' Premium Pass Book. The premium Account will be maintained at the Branch also with the help of the Mechanised Centre at the Divisional Office. Besides, the Agent will also be able to certify the upto date position regarding premium paid.

(5) Keeping in deposit amounts received which cannot be immediately adjusted towards renewal premium and to be adjusted later. There will be no such unadjusted deposits since the Agent will himself calculate and always collect the exact amount necessary for each occasion.

(6) Revival of lapsed policies - The Agent can do this. Besides, if the system suggested by us in Sectional, namely, collecting at the outset, term insurance premium for 2 years as deposit is followed for every

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policy a revival of the policy will not involve any medical check-up, etc., but only calculation of interest. If the table of interest charges is simplified, revival of lapsed policies can be very simple and most of the work in that connection can be done by the Agents.

(7). Conversion of policies into paid-up or effecting other alterations - The Agent can calculate the paid-up value or the consideration amount required for alteration and can get the consent letter from the life assured and send this with the policy to the branch. This will substantially reduce the operations involved in this section of work.

(8). Age admission, nomination and assignment - Agent can finalise all the details and send to the Branch for registration. Such a procedure will obviate the need for any communication to and fro.

(9) Grant of loan and surrender values - Agents will know the status of the policy (in force or not), will know surrender value and loan value and will have blank application forms which will be as good as surrender or loan contracts. If the procedures are simplified the Agent can ensure completion of all the formalities, namely filling up of the application form, collecting the policy, taking signature of the assured or the assignee, etc., from the

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policyholder at his door and deliver the same to the Branch Office where the surrender value or loan should be made available within a day. Under such a system, the Branch has only to check up the calculations and the forms completed by the Agent. In a commercial undertaking working under high pressure competition, it should be possible to organise a method whereunder loan or surrender cheques are given within hours of receipt of the completed documents from the Agent.

(10) Taking note of change of address and transfer of policy - The Agent will know this and will communicate this in the correct way. Besides, it will be the Agent who will be mainly contacting the policyholders and, therefore, knowledge about address will be most up to date even if the policyholder omits to inform.

(11) Settlement of claims - Since all the details of the policy will be up to date, age admitted, premium position clearly known, the Agent in close contact with the family continuously, it will be possible for the Agent on the death of the insured to complete all the claim forms, get them verified by the Development Officer and submit them to the Branch expeditiously. Except in a small percentage of claims to be investigated, all other claims

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can be settled most expeditiously, if well-organised, probably in less than a week.

(12) Advice to policyholders and legal interpretation of the terms of policy contracts and other miscellaneous work - The Policy conditions can be so simplified that such interpretations and work of intricate nature will be very rare and insignificant percentage of the present work

We, therefore, recommend that the aforesaid functions pertaining to policyholders servicing should be discharged by the Agents.

3.4.51. We do not agree with the Corporation that the complexities of policy servicing limit its decentralisation in Branches to comparatively simple functions. According to us, there is no reason why the Agents cannot render these services independently in most cases and by personal discussion with the Branch Managers in those cases which are complex in character. The Administrative Manuals prepared by the Corporation should provide all the necessary guidance to the Agents for policy servicing. The manuals should not provide for any complex procedures or complicated calculations but should give simple rules of working on any matter of service to policyholder. According to our concept the Agent can and should be a person thoroughly trained in a

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model office and not merely a person who is imparted theoretical and oral training/instructions, through manuals.

3.4.52. The Corporation has concluded "There is no possibility of rendering any of the 52,000 employees surplus; on the contrary, it is quite likely that more people may have to be employed to deal with the correspondence that would inevitably arise as a result of mistakes made by Agents in collecting premiums, failure on the part of the Agents to call on the policyholders promptly and so on. Computerisation would not preclude the confusion arising from the failure of the Agents to do the work of the premium collection promptly and efficiently and, therefore, this forecast would apply to a computerised administration as fully as to a non-computerised administration".

3.4.63. The Corporation's apprehensions regarding the mistakes and defalcations by the Agents are misplaced. As stated by us the Agent should be thoroughly trained and of tested ability and experience. Besides, the procedures should be so simplified that the agent will have no difficulty in servicing at the door. The defalcations, if any, can be taken care of by means of fidelity guarantee insurance. Further, the chances of dishonesty or fraud

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will be very small inasmuch as the Agent will not risk sacrificing his monopoly of cultivating his block of families and the consequent steady income. In our opinion, the decentralisation of powers to the branches and rendering service at the door-step of the policyholder should substantially reduce paper work all round

3.4.54. After examining the various facets of policyholders' servicing, we are of the view that the Corporation has failed to discharge its basic responsibilities to the policyholders in regard to post-sales service and in making insurance widely popular. In our opinion to protect the interests of the policyholders and to make the Corporation an effective instrument for the mobilisation of public savings and thus realising the objectives of nationalisation, radical structural and functional changes are necessary. We would, therefore, recommend the establishment of a stable Agency Force entrusted with the task of developing life insurance business intensively sectorwise. The Agent should be fully responsible for servicing the policyholders in each sector throughout the currency of the term of policy which may range from 10 years to 40 years and act as a friend, philosopher and guide to the policyholder

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CHAPTER III - SECTION 4.

in all his financial matters. The Agent will be the king-pin in the organisation and will, in fact, be the Corporation personified in the sector allotted to him and will be in a position to carry the message of insurance to every household in his sector, thereby mobilising the savings of every household in his area of operation. The Agent shall also provide the much needed personalised service at the door of the policyholder.

3.4.65. Service at the door of the policyholder by the Agent will eliminate the causes of delay and harassment in the servicing which are at present the bane of the organisation. Introduction of this service will result in efficient administration and will also enable the Corporation to utilise effectively a substantial part of the staff presently engaged in policyholders' servicing work in the various Offices of the Corporation for more useful and productive work in the field. We are separately recommending radical structural changes in the administrative pattern of the Corporation involving decentralisation of most of the functions of the Corporation to the Branches and the abolition of Zonal Offices. This will also enable the Corporation to deploy additional staff for field work.

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CHAPTER III - SECTION 4.Creation of
a New Cadre
of Block
Officers.

3.4.66. We recommend the creation of a new cadre of Block Officers (Service and Development) Class III. The scale of pay and allowances for the Block Officers should be the same as for Assistants. The posts of Assistants and Block Officers will be inter-changeable. The duties and functions of the Block Officers will be identical with those of the Block Agents.

3.4.67. The Block Officers will be, by and large, proficient in the policyholders servicing work and should be able to function very effectively after some intensive training in salesmanship. This training may not be necessary in the case of existing Staff Agents who may be appointed as Block Officers. Consequent on the introduction of the service at the door of the policyholders as recommended by us, the existing Staff Agents, who are more than 5,000, should be deployed as Block Officers to function in the field for cultivating the block of families allotted to them intensively by providing them with service at the door as well as selling life insurance in the Block. Such other Assistants as may be required for deployment as Block Officers may be given the requisite training in salesmanship before being posted as Block Officers.

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3.4.58. We recommend that the functions of the Development Officer should be re-oriented for sector-wise development of life business. The existing functions of a Development Officer inter alia include rendering all such service to policyholders as are required for better policy servicing. In actual practice, as pointed out by us already, the Development Officer is not rendering any service to the policyholders. Since under the Agency Force recommended by us the Agent will be the king-pin, rendering all services to the insured at the door, the Development Officer will have to supervise effectively the work of the Agents and to ensure efficient and effective service to the policyholders.

Reorientation of functions Development Officers.

3.4.59. We also recommend that the Branch Offices which are ineffectively organised at present should be reorganised and harnessed to be self-sufficient to render all the services from proposal to policy claim to the policyholders.

Re-organisation of Branch Offices

3.4.70. The Corporation constituted Policyholders' Councils for the first time in September 1965. The subjects normally referred to the Policyholders'

Policyholders Councils to be more effective

CHAPTER III - SECTION 4.

Councils by the Divisional Managers are as under :-

1. Service to Policyholders.
2. Outstanding claims.
3. Opening of new Branch Office/sub Office/ Development Centres.
4. Loans under OYH Scheme - Cases rejected and/or granted loans.
5. Progress of new business in the Division.
6. Progress of general insurance business in the Division.
7. Publicity activity.
8. Important building activities.

3.4.71. The suggestions made by these Councils are communicated by the Divisional Offices to the Zonal Offices and/or the Central Office for necessary action. Where policy decisions are not involved, action is taken in the Divisional Office. Action taken on the suggestions made by the Councils is reported at the subsequent meetings.

3.4.72. During the last two years the number of meetings of these Councils in each Division varied from 2 to 8. During evidence it was noted by us that the activities of these Councils are not known to the policyholders and steps should be taken by the Corporation to publicise the same so that policyholders can approach the Councils

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With suggestions for improvement in the service rendered by the Corporation.

3.4.73. The Corporation does not seem to take these Councils seriously and has not cared to furnish the statement asked by us giving the recommendations made by these Councils and the steps taken by the Corporation towards their implementation.

3.4.74. We would, therefore, recommend that the Corporation should publicise the activities of these Councils and take appropriate steps to make them an effective instrument for improvements in the policyholders' servicing.

3.4.75. The members of these Councils are nominated and do not represent the policyholders. In the following paragraph we deal with the formation of Policyholders' Associations. After the formation of these Associations we recommend that the Corporation should have the Associations' representatives on these Councils.

3.4.76. The Corporation had about 1,20,00,000 policies on its books as on 31st March 1967. As pointed out by us earlier, the number of policyholders is not

Constitution
of Policy-
holders'
Association

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available with the Corporation. We have already recommended that the Corporation should take necessary steps for keeping a record of the number of policyholders.

3.4.77. The policyholders are scattered throughout the country and do not have any organisation of their own to ventilate their grievances against servicing. We have separately recommended representation to Policyholders' Associations on the administrative bodies of the Corporation. To facilitate this representation we recommend that the Corporation should provide all necessary facilities to the policyholders to organise Policyholders' Associations at least at each Divisional Headquarters immediately and in due course at each Branch level.

Prompt and efficient post-sales service - a must.

3.4.78. Personalised, prompt and efficient post-sales service on the lines recommended by us in this part is a must if the Corporation is to make life insurance widely popular and attractive and live up to the nation's expectations.

CHAPTER III - PERFORMANCE OF LIFE INSURANCE CORPORATION
WITH REFERENCE TO THE OBJECTIVES OF
NATIONALISATION.

SECTION 5 - ECONOMY IN EXPENDITURE.

3.5.1. Although Life Insurance provides family protection it is the savings aspect of life insurance which is most emphasised in selling it. Therefore, life insurance has to compete with other media of savings. Life Insurance has an edge over other types of savings because it provides for family protection and economic certainty. Nevertheless, the yields on life policies have to be comparable with those on other types of savings. Life Insurance has to be sold and serviced at the door of the client whereas in other forms of savings it is the client who has to take the initiative and go to a bank or post office or the treasury or stock broker to invest his savings in the form desired by him. Therefore, the yield of life insurance cannot be as high as that on other savings media as the insurer has to provide for the service rendered to the client at the door as also for the death risk. Notwithstanding this insurers all over the world take great pains to keep the cost of life insurance as low as possible by effective economies in administration, i.e., both selling and servicing, so as to make it

Need for
economy in
expenditure.

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CHAPTER III - SECTION 5.

attractive and popular compared to other media of savings.

Concept of
expense ratio
of well-run
Insurance
Corporation.

3.5.2. The concept of a well-run Insurance Corporation as spelt out by the then Finance Minister in the Lok Sabha on the 29th February 1956 was as under :-

"....Now, take the first criterion. I think the record of our life insurance companies is poor. The ratio of expenses of management to the premium income for Indian insurers is 27% compared with 15% for companies in U.K. and 17% in U.S.A. Even statutory imposition of expenses limits has failed to check extravagance. It has been claimed by companies that this ratio is high for various reasons but to me it seems that it is largely due to extravagance in the field. Most of the field Agents are dummies and their main purpose seems to be to function as the channel for passing illegal rebates....."

"....The premium is really a form of saving and when more than 4 annas in every rupee of this premium is spent in expenses and only 12 annas or less than that is paid, then the harm to the interest of the small saver can easily be imagined."

The then Finance Minister further stated on the 18th May 1956 in the Lok Sabha :-

"The Corporation should certainly be able to keep its renewal expense ratio at a much lower figure than this 15% which incidentally is rather a high limit."

"The Corporation will not really need the large number of employees it would be inheriting.....The best solution is to expand the business and thus find real work for all."

CHAPTER III - SECTION 5.

3.5.3. The standards generally adopted for judging whether a life insurance administration is economic are to compare its over-all and renewal Expense ratios over a period of time or to compare them with those of other life insurers. A comparison of the over-all expense ratio is not very meaningful as the expenses on new business in the first year are very much higher and the ratio is liable to fluctuate from year to year depending on the volume of new business and the renewal business in each year. The renewal expense ratio gives a better appreciation of the economic administration of a life insurer.

Over-all and
Renewal
Expense
Ratios.

3.5.4. Section 40B of the Insurance Act, 1938 and the Rules framed thereunder apply to the Life Insurance Corporation. The statutory limit on expenses prescribed under this Section allow expenses up to 50% of first year's premium for new business with a reduced percentage for short-term policies and 15% of renewal premium. In the pre-nationalisation period, most of the good life companies remained well within these limits notwithstanding the fact that on account of the competitive nature of the business, their expenses on procurement of new business were considerably higher. The following table

Statutory limi-
tations on
Expenses.

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CHAPTER III - SECTION 5.

gives the overall and renewal expense ratios of the Corporation since its inception :

<u>Accounting Period</u>	<u>Over-all Expense ratio</u>	<u>Renewal expense ratio</u>
1.9.56 - 31.12.57	27.20	15.89
1958	29.01	15.43
1959	28.68	12.92
1960	28.45	12.90
1961	27.97	12.42
1.1.62 - 31.3.63	29.31	14.13
1963-64	27.46	12.46
1964-65	27.55	14.09
1965-66	27.55	14.69
1966-67	27.72	15.91

The overall expense ratio of the Corporation has varied between 27.20% and 29.31%. The renewal expense ratio has been above 12.42% and climbed the peak level of 15.91% in 1966-67.

Actual expense ratios.

3.5.5. In order to have a correct appraisal of the economy in administration achieved by the Corporation, we obtained from the Corporation the actual cost break up of the first year's expense ratio and the renewal expense ratio. These are as under :-

	<u>First year's Cost.</u>	<u>Renewal Cost Ratio</u>
1964-65	69.16	18.58
1965-66	69.56	18.85
1966-67	72.13	19.36

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On the first year's expense ratio of about 72%, the renewal expense ratio of the Corporation has been over 16.9% every year (Cf. paragraph 3.5.7.). The allowance of 90% of first year's expenses allowed under the Statute could have been considered reasonable for the erstwhile insurers working under competitive conditions; but not for a nationalised monopolistic undertaking of a giant size capable of achieving the requisite economies in administrative expenses by rationalising and simplifying its procedures.

3.5.6. In the following table we give the renewal expense ratio of 2 leading erstwhile insurers for five years prior to nationalisation :-

Renewal
expense ratio
of leading
erstwhile
insurers.

	<u>1951</u> %	<u>1952</u> %	<u>1953</u> %	<u>1954</u> %	<u>1955</u> %
Oriental	12.4	14.8	14.7	11.8	13.0
New India	13.1	14.8	14.2	9.1	11.5

It would be observed from the above that the renewal expense ratio of New India and 'Oriental' was not more than 14.8%. We are, therefore, inclined to think that the record of the Corporation in the matter of expense ratios is poor and that nationalisation has not helped to check extravagance in administrative expenses.

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Expense ratio of the Corporation compared with those of other similar institution.

3.5.7. In the table below, we give the Corporation's renewal expense ratios worked out on different assumptions regarding first year's expense allowance and the expense ratio of two leading British Companies on the basis adopted by the well known publication of Stone & Cox :-

Year**	L.I.C.			LEGAL & GENERAL		PRUDENTIAL	
	50% Allow- ance.	80% Allow- ance.	72% Allow- ance.	1st Yr's	Renewal.	1st Yr's	Renewal.
	%	%	%	%	%	%	%
1958	15.5	17.8	19.6	47	4.7	72	7.2
1959	12.9	15.5	17.7	43	4.3	71	7.1
1960	12.9	15.5	17.6	46	4.6	73	7.3
1961	12.4	15.0	17.1	48	4.8	71	7.1
1962	14.1	16.7	18.7	46	4.6	73	7.3
1963	12.5	14.9	16.9	52	5.2	74	7.4
1964	14.1	16.3	18.0	56	5.6	72	7.2
1965	14.7	16.8	18.4	48	4.8	76	7.6
1966	15.8	17.9	19.5	62	6.2	74	7.4

** Year ending is 31st December, except for L.I.C. L.I.C's year ends on 31st March of the following year. Therefore, 1962 indicates the year 1962-63 for L.I.C. and so on.

3.5.8. The comparison of the Corporation's expense ratio with the expense ratio of the British Companies is very telling. The Corporation for a first year's cost of 72% incurred a renewal expense ratio varying between 17 to 19.6%, whereas the Prudential's renewal expense ratio is about 7.5%. The Legal & General shows very much smaller first year's and renewal expense ratios.

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3.5.9. It would be interesting to compare the expense ratio of the J.S. Companies with that of the Corporation. Comparison with J.S.A. As separate figures for first year and renewal expense ratios of J.S. Companies are not available, in the table given below we compare the overall expense ratio of the Corporation with the ratio of expenses to premium income of all U.S. Companies:

Year	Ratio of expenses to premium income of all U.S. Companies.	Over-all expense ratio of the L.I.C. %*
1957	22.17	27.20
1958	22.43	29.01
1959	22.08	28.68
1960	22.43	28.45
1961	22.07	27.97
1962	21.92	29.31
1963	21.67	27.46
1964	21.79	27.55
1965	21.61	27.55
1966	21.51	27.72

*The figures from 1962 to 1966 for the LIC are for the financial years 1962-63, 1963-64, 1964-65, 1965-66 and 1966-67.

It will be observed that the expense ratio of all U.S. Companies is about 6% less than that of the Corporation.

3.5.10. While making these comparisons, it should not be forgotten that the companies in U.K. and U.S.A.

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CHAPTER III - SECTION 5

have to operate under very competitive conditions. On the other hand, the Corporation is a monopolistic concern, functioning under very favourable circumstances with no competition and a vast untapped potential ready to be harvested.

Awareness of the public of the high expense ratio of the Corporation.

3.5.11. The high expense ratio of the Corporation came up for severe criticism by the Estimates Committee as also the Committee on Public Undertakings. During the course of the examination by the Estimates Committee 1960-61 the representative of the Ministry of Finance was also examined and he stated that the Corporation should attempt to bring down the ratio to 8 or 9%. The Committee on Public Undertakings has stated that the renewal expense ratio during the last 2 years was between 12.42 and 12.92% which showed that the organisation did not reflect the economies of the scale expected. The Committee recommended reduction in the expense ratio and this recommendation was accepted by the Government.

3.5.12. However, instead of any reduction in the renewal expense ratio, there has been a consistent rise and the ratio has reached a fresh peak in 1966-67

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In view of the high expense ratio which had already crossed the statutory limit of 15%, the Government appointed the Morarka Committee on 21st July 1967 to look into the renewal expense ratio of the Corporation. A copy of the reference to the Committee is at Appendix XXI.

3.5.13. The Corporation seems to be completely oblivious of the necessity to reduce the expense ratio. To our question regarding the indication given by the Finance Minister about the overall ratio of 15% and the reasons for exceeding it during the last 10 years, the Corporation has pleaded ignorance regarding the Finance Minister's indication of the ideal overall ratio of 15%. As to the reasons why it is so, the answer of the Corporation is "The overall expense ratio of the Corporation has been well above 15% in every year and, therefore, no reasons are offered." This shows the utter indifference of the Corporation to this problem.

Corporation's
views on its
ability to
reduce the
expense ratio.

3.5.14. The Corporation does not consider that its first year's or renewal expense ratios are susceptible to reduction by simple adjustments and rationalisation. The Corporation's approach to the problems is too rigid and the Corporation has not cared to think in terms of economies resulting from rationalisation, simplification, deployment of staff for more creative work, etc.

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CHAPTER III - SECTION 5.

Reasons for
the high
expense ratio.

3.5.15. To find the reasons behind the high expense ratio of the Corporation, we have examined the break-up of the first year's cost and the renewal cost. The break-up of the first year's cost as given by the Corporation for the last 3 years is as under :-

	<u>1964-65</u>	<u>1965-66</u>	<u>1966-67</u>
	<u>% to first year premium.</u>		
A. Agents' first year commission.	<u>29.33</u>	<u>29.02</u>	<u>29.35</u>
B. Development Officers:			
Bonus Commission.	0.30	0.81	0.72
Salaries to Development Officers.	12.41	13.46	15.23
Conveyance Allowance	4.41	4.27	4.27
Travelling Expense.	<u>2.22</u>	<u>2.17</u>	<u>2.35</u>
Total:	<u>19.84</u>	<u>20.71</u>	<u>22.57</u>
C. Expenses of Branch and Divisional Offices :			
(i) Directly related to new business:			
Medical fees.	3.26	3.27	2.88
Advertisement	0.96	0.79	0.77
Policy stamps	0.93	1.03	0.97
Motor-car expense:	<u>0.62</u>	<u>0.70</u>	<u>0.72</u>
Total:	<u>5.82</u>	<u>5.79</u>	<u>5.34</u>
(ii) Other expenses	<u>11.61</u>	<u>12.03</u>	<u>12.11</u>
Total of (i) & (ii)	<u>17.43</u>	<u>17.82</u>	<u>17.45</u>
A+B+C New Business Cost Ratio up to Divisional Office.	<u>66.60</u>	<u>67.55</u>	<u>69.37</u>
Incidence of Zonal Office Expenses.	1.46	1.62	1.71
Incidence of Central Office Expenses	<u>1.10*</u>	<u>0.79</u>	<u>1.05**</u>
New Business Cost Ratio of the Corporation	<u>69.16</u>	<u>69.96</u>	<u>72.13</u>

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*Includes provision of Rs.55 lakhs in 1964-65 on account of revision of salaries of Class I and Class II Officers.

**Includes provision of Rs.45 lacs in 1965-67 on account of contribution towards deficit of LIC (Oriental) Pension Fund.

Note: Expenses at Branch level are not separately available.

It will be observed from the above that the percentage of first year's premium spent by the Corporation was 69.16% in 1964-65, has been rising and has reached the peak of 72.13% in 1965-67.

3.5.16. Next to the first year's commission paid to Agents, the other high item of cost is expenses on the Development Officers. The cost of the Development Officers has risen from 19.84% in 1964-65 to 22.57% in 1965-67. This is a very high percentage of first year's premium to be spent on Development Officers. After all, it is the Agent who procures the business and who is paid his first year's commission. The Development Officer has to guide and assist a number of Agents and to spend as much as 22.57% of the first year's premium on the Development Officer is extremely on the high side. It may be pointed out that the Development Officers cost of 22.57% has been worked out on the total first year's premium. To determine

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CHAPTER III - SECTION 5.

the correct percentage of cost of the Development Officers, the premium secured by direct and staff Agents, numbering 8971, who are not supervised by Development Officers, should be excluded. If this were done, the cost will work out to about 28%. This is disproportionately high and almost equal to the commission paid to the Agent. We feel that the Corporation should not incur cost of more than 10% of the first year's premium on Development Officers. Incidentally in one of the replies communicated to the Group, the Corporation has stated that if the Development Officer works on a 16% cost basis, his performance should be considered as satisfactory. Therefore, even according to the Corporation's own standards, which we do not accept as correct, the cost on the Development Officers is very high indeed.

3.5.17. Other expenses which are not directly related to new business have been allocated between first year's expenses and renewal expenses in the proportion of first year's premium to renewal premium. This assumption made by the Corporation is not a scientific basis for cost analysis. The Corporation should have made a complete analysis of each item of expenditure

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CHAPTER III . SECTION 5.

and separated it between first year's and renewal expenses on an actual basis as far as was possible and only the remaining expenses should have been allocated proportionately to first year and renewal premiums.

3.5.18. We are not commenting on the items of expenses directly related to new business included in C(1) in paragraph 3.5.15. as these are inevitable. Nevertheless, the Corporation should explore all possible avenues of economy particularly in the payment of medical fees. The other expenses include expenses of the Branch and Divisional Offices ; 12.11%, Zonal Offices expenses : 1.71% and Central Office expenses : 1.05%. We notice that while the expenses of the Central Office have come down by .05%, the expenses of the Zonal Offices have gone up by .25%. The rise in the expenses of the Zonal/^{Offices} is inexplicable especially so when their role in the procurement of business or policy servicing is very limited.

3.5.19. The other expenses of management including the incidence of the Zonal Offices and the Central Office aggregate to 14.87% out of which Salaries and Allowances, Provident Fund contribution, Over-time, etc. constitute

Budgetary
Control and
Economies.

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CHAPTER III - SECTION 5.

10.57%. (These do not include the expenses on Salary and Allowances of Development Officers). The balance of 4.30% is accounted for by other items of expenditure, viz., Printing and stationery, Postage, Telephones, Electricity Charges, Rental and Maintenance of Tabulating Machines, Rents of Office Buildings, etc. We feel that considerable economies can be effected on the following items of expenditure :-

	<u>(1966-67)</u> In lacs of Rs.
Travelling allowances	99.18
Law Charges	7.49
Advertisements	24.71
Stationery	90.48
Postage, telegrams & Receipts stamps.	104.19
Telephone Charges.	24.97
Electricity Charges.	18.46
Carriage & freights, etc.	11.54
Repairs & Furniture.	11.29
Miscellaneous Expenses.	18.12

We recommend that the Corporation should exercise proper budgetary control on these items of expenditure and effect economies so as to reduce them to the very minimum.

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3.5.20. During evidence it was pointed out to the Group that there is wasteful expenditure on unnecessary tours and conferences. This criticism is not unwarranted.

Prohibition of wasteful expenditure on Tours.

As an instance in point we refer to the Branch Managers conferences held in South Zone during 1956-57. 20 Conferences were held during this period and to our great surprise and astonishment we discovered that Minutes were not drawn up in respect of 17 Conferences. What actual business was transacted at these Conferences and what results were achieved it is impossible to conjecture. We would recommend that wasteful expenditure on unnecessary tours and Conferences should be prohibited.

3.5.21. For effective mobilisation of public savings the Corporation should keep the cost of life insurance as low as possible to make life insurance attractive and popular. We, therefore, recommend that the Corporation should effect administrative economies of the magnitude required so as to reduce the expense ratios to around 60% of the first year's premium and 10% of the renewal premium. The following recommendations made by us in this and other Sections and the Chapters following will substantially help the Corporation in achieving these ratios :-

Reduction in Expense Ratios.

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- (i) Decentralisation of the functions to the Branch level;
- (ii) Reduction in the cost of Development Officers to 10%;
- (iii) Abolition of Zonal Offices which account for 1.71% of the expenses;
- (iv) Service at the door by the Agents resulting in substantial economies in stationery, postage, telegram and telephone charges on account of shorter lines of communications;
- (v) Economy on travelling allowances by obviating wasteful expenses on tours and conferences; and
- (vi) Substantial economies in other important items of expenditure.

Cost Con-
sciousness
and budgetary
control sine
qua non.

3.5.22. The above recommendations together with the growth of life business of the dimensions envisaged by us should bring down the renewal cost ratio of the Corporation from the present high level of 19.35% to about 10% within the next few years. Cost consciousness on the part of the Corporation, its officers and staff and proper budgetary controls are a sine qua non for achieving the desired reduction in the renewal expense ratio.

CHAPTER III - SECTION 3.

3.5.23. If the Corporation has to fulfil the objectives of nationalisation, the renewal expense ratio must be reduced to make life insurance an attractive medium of savings and thereby making it increasingly popular with the vast millions of the people. It would be a difficult task but with the dynamic management of our conception and radical structural and functional changes in the organisation recommended by us in the relative Chapters it should be quite feasible for the Corporation to fulfil it. Reduction of expenses is a must if life insurance has to survive and thrive in this country. Reduction of expenses a must.

CHAPTER III - PERFORMANCE OF LIFE INSURANCE CORPORATION WITH REFERENCE TO THE OBJECTIVES OF NATIONALISATION.

SECTION 6 - INVESTMENTS AND YIELDS.

Invesmtnets in a spirit of trustee-ship.

3.6.1. The huge funds which a life insurer commands belong to the policyholders. Therefore, an insurer must deal with these funds only in the spirit of a trustee for the policyholders. This implies that the basic objective which should govern the investment of these funds would be to earn maximum possible yield for the policyholders consistent with the safety of their capital. To give a lesser importance to this objective in preference to some other objective in investment of these funds would be almost tantamount to a breach of trust.

Effect of yield on premium rates.

3.6.2. The interest yield which is earned on such funds constitutes an important element in the calculation of premiums charged to the policyholders. For example, as stated by the Corporation an increase in interest yield by 1 to 1½% on its investment reduces the premium rates by about 16 to 20% on Endowment Assurance and by about 20 to 30% on Whole Life policies thereby making life insurance cheaper.

3.6.3. It is evident that cheaper insurance acts as a

CHAPTER III - SECTION 6.

catalytic agent for a dynamic and accelerated growth of life business in an under-developed country like ours. It is, therefore, imperative that maximum yield consistent with the security of capital is earned on investment of life funds.

3.5.4. Such was, in essence, the main burden of the speeches of the then Finance Minister when the life business was nationalised in 1956. He had, in fact, stated as under :-

" The concept of trusteeship which should be the corner-stone of life insurance seemed entirely lacking. Indeed most managements had no appreciation of the clear and vital distinction that exists between trust monays and those which belonged to Joint Stock Companies - That is to say, owned by the shareholders themselves."

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"the investment policy would be governed in the main by major considerations such as the interests of the policyholders and the interests of the development envisaged in the Second Five Year Plan and subsequent Plans."

3.6.5. The Corporation is the largest single investor in the country which invested about Rs.126 crores in 1966-67 and is having total investments of Rs.1,165 crores. Its investments are regulated by Section 27A of the Insurance Act, 1938 as applied to the Corporation

Corporation
largest
single
investor.

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CHAPTER III - SECTION 6.

which broadly prescribes that

- (i) 25 per cent of the controlled fund are to be invested in Government securities;
- (ii) A further sum equal to not less than 25 per cent is to be invested in Government Securities or other approved securities;
- (iii) The balance is to be invested in "approved investments" except that up to 15 per cent of the controlled fund can be invested in other than "approved investments" if such investment is made after securing the unanimous recommendation of the Investment Committee and if no such recommendation can be obtained on a resolution of the Corporation passed by a majority of at least three-fourths of the members present at the meeting.

contd.....

CHAPTER III - SECTION 6.

3.6.6. The following table gives the break-up of investments held in India by the Corporation as at the end of the years 1957, 1963-64 and 1966-67 :-

Corporation's
Investments
in India.

	31-12-1957		31-3-1964		31-3-1967	
	Rs. in crores.	%age to total invest- ments.	Rs. in crores.	%age to total invest- ments.	Rs. in crores.	%age to total invest- ments.
1.a) Central & State Govt. securities & other approved Securities.	260.60	64.64	493.52	61.10	615.90	54.09
b) Loans & Deposits to/ or guaran- teed by Govt.	-	-	55.23	6.84	112.63	9.89
c) Loans to Electricity Boards and initial capital of U.T.I.	-	-	0.75	0.09	43.65	3.84
d) Loans to co- operative sector.	-	-	14.62	1.81	28.04	2.46
2. Loans on Mortgages.	13.74	3.41	9.65	1.20	21.02	1.85
3. Debentures and Pref. Shares.	37.87	9.39	66.43	8.22	81.88	7.19
4. Ordinary shares & stocks.	31.27	7.76	77.05	9.54	110.93	9.74
5. Real property	20.86	5.17	29.15	3.61	33.38	2.93
6. Loans to policy- holders.	33.82	9.63	61.28	7.59	86.51	7.60
7. Others:	-	-	-	-	4.66	0.41
Total:	<u>403.16</u>	<u>100.00</u>	<u>807.68</u>	<u>100.00</u>	<u>1138.60</u>	<u>100.00</u>

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The average yield on these investments is 5.22%.

Foreign Investments.

3.6.7. Apart from its investments in India, the Corporation also holds foreign investments. These investments including house property (Rs.1.27 crores, amounted to Rs.25.31 crores in 1965-67 (inclusive of increase of about Rs.9 crores on account of devaluation, and the yield thereon (excluding house property, worked out at 4.62%.

Salient Features of Corporation's Investments.

3.6.8. The salient features of the Corporation's investments are as under :-

- (1) The Corporation earns an yield of 5.22% on the average book value of its total investments in India and 4.62% on investments in foreign countries.
- (2) Investment in Government and other approved securities at Rs.615 crores accounted for nearly 54% of total investments at the end of 1965-67 on which the Corporation earned on an average, a yield of 4.5%.
- (3) Nearly 14% of the total investible resources of the Corporation, aggregating Rs.156 crores, were in loans and deposits to/or guaranteed by the Government, loans to Electricity Boards and

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initial capital of the Unit Trust of India. Out of Rs.156 crores so invested, loans and deposits to/or guaranteed by the Government accounted for as much as Rs.113 crores on which the Corporation earned, on an average, 5.64% against 6% charged by it on loans to policyholders (Rs.86 crores).

- (4) Whilst percentage distribution of its portfolio in debentures and preference shares, real property and loans to policyholders declined over the period 1957-67, there was only a modest increase in its investments in equity shares.
- (5) The aggregate book value of unapproved investments as on 31st March 1967 was Rs.51.65 crores on which the Corporation earned a yield of less than 5%.
- (6) The yield from real property is 5.24%.
- (7) The yields on debentures, preference shares, equity shares and policy loans are 6.67%, 6.93%, 6.98% and 6% respectively.
- (8) Balances in current account amount to Rs.15.05 crores on which the Corporation does not earn anything.

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J.K.Companies - 3.6.9. In this context, it is worthwhile examining,
- Investments as under, the performance of the J.K.Companies in respect
and Yields. of their investments.

INVESTMENT PORTFOLIO OF J.K. COMPANIES

	<u>1956</u>	<u>1965</u>	<u>1966</u>
	<u>%</u>	<u>%</u>	<u>%</u>
British Government Securities & British Govt.Guaranteed stocks.	29.9	20.5	19.0
Mortgages.	14.2	18.0	19.0
Debentures and Loan Stock, Preference Stock & Shares.	21.4	21.5	22.5
Ordinary shares & Stocks.	16.0	22.0	21.5
Real Property, Ground Rents & other Investments.	18.5	18.0	18.0
	<u>100.0</u>	<u>100.0</u>	<u>100.0</u>

Source: Life Assurance in the United Kingdom 1962-66.

GROSS INTEREST YIELD % - LEADING U.K. COMPANIES.

<u>Year</u>	<u>Legal & General</u>	<u>Prudential</u>	<u>Commercial Union.</u>	<u>Norwich Union.</u>	<u>Royal</u>	<u>Guardi</u>
1957	5.13	5.66	-	-	-	6.07
1958	5.19	5.81	-	-	-	6.18
1959	5.50	6.03	-	5.47	-	6.46
1960	5.87	6.50	5.96	5.74	5.58	6.87
1961	6.03	6.58	5.84	6.01	6.48	6.75
1962	5.96	6.65	6.12	-	6.02	6.75
1963	6.08	6.65	6.29	6.16	6.32	6.89
1964	6.30	6.87	6.42	6.36	6.47	6.88
1965	6.51	7.13	6.79	6.52	6.71	7.00
1966			6.93	6.52	6.89	6.98

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3.6.10. It will be seen that the British Life Offices follow an active investment policy. With inflation on, and despite the yields on Government securities being quite high, they have (a) reduced their holdings in British Government securities, (b) kept constant holdings in debentures and preference shares and real property, etc., and (c) increased their holdings in ordinary stock and shares and mortgages. Ordinary shares provide high yields, growth possibilities and a hedge against depreciation in the currency; mortgages yield higher interest on funds and, in many cases, are associated with promotion of life insurance; real property also constitute a hedge against inflation and debentures and preference shares yield sufficiently high rate to achieve margins for offsetting depreciation in the currency. It is significant that 40% of the total investments of British Life Offices are, thus, in securities which provide a hedge against inflation and depreciation in currency.

3.6.11. The concern of the British Government and the British Life Offices is principally and basically for the welfare of the life policy holders. In practice, therefore, only by serving them, they are serving the community and the nation.

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CHAPTER III - SECTION 6.U.S. Companies
- Investments
and Yields.

3.6.12. The following table gives the distribution of assets of U.S. life Insurance Companies and gross interest yields earned by three leading U.S. Companies :-

PERCENTAGE OF DISTRIBUTION OF ASSETS
OF U.S. LIFE INSURANCE COMPANIES.

<u>Year</u>	<u>1950</u>	<u>1955</u>	<u>1960</u>	<u>1965</u>	<u>1966</u>
<u>Bonds</u>					
J.S. Government	21.0	9.5	5.4	3.2	2.5
Foreign Govern- ment.	1.7	0.4	0.3	0.6	0.4
State, Provincial & Local.	2.4	3.0	3.8	3.4	3.1
Railroad	5.0	4.3	3.1	2.1	2.0
Public Utility.	16.5	15.5	14.0	10.7	10.0
Industrial & Misc.	14.9	20.1	22.4	24.2	24.7
Stocks.	3.3	4.0	4.2	5.7	5.2
Mortgages.	25.1	32.6	34.9	37.8	38.7
Real Estate.	2.2	2.9	3.1	3.0	2.9
Policy loans.	3.8	3.6	4.4	4.8	5.5
Misc. Assets.	4.1	4.1	4.4	4.5	4.6
T o t a l :	<u>100.0</u>	<u>100.0</u>	<u>100.0</u>	<u>100.0</u>	<u>100.0</u>

Source: Life Insurance Fact Book 1967.

GROSS INTEREST YIELDS EARNED
BY LEADING U.S. COMPANIES.

<u>Year</u>	<u>Metropolitan</u>	<u>Prudential</u>	<u>New York Life</u>
1957	3.75%	-	3.64%
1958	3.80	-	3.73
1959	3.91	-	3.82
1960	4.08	4.40%	3.90
1961	4.20	4.53	4.07*
1962	4.36	4.63	4.19*
1963	4.45	4.74	4.22
1964	4.54	4.29 (Net)	4.36
1965	4.64	4.86	4.44
1966	4.77	4.97	4.55

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* Common stocks taken at cost instead of market value which means yield is higher by about 0.05%.

3.6.13. The U.S. insurance companies have been investing a growing share of their assets in high yielding investments. It will be observed that the investments in U.S. Government bond declined from 21.0% in 1950 to 2.9% in 1966; the investment in foreign Government bonds, rail road bonds and public utility bonds also declined from 1.7%, 5.0% and 16.5% to 0.4%, 2.0% and 10.0% respectively during the period. The investments in mortgages rose from 25.1% in 1950 to 38.7% in 1966. The investments in stocks, real estate and policy loans also increased during this period. The gross interest yields have been steadily rising and were between 4.5% and 5%.

3.6.14. While the U.K. and U.S. Insurers have been constantly reshuffling and realigning their investment portfolio to yield the highest possible yield and consistent with the safety of capital, the Corporation's performance in this matter does not reflect the flexibility required to pursue an active investment policy with a view to earning the highest possible

Comparison of
yields on LI
investments
with those of
UK & US
Insurers.

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yield. The Corporation has continued to lean very heavily on Government securities and loans to Government and semi-Government bodies on which the yield is considerably lower than on other investments such as mortgages, debentures, preference, equity shares, etc.

Underwriting activity.

3.6.15. As a part of its investment policy, the Corporation underwrites Bonds and debentures of Statutory corporations, Electricity Boards and Central Land Mortgage Banks, debentures of existing companies, ordinary and preference shares of existing and new companies. There is no risk involved in the underwriting activities of the Corporation except in the case of shares of new companies where the Corporation not only suffers heavy depreciation on the book value but also forgoes yield for a period of about 5 years. In all underwriting case the cost of investment is reduced to the extent of underwriting commission and brokerage earned by the Corporation. The Corporation's investments through underwriting of shares of new companies amounted to about Rs.23 crores in 1966-67. We would, therefore, recommend that underwriting should be done strictly in accordance with business principles.

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3.6.16. The total value of real property investment by the Corporation is Rs.34.55 crores on which the Corporation obtains an yield of 5.24%. The Corporation inherited 541 immovable properties in and outside India valued at Rs.19.27 crores. Thereafter the Corporation completed properties worth Rs.9.75 crores. The Corporation has at present 80-unremunerative properties with a book value of Rs.88 lacs out of which 13 with a book value of Rs.27 lacs are useful. The remaining properties are to be disposed off. Besides, the Corporation has 42 vacant plots of the book value of Rs.1.03 crores out of which 18 are expected to be developed in a year or two. There are legal or other difficulties in developing some of them.

House Property

3.6.17. It is of interest to note that while the House Property of the Corporation increased from Rs.22.18 crores in 1958 to Rs.34.65 crores in 1966-67, the yield thereon during these years went up from 3.85% to 5.24%.

3.6.18. The maximum return so far earned by the Corporation from House Property was 5.24% in 1966-67.

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This return is obviously very inadequate especially in the context of the present high rates of interest and when the Corporation itself is charging 8% on mortgage loans and 7% on loans under "Own Your Home" Scheme. The return to the Corporation on its State Governments' housing loans is 6.25% whilst that on Debentures, Preference Shares and Ordinary shares come to 6.67%, 6.93% and 6.98% respectively. It is, therefore, obvious that the Corporation's investment in house property has not been on sound business principles. Even after taking into account the inherited properties some of which are unremunerative the yield on new properties should have been about 8 to 10% and the average yield should have been about 7% vis-a-vis the present return of 5.24%.

We recommend that the Corporation should, therefore, examine its house property portfolio and dispose of all un-remunerative properties forthwith. Other properties which do not yield at least as much as that charged on mortgage loans, i.e., 8%, should also be disposed of unless these are absolutely necessary for the Corporation's own use. The Corporation had some excellent opportunities to make very attractive investments in real

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property development in the urban areas. The capital gains and yields thereon should have been attractive.

3.6.19. As on 31.3.1967, the Corporation had given loans to State Governments for housing schemes amounting to Rs.83.34 crores. These loans related to the Middle Income Group Housing Scheme, Rental Housing Scheme, Low Income Group Housing Scheme, Village Housing Project Scheme, Plantation Labour Housing Scheme and Land Acquisition and Development Scheme. The yield on these investments rose from 5.50% in 1962-63 to 6.25% in 1966-67.

Housing
Loans
Schemes
(1) State
Govern-
ments.

3.6.20. The loans schemes of the Corporation for housing are as under :-

- (1) Property Mortgage Scheme.
- (2) Own Your Home Scheme.
- (3) Individual Employees Housing Scheme.
- (4) Co-operative Housing Societies of the Corporation's Employees.
- (5) Public Limited Companies for construction of Staff Quarters.
- (6) Co-operative Societies of employees of Public Limited Companies.

(2) Other
Loan Schemes
of the
Corporation.

3.6.21. The loans sanctioned and disbursed from 1.4.1964 to 31.3.1967 in respect of the various

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housing schemes of the Corporation are as follows :-

	<u>No. of applications sanctioned.</u>	<u>Amount sanctioned (Rs.lacs).</u>	<u>Amount disbursed (Rs.lacs).</u>
1. Property Mortgage Scheme.	1410	1058.88	821.84
2. "Own Your Home" Scheme.	3267	922.62	630.53
3. Individual Employees' Housing Scheme.	224	36.40	24.59
4. Scheme for grant of loans to Cooperative Societies formed by the Employees of the Corporation.	31	214.67	119.28
5. Scheme for grant of loans to Public Ltd., Companies for construction of houses for their employees.	15	152.75	8.50
6. Scheme for grant of loans to Cooperative Housing Societies formed by the employees of public Ltd., Companies.	3	22.49	9.00
T o t a l :	<u>4950</u>	<u>2407.81</u>	<u>1613.74</u>

3.6.22. Own Your Home Scheme is at present in operation in 118 Centres in India covering all towns with a population of one lakh and above. Under this Scheme the Corporation has sanctioned Rs.10.27 crores to 3,638 applicants out of which Rs.7.59 crores were disbursed up to 31st August 1967. The average loan sanctioned comes to Rs.28,000 approximately. It appears that O.Y.H. Scheme does not seem to benefit even a majority of the middle class people, let alone poorer sector of the community.

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3.6.23. Further, there has been criticism against the very heavy expenses incurred by the borrowers for obtaining loans under the Scheme. The Corporation insists on a legal form of mortgage which is indeed very costly. In our opinion, there should be no difficulty in accepting equitable form of mortgage for such loans especially so when this is permissible in about 30 towns out of 118 where the Scheme is under operation.

We recommend that in respect of the towns where equitable form of mortgage is not permissible the borrowers could be asked to call on the Corporation's offices in one of the 30 cities where equitable form of mortgage is permissible to deposit the title deeds. The cost and inconvenience involved will be negligible as compared to the heavy stamp duty on legal mortgages. There cannot be any valid justification for continuing with the legal form of mortgage only for the sake of uniformity. Further, the Corporation should reduce to the very minimum expenses like the fees of legal advisers and architects, etc., on such loans.

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We also recommend that Government should extend the list of Cities where the equitable form of mortgage is permissible.

Housing Loans for weaker sections of Society.

3.6.24. The Committee on Public Undertakings has observed, on this subject, as follows :-

"The nationalisation of life insurance business in India was resorted to for the benefit of the masses. It was, therefore, of prime importance that the various loan schemes of the Corporation should more and more cater for the weaker sections of the society."

3.6.25. Even though the Committee on Public Undertakings stressed the importance of the Corporation catering to the weaker sections of the Society through the loan schemes of the Corporation, nothing tangible has been done so far. Even the further reply of the Government to the Committee on Public Undertakings refers only to the existing schemes of the Corporation particularly OYd under which, as mentioned earlier, the average loan sanctioned is Rs.28,000. Surely, neither the Corporation nor the Government have given any thought to the evolving of a scheme to help the poorer sections of the community.

3.6.26. We, therefore, recommend that the Corporation

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should follow a vigorous policy of investing in housing schemes and simplify its procedures for granting loans for such schemes so as to enable more and more classes of people to take the advantage of such schemes.

3.5.27. The prosperity of this country depends on the development of the rural areas. It has been seen in recent years how the drought conditions in large areas of the country have adversely affected the economy of the country and the industrial sector as well. When rural income goes down, the circulation of money diminishes and the whole economy slows down. It is, therefore, vital to improve the rural economy and insulate it against the vagaries of the climate. For this purpose, large investments for rural development are required, and the Life Insurance Corporation has to take an active part in this. The Corporation's investments should be primarily directed towards schemes which will help to increase the Gross National Product quickly. Investments which will help a farmer to improve his farm and increase the production, will not only help the nation but will also help the Corporation to increase its life insurance business in the rural area. We have made suggestions in this respect in Chapters VI-3 and IX.

Investment
for rural
development

CHAPTER III - SECTION 6.rural housing.

3.5.28. Rural housing is another field which should receive the Corporation's attention as second priority after investments meant to increase the rural production. The Corporation does not at present earmark any funds for Rural Housing Schemes. The Corporation, however, grants loans to State Governments for the various housing schemes which include Village Housing Schemes also. The Corporation has stated that its prime role is insurance business and not housing or investment in housing and that beyond its present investments in housing under the various schemes a major role in housing construction will not be appropriate for the Corporation. In this connection, it would be relevant to mention that the Corporation is not primarily an insurer only but also has certain social objectives to achieve. Attention is invited to para 91 of the Report of the Committee on Public Undertakings quoting the late Prime Minister, Shri Jawaharlal Nehru's observations on the Corporation's role in providing housing :-

"There is one aspect of the work of the Life Insurance Corporation to which I would like to draw special attention. Both in England and in the United States of America, private insurance companies and corporations undertake building operations on a tremendous scale. This is not only good investment, but has obvious social advantages when there is such a great lack of housing. It seems to me that in India this is even more needed than elsewhere and a State Corporation, like the Life Insurance Corporation of India, should be presumed to have a greater social outlook than private companies."

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"In all the towns of India, there are slum areas which have to be replaced by clean and healthy living conditions and good houses. State Governments are responsible for such investments, but the L.I.C. can certainly help in a big way."

3.6.29. 63 million houses in the rural and 11 million houses in the cities are to be built. The Corporation has conceded that there can be no doubt that construction and sale of houses on instalment basis will provide a strong inducement for purchasing insurance. The Corporation further states that it has yet to examine to what extent the limited capacity of the Building Department which has been created and organised solely to meet the domestic needs of the Corporation can be stretched for housing for policyholders. If the Corporation finances even 50% of rural houses under a phased programme extending over a decade or two it should provide a great incentive for the people in the rural area for life insurance. The expansion of the capacity of the Building Department for this purpose will, of course be necessary and the existing limited capacity cannot be accepted as an argument for supporting the Corporation's indifferent approach to the basic problem.

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Corporation to act as entrepreneur for rural housing.

3.6.30. We are constrained to observe that such a negative approach on a vital matter like this is bound to handicap the Corporation in spreading the message of life insurance to every nook and corner of the country and come in the way of its making maximum contribution to the socio-economic transformation that is taking place in the country. We, therefore, recommend that the Corporation should act as an entrepreneur for rural housing and build cheap houses costing not more than Rs.1,000 each in rural areas. Such a scheme will provide great incentive to the rural population to take up insurance.

Corporation's failure to act in the spirit of a trustee for policyholders' money.

3.6.31. The Corporation considers that "it has followed the policy of earning the highest rate of interest consistent with security within the framework of the statute governing its investments." We are afraid we do not agree with the Corporation. From our study we regret to say that the Corporation does not seem to be acutely conscious of its responsibility to act in the spirit of a trustee for the policyholders and has failed to show the same degree of concern and solicitude for the interest of the policyholders in the management of their funds, as a trustee should normally do. We believe that even within the statutory limitations,

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the Corporation had, since its inception, ample opportunities, consistent with the economic and investment climate in the country, to so rationalise, reshuffle and re-align its investment portfolio as to secure maximum possible yield as was done by the British Life Companies. For example, the Corporation is under no statutory obligation to invest huge amounts to the tune of Rs.156 crores in loans and deposits to or guaranteed by the Government the interest yields on which are very low and out of tune with the higher market rates which are easily available on other investments including loans to policyholders. There is a differential of about 2 to 3% between yields on securities and loans to Government and Semi-Government bodies, vis-a-vis other available investments, e.g., loans on mortgages, debentures, preference shares, ordinary shares, etc. The Corporation has, therefore sacrificed better yield on its funds by investing more in such captive investments, even though there was no statutory obligation to do so. Even if we assume for the sake of argument that the Corporation had to invest huge funds in loans and deposits to/or guaranteed by the Government, we are of the opinion that the Corporation should have at least charged the prevailing

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market rates on such loans and deposits particularly when the Corporation is expected to act on business principles and serve the best interests of the policyholders

3.6.32. It is understandable that the Government themselves would normally look to the Corporation for investment in certain Plan Schemes. However, we feel that the Corporation should not have been treated by the Government as a milch-cow for such a purpose to the detriment of the interests of the policyholders.

3.6.33. In our opinion, it is absolutely necessary for the Government to create conditions, by suitable relaxation of statutory limitations, whereby the Corporation ceases to be its captive investor and is free to use its discretion to invest the funds, which are held by it in trust for the policyholders, in such a way that the interests of the policyholders, are primarily served, keeping in view the plan priorities and requirements of the Government.

3.6.34. The Government must also ensure that the rates of interest which are paid on Government borrowings from the Corporation are reasonable and not kept at an artificially low level. If this

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is ensured, the resources of the Corporation will be utilised by the Government for purposes of the Plans and at the same time the interests of the policyholders will be safeguarded. To expect the Corporation to serve the best interests of the policyholders primarily and promote life insurance in India and at the same time deprive it of higher income, which it could have otherwise earned had it not been for statutory limitations and/or indirect compulsions, is tantamount to starving the hen that is expected to lay golden eggs. The net result of such a policy is that whilst an investor obtains a yield of 7% even on Units of Unit Trust and 6.05% on 10-year National Savings Certificates, the savings of the policyholders in the form of life funds do not earn more than 5.7% even when the investments are managed by a well-equipped investment department of the Corporation.

3.6.35. With such a woefully low return, life insurance cannot but become the most unattractive medium for savings of the community. It is only when maximum possible yield on investments is earned through a well-planned investment strategy and

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expenses are strictly controlled by the Corporation can life insurance become economic and attractive to the common man as a medium of savings.

It has to be remembered that the cost of selling life insurance and servicing it subsequently is high compared to the costs incurred under other types of savings available to the public, e.g., Savings bonds, Savings bank accounts. We, therefore, recommend that the Corporation must earn a higher rate of interest on its investments to cover the higher expenses it incurs, if life insurance is to compete successfully with other media of savings.

3.6.36: Nevertheless, if Government feels that a particular investment is essential in the interests of the country even if it carries a lower yield, we recommend that Government should not hesitate to give a directive to the Corporation in writing under Section 21 of the Life Insurance Corporation Act, 1956.

3.6.37. We trust that the Government would give earnest thought to our observations on the subject and adopt necessary measures to resolve the conflict of interests of the policyholders and the Government.

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3.5.38. Apart from our observations on the Corporation's investment in Government and semi-Government securities, loans and deposits, we suggest that the Corporation should re-examine its foreign portfolio and improve upon its yield to take advantage of investment opportunities and higher yields which are available in a number of countries abroad. Similarly, it could realise better yields from its unapproved investments. According to us, if opportunities available to the Corporation in such fields in the past were fruitfully utilised by it and re-oriented and imaginative policy had been pursued as was done by life insurance companies abroad, it could have earned better yield on its portfolio even while remaining within the statutory limits imposed on its investments and by catering in a large measure, to the increasing needs of our economic plans with the enlargement of its resources year by year.

3.6.35. As already pointed out by us in Section 3 the rupee has depreciated by 50% since 1957. It is unfortunate that the Corporation has not taken any steps since its inception to safeguard the interests of the policyholders against the depreciation in

Hedge against depreciation of the currency.

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the value of the rupee. This fact alone shows the lack of concern felt by the Corporation for its policyholders. It may not be out of place to point out that the life insurance companies abroad have been very conscious about this factor and have, through the realignment of their portfolio and weightage given therein to ordinary shares, mortgage loans, real property, etc. (nearly 40% of portfolio) provided to the policyholders a better hedge against inflation and depreciation in the currency on account of inflation.

3.6.40. It is likely that in an under-developed and unorganised economy like that of India, it may not be possible to achieve the same degree of hedging against inflation and consequent depreciation in currency as is possible abroad. We, however, believe that a significant extent of such hedging is still possible in our country.

Recommendations.

3.6.41. In the light of our above observations, we feel that the Corporation should scrutinise its investment portfolio forthwith with a view to stepping up the yield thereon and for this purpose we recommend as under :

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(1) The present restrictions on investment of life funds were imposed in 1950 by Section 27A of the Insurance Act to protect the interests of life policyholders by preventing unscrupulous private insurers from frittering away the hard-earned savings of the people through malpractices in investments. With the nationalisation of life insurance, the application of Section 27A to the Corporation is an anachronism. It hampers the Corporation's freedom in evolving a flexible and active investment policy to secure the maximum yield for the policyholders consistent with the safety of capital and also prevents it from acting on business principles. For effective mobilisation of national savings for economic development of the country it is essential that life insurance is made cheaper by enabling the Corporation to earn higher yields on its investments. Cheaper insurance will, in turn, lead to larger and larger mobilisation of public savings. The Corporation's investments will, therefore, go on rising in arithmetical progression and consequently there should be no dearth of capital either for the Government or for the private sector. In the circumstances, we would strongly urge upon the Government

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to rescind the application of Section 27A of the Insurance Act to the Corporation. This will have a tonic effect not only on the development of life insurance but also on the capital markets in the country and at the same time will increase the capacity of the Corporation to contribute substantially to the Government securities and public sector projects.

(2) The Corporation is a big investor to meet the needs of the Central Government, State Governments and the public sector at lower rates of interest than what the Corporation can earn in other fields.

We feel that the Corporation's investment policy or yields thereon should not be governed by considerations of assistance or subsidy to any Government or Government-sponsored institutions. Such subsidy must come only from General Revenues.

(3) The funds of the Corporation are in the nature of trust money and the Corporation is expected to work on business principles and further the interests of its policyholders. We would, therefore, recommend that consistent with the social objectives the Corporation should invest its funds, as under, so as to earn a higher return :-

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- (i) 25 per cent to be invested in Government securities
- (ii) 25 per cent in "other approved securities" including loans and deposits to/or guaranteed by Government, loans to Electricity Boards, loans to Land Mortgage Banks and Co-operative Sectors provided the funds are required for specific rural projects;
- (iii) 25 per cent to be invested specifically for rural development including farm loans, provision of irrigation facilities, sinking of tube-wells, rural housing, manufacture of fertilisers, pesticides, agricultural implements, etc.;
- (iv) 25 per cent to be invested in policy loans, real estate, mortgages, housing loans, debentures, preference and ordinary shares, etc.

It is not expected that these percentages are to be achieved immediately but so far as fresh investments every year are concerned, the Corporation should invest the new funds in such a way that these percentages will be achieved in a reasonable period of time.

(4) Unduly large balances should not be kept in current accounts and surplus funds which are not required immediately should be put in call deposits.

CHAPTER III - SECTION 6.

(5) The Corporation should publish every year in its Annual Report an exhaustive list of its investments as at the end of the year giving the names of the companies as well as the amounts invested in each class of securities.

(6) We are opposed to the idea that the Corporation's funds should be utilised for the purpose of supporting the stock exchange operations.

(7) The Corporation's objective must be to earn the highest yield on its investment subject to security of capital in the interests of the policyholders and, therefore, every investment must be made by the Corporation on business principles only.

Higher yields - phenomenal growth of business.

3.6.42. If the Corporation is to be a mighty force as a medium for mobilisation of savings, the Corporation must be placed in a position to earn a minimum yield of 7%. This will enable reduction in premiums by 25% and ensure phenomenal growth of life business in the country.

CHAPTER III PERFORMANCE OF LIFE INSURANCE CORPORATION
WITH REFERENCE TO THE OBJECTIVES OF
NATIONALISATION.

SECTION 7 ECONOMIC PREMIUM RATES.

3.7.1. Life Insurance in most of the countries in the world is conducted under severe competitive conditions. The competition is on two counts - one emanating from the other forms of investment and the other between companies writing life insurance. To cope up with this competition, Companies will have to be very vigilant in the matter of the premium rates they charge and the service they render to the insureds. The cost of insurance has to be as low as possible and their services to the clients of the highest order. The force of competition will ultimately drive out those companies who have neither of these two requisites.

Life
Insurance
under
competitive
conditions.

3.7.2. With the formation of the Life Insurance Corporation, a monopoly for writing life insurance business competition inter se companies no longer exists. In the absence of such a competition and to meet the competition from other forms of investments, it was expected of the Corporation that its premium rates should be no higher than are warranted by strict actuarial considerations. This was also necessary if the

Life
Insurance
under mono-
polistic con-
ditions.

CHAPTER III - SECTION 7.

active and energetic growth of life insurance was to be promoted in the country. The premium rates should be such that after taking into account bonuses declared on with profit policies, investment in life insurance should offer as attractive a yield as any other form of investment.

3.7.3. While introducing the Life Insurance (Emergency) Provisions Bill 1956, in the Lok Sabha, the then Finance Minister spelt out his concept of a well-run insurance company and amongst other items, he mentioned the following two :-

"The premium must be no higher than is warranted by strict actuarial considerations.....It must render a prompt and efficient service to its policyholders and by its service make insurance widely popular".

Factors governing Premium Rates.

3.7.4. The three factors, governing the calculations of life insurance premium rates, are the mortality of insured lives, the rate of interest that will be earned on the life fund during the currency of the policies and the expenses of management including commission.

3.7.5. Two other factors also play a part in the determination of premium rates and these are Taxation and Competition. In countries where life insurance has to work under competitive conditions, competition

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is the most useful corrective. Messrs. Coe & Ogborn in their book "The Practice of Life Assurance" consider competition as a very important factor, thus stating : "Much of the actuary's work depends upon individual judgment, and competition provides a test of his decisions by reference to those made by other actuaries in similar circumstances. It should thus tend to restrain both excessive optimism and unnecessary caution."

3.7.6. The rate of mortality has been falling continuously because of the great strides made in hygiene and sanitation, purer water supply, better nutritious food, discoveries of new drugs, elimination of certain epidemic diseases, etc. The fall is more marked in less developed countries like India than in more developed countries like U.K. and J.S.A.

Favourable
mortality
experience and
its effect on
Premium Rates

3.7.7. The improvement in mortality has a substantial impact on premium rates. The current mortality experience of the Indian assured lives is about 45% of the mortality adopted in the calculation of premium rates and for valuation. The latest available published experience on mortality of assured lives in India is the L.I.C. 1961 experience. If we allow as a margin of safety, the improvement in

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mortality that must have naturally taken place between 1961 and now, and adopt L.I.C. 1961 experience as the basis for premium rates, the rates should be about 11% lower for age 30, term 35 under Endowment Assurance and about 19% in the case of Whole Life limited payment age 30, term 35.

Higher interest yield and its effect on Premium Rates. 3.7.8. During the last decade the rates of interest have also been going up in India as well as in other countries. The Bank rate in India during this period has been as follows :

	<u>Bank Rate</u>
Up to 16.5.1957	3½%
19.5.1957 to 3.1.1963	4%
3.1.1963 to 26.9.1964	4½%
26.9.1964 to 17.2.1965	5%
17.2.1965 to 1.3.1968	6%
2.3.1968	5%

3.7.9. The gross rate of interest earned on the life fund by the Corporation over the decade has also shown an improvement even though the yields have not been as high as they could have been if the investments of the Corporation were not subject to restrictions and regulations, statutory or otherwise, and if the Corporation had followed a more active investment

CHAPTER III - SECTION 7.

policy.

Gross interest yield earned on Life Funds by LIC.

<u>Year</u>	<u>%</u>
1957 (16 months)	4.58
1958	4.52
1959	4.54
1960	4.58
1961	4.80
1962/63 (15 months)	4.76
1963/64	5.11
1964/65	5.27
1965/66	5.51
1966/67	5.76

3.7.10. As a result of the strait-jacket policies of investment imposed upon the Corporation by statute and the investment policy being influenced by the Government, the Corporation has been reduced to a position of "a captive investor". The interest yield earned by the Corporation on Government securities and loans to Government or Government sponsored institution is not what it would earn if it were free to make its investments without statutory limitations, without the imposition of the investment policy from above and if it were governed only by the principle of earning the highest possible

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yield consistent with security of capital. Today, the Corporation is the largest subscriber to Government Securities and loans and yet it has no say in the matter of appropriate interest rates offered. It is no doubt open to the Government to fix the rate of interest on Government Securities and loans at levels lower than what are otherwise justified in the context of the prevalent general market rates; but this will result in lower yield being earned by the Corporation on its life funds.

3.7.11. These restrictions have resulted in keeping down the yield earned by the Corporation by 1 to 1½%. This has had serious consequence since, if 1% higher interest could be earned by greater freedom of manoeuvrability in its investment portfolio, let alone the pursuit of an imaginative and dynamic investment policy, the Corporation could have reduced the cost of life insurance by 15 to 20% on long term policies.

3.7.12. One may well ask why the Corporation in spite of the fact that it has experienced favourable mortality and earned an yield on its investments

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which is much in excess of the interest assumed in its premium calculations has not been able to reduce its premium rates during the last decade? The Corporation has neither reduced the premium rates nor increased the bonus on "With Profit" policies in any substantial manner. This brings us to the third factor in the calculation of premium rates, viz., Expenses of Management.

3.7.13. The Expenses of Management of a life office are largely within its control. When the Corporation was formed, hopes were expressed that the overall cost will be controlled at 15% which would mean that the cost of life insurance in India would be in line with that of the Companies in U.K. and U.S.A. The level of management expenses to be incurred is a matter of planning by every life insurer the world over. Continuous efforts are put in by every insurer to reduce the level of expenses and manage its business within reasonable cost limits by introduction of measures of rationalisation, simplification and mechanisation.

Expenses of Management.

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3.7.14. The Corporation could have also planned to manage its business within the cost limits indicated on its formation. This was only possible by simplifying accounting methods, re-defining functions of Agents, simplifying policy conditions, better work and administrative procedures and mechanisation of as many operations as possible.

3.7.15. Inflation may lead to increase in overall expenses for the same volume of services or work. However, having regard to the fact that inflation also increases the demand for life insurance and for larger sums and, therefore, larger premiums on an average per policy, inflation may not actually result in increasing expenses of management as a percentage of the premium. Inflation has affected even the Western countries and in spite of continuous inflation in U.K. during the last decade, the expense ratios of the U.K. companies have been controlled at reasonable levels. If the level of expenses could

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be reduced to around 60% of the first year's premiums from the present level of 72% and to 10% of the renewal premiums from the present level of about 19½%, it would bring about 10% reduction in premium rates. The Corporation has not been able to reduce its premium rates during the last decade in spite of favourable mortality experience and higher interest yields only because of its high level of expenses of management.

3.7.16. In U.K., the cost of life insurance has gone down during the last decade as can be seen from the tables given below. For "Whole Life without Profit" rates have been reduced by 13 to 25% and for "Endowment without Profit" rates by 7 to 23%.

Reduction in
Premium Rates
of British
Companies.

Premium Rates per Thousand Sum Assured Whole Life
Age at entry 40.

	<u>1956-57</u>	<u>Without Profits</u> <u>1966-67</u>	<u>% reduction</u>
Commercial Union	24.2.	20.7	14.5
Eagle Star	23.5	17.5	25.5
Legal & General.	24.3	18.6	23.5
Norwich Union	23.7	20.6	13.1
Prudential	22.9	17.8	22.3

CHAPTER III - SECTION 7.Endowment AssuranceAge at entry 30 years - Term 20 years.

	<u>1958-59</u>	<u>Without Profits</u>	
		<u>1966-67</u>	<u>% reduction</u>
Legal & General	42.29	36.90	12.7
Prudential	42.88	36.50	14.9
Northern	42.42	38.55	9.1
Guardian	42.04	36.21	13.9
Norwich Union	42.54	39.54	7.1
Royal	43.17	37.05	14.2

ENDOWMENT ASSURANCEAge at entry 30 years - Term 35 years.

	<u>1958-59</u>	<u>Without Profits.</u>	
		<u>1966-67</u>	<u>% reduction</u>
Legal and General	22.33	17.70	20.7
Prudential	22.54	17.25	23.5
Northern	22.29	18.30	17.9
Guardian	21.75	16.92	22.2
Norwich Union	22.29	20.29	9.0
Royal	22.83	18.15	20.5

3.7.17. As against such reductions by British Companies, the premium rates in India have not been revised since nationalisation of life insurance in 1956. Besides, the small revision made in 1956 in the rates quoted by the Oriental was only on an ad-hoc basis, viz., a reduction

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of premium per thousand sum assured by an amount of Re.1/- or 5% of premium, whichever was lower. The reduction was not, however, based on any data and could not obviously be scientific. Since 1956, there has been no revision of rates despite significant improvements made in rates of interest earned and the rate of mortality experienced.

3.7.18. Even in the matter of bonus on with Profit plans, the Corporation performance is disappointing.

Bonus on with-profit Policies.

The rates of bonus declared at various valuations since 1956 are as under :-

<u>Year</u>	<u>Bonus per 1,000 sum assured</u>	
	<u>Endowment</u>	<u>Whole Life</u>
1957	12.80	16.00
1959	12.80	16.00
1961	12.80	16.00
1963	14.00	17.50
1965	16.00	20.00
1967	16.00	20.00

Bonus rates on Endowment and Whole Life Policies have gone up since 1957 only by 3.20 and 4.00 per thousand respectively.

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Comparison
with bonus
rates paid
by U.K.
Companies.

3.7.19. It will be interesting to compare the performance of some British Companies in the matter of Bonuses paid with that of the Corporation. The rates of bonuses declared by Legal & General and Prudential for their "with profit" policies were much higher and were as under :-

<u>Year</u>	<u>Reversionary Bonus per thousand Sum Assured.</u>	
	<u>Legal & General</u>	<u>Prudential</u>
1956	22.50	21.00
1959	25.00	26.00
1962	28.75	31.00
1965	30.00	31.00

3.7.20 While comparing these bonus rates with those of the Corporation it has to be borne in mind that the bonuses of Legal & General are compound in character, i.e., the bonus rates are applicable to not only the sum assured but also the bonuses already attached as a result of declarations at the previous valuations. Besides, these companies also declare special bonuses to take care of the older generations of policyholders who would otherwise suffer on account of the depreciating value of the currency.

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3.7.21. Their bonus rates have gone up by 7.50 and 10 per thousand sum assured over the period 1956-65 as against 3.20 and 4.00 per thousand on Endowment Assurance and Whole Life Policies respectively of L.I.C. since 1957. This disparity becomes all the more glaring when one takes into account that these two offices could at the same time effect substantial reductions in premium rates for both With Profit and Without Profit plans.

3.7.22. In spite of the radical changes which have taken place in the two main factors governing the calculation of premium rates, the Corporation has not revised its premiums since 1956. The small reduction made in 1956 in the rate of premiums charged by the Oriental were as pointed out by us already on an ad hoc basis. Inequitous premium Rates.

3.7.23. This non-revision in the premium rates has resulted in an unfairness to non-profit policyholders inasmuch as the rates are too high. The non-profit rates should have been considerably lower than what they are today. For this reason, the non-profit plans are not popular and the bulk of the policies -

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85% are with-profit policies. This is in the hope that at least in the matter of bonus, the Corporation would be fair.

3.7.24. Again, the non-revision of rates for the various plans has created an unfairness between various classes of policyholders. Policies are taken out under varying plans for varying terms and at varying ages. With the change of some of the factors affecting premium rates, there has been an inequity between the various classes of policyholders.

3.7.25. The Corporation has admitted that non-revision does cause inequity, inter se various plans, terms and ages. Their argument has been that 85% policies are with-profit policies and, therefore, any inequity in the premium structure is mitigated to some extent by the distribution of bonus. Since the bonuses are uniform, irrespective of plans, terms and ages, it is not correct to say that the divergence in the bases adopted in the premium calculations from the actual experience is taken care of by the bonus distribution

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3.7.26. We have seen how British Companies have reduced their premium rates and increased the bonuses from time to time. As against this, the Corporation has not revised its premium rates since 1956 and there has been a meagre increase in the bonus rates. It is, therefore, not surprising that the new business written by the U.K. Companies has grown at a much faster rate as compared with the slow and halting progress of the Corporation, even as a monopoly. A prospect for life insurance even when he is convinced about the need for a certain amount of coverage is not in a position to go in for the fullest extent of that cover if the premium rates are higher than what they are warranted and the bonuses unduly low. Therefore, the failure of the Corporation in not effecting any changes in the rates of premium over such a long period, coupled with meagre bonuses, has been definitely reflected in its poor progress.

Non-reduction
in Premium
Rates and
meagre
bonuses
responsible
for poor
progress.

3.7.27. If life insurance is to maintain its lead over other channels of savings and is to be a pioneer in inculcating the habit of thrift and savings among the population, it has to be made as attractive a form of

Life
Insurance to
be made as
attractive
as other
forms of
Savings.

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CHAPTER III - SECTION 7.

investment as any other. At present, the yield on a life insurance policy at maturity compares very unfavourably with other forms of investments, e.g., the yield on life insurance policy at maturity, on the assumption of maintenance of bonuses at the last declared rates, does not amount to more than 1 to 2% per annum compound as against 7% in investment in Units of the Unit Trust of India and 6.05% compound on 10-year National Savings Certificates. In the case of the U.K. Companies, the yield on policies is much higher at round 4% per annum compound.

3.7.28. The question that naturally arises is "how is it that these British Companies can manage to keep the cost of life insurance so low?" The cost of life insurance as offered by the U.K. Companies is very low compared with that prevalent in India even after making allowances for the fact that India is an under-developed country, that our national economy is not yet fully developed and that there is the inability of the average policyholder to afford a large policy. The answer lies in the fact that the British life companies are able to manage their business very economically at 60 to 65% on first year's premium and

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8% on renewal premium and earn the highest possible yield, consistent with security of capital. Therefore, if the cost of life insurance in India is to be made equally attractive, the life business has to be managed at cost rates of 60% and 10% on first year and renewal premiums respectively and the interest yield has to be maximised by pursuit of dynamic investment policy and by removing the present statutory restrictions which fetter the Corporation's freedom of investment.

3.7.29. On the whole, it can be said that there is substantial scope for reduction in the rates of premium and the reduction can safely be to the extent of 25% of the present premium on an average.

3.7.30. One particular aspect which attracts attention is that since 1957 there have been improvements in the rate of interest earned on the Life Fund and improvement in mortality which should have justified 25% reduction of premiums under Endowment Plans and 35% on Whole life Plans. This would amount to a reduction in premium rates by Rs.8/- per thousand sum assured. Since this reduction in rates has actually not taken place, the natural corollary would be that the excess premiums charged should emerge in the form of equivalent

Non-realisa-
tion by the
Corporation
that attrac-
tive premium
rates will
help develop
business

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higher bonuses. On the other hand, the addition to the bonus has been Rs.3.20 and Rs.4.00 per thousand sum assured for Endowment and Whole Life plans respectively. Therefore, it is inexplicable why such excess earnings could not be passed on to the with Profit policyholders in the form of higher bonuses and/or reduction in rates of premium for with and Without Profit classes.

3.7.31. What impact an inactive policy in the matter of revision of premium rates can have on the mobilisation of savings and growth of life insurance business in the country can be gauged from only one example, viz., of the rates charged under Group Life Insurance Schemes. If the Group Insurance rates are charged according to the mortality rates experienced with an expense loading of about 20%, the One Year Renewable Term Insurance rates will be as under and they will not be so excessive as they are now quoted by the Corporation:

<u>Age at Entry</u>	<u>Premium %o Sum Assured.</u>
30	1.42
35	1.94
40	3.00

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CHAPTER III - SECTION 7.

.7.32. With such attractively low premium rates, it should be feasible for a dynamic sales organisation, to start with, to bring the whole of the employed population, both in the Public and the Private Sector of Commerce and Industry, under Group Coverage. It is agreed that such a programme may not serve the purpose of mobilising larger savings through life Insurance. However, the coverage extended through Group Schemes will definitely serve the purpose of bringing the benefit of life insurance cover to many more among the uninsured population than what would otherwise be possible. Therefore, although it may not serve the purpose of mobilisation of larger savings it will yet achieve the desirable and stabilising influence on the social fabric of this country.

3.7.33. It was only as late as in 1961 that the Corporation thought of adopting some of the practices of life insurance companies in U.S.A. and U.K. whereby the administrative work and cost involved in the underwriting of Group insurance were reduced, and the true principles of Group underwriting were only then adopted. Even now it is not certain as to how many schemes have received the benefit of upto date procedures and underwriting methods for Group insurance, including schemes

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of profit sharing and rate adjustment.

Recommendation of Parliamentary Committees regarding the revision of Premium Rates.

3.7.34. It may be recalled that the Estimates Committee in 1961 recommended that the premium rates should be revised. The Committee on Public Undertakings in March 1965 expressed its disappointment that the recommendation of the Estimates Committee remained unimplemented and recommended immediate appointment of a Committee of experts to review the rates of premium with a view to bringing them down.

3.7.35. When the Corporation was asked by us as to what had been done about reducing the premium rates, it replied "They have appointed in November 1966 a Committee of Actuaries to study the results of mortality experience of assured lives during the period 1961 to 1964 and advise the Corporation on the question of premium rates. The Report of the Committee is awaited." The appointment of the Committee after a lapse of 1½ years and the inordinate delay in its report are a sad reflection on a Corporation expected to conduct its affairs on business principles. In a well managed life insurance company of the size of the Corporation, the facts about mortality investigation should be easily available periodically and the task of reviewing the results of

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mortality investigations and revising the premium rates should be completed in a matter of months.

3.7.36. We, therefore, recommend that the Corporation must revise its premium rates forthwith.

Reduction
in premium
rates - a
must.

CHAPTER IV
SINGLE CORPORATION V/S SEVERAL CORPORATIONS

CHAPTER IV - SINGLE CORPORATION V/S SEVERAL CORPORATIONS.Decision to set-up a Monopoly Organisation after nationalisation.

4.1. When the Government decided to nationalise life insurance business, they selected, among the various options open to them, the option to amalgamate all the existing life insurance companies and to set up one monopoly organisation to service all existing policies and to organise new business. The question of what type of organisation to have after nationalisation, was a fundamental one and on the correct solution of this problem depended the success of nationalisation and the possibility of achieving the objectives and aims for which nationalisation was effected. Carrying the message of life insurance to rural areas and to the lower income brackets in urban areas, offering greater and better security to policyholders, rendering better service to them, mobilising the savings of the people for the development of national economy, reducing the costs of management to a level comparable to that at which life insurance was transacted in advanced countries - the realisation of all these dreams depended on taking the right decision about the future organisational set-up.

CHAPTER IV

4.2. Nationalisation of life insurance was an unique task never before attempted anywhere in the world on such a gigantic scale. The Government had before them only the example of partial nationalisation of insurance in France where only the leading insurance companies were taken over by the Government by buying the shares of the companies. The French Government did not try to amalgamate them, but allowed the companies to be run as separate units competing with each other as well as the remaining private sector companies. There was no example in any country of amalgamating so many life companies at one stroke into a monolithic structure.

4.3. It was known that there were 246 separate life insurance units, some of them large and solvent but many were small and inefficiently managed. All companies had different rates of premium, different policy conditions and different administrative procedures. The managements and the staff of different unit varied greatly in their training, skills and ability. It was a gigantic problem to combine all these into one unit, and create a homogeneous administrative system out of so many heterogeneous units. The management inherited by the corporation from the different companies, in the circumstances, did not come up to the level where such problems

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CHAPTER IV

of amalgamation could have been solded. The emoluments allowed to the staff were those prevalent in the best units while the standards of service and efficiency were those of the worst units.

Controversy
regarding
Single v/s
several
Corporations.

4.4. There has always been a controversy whether the Corporation should be a single Corporation or there should be more than one Corporation. The question has been more than once raised in Parliament. Although Government decided on a single Corporation, the idea of having more than one Corporation has been raised from time to time.

In 1956, the then Finance Minister had stated:

"..... we feel that to start with we should have only one autonomous Corporation with zonal organisations and if we find that it does not work satisfactorily then it would be open to us to change over from it to a number of autonomous Corporations. This process would be easier than the reverse process, that is to say, to proceed from several autonomous Corporations to one monopoly Corporation."

4.5. While speaking on the Chagla Commission's Report on the 20th February 1958, the late Prime Minister Pandit Jawahar Lal Nehru stated in the Lok Sabha that it was a matter which might be considered and that if more than one Corporation was more advantageous. It should be done.

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CHAPTER IV

4.6. Before the Estimates Committee in 1960, the then Chairman of the Corporation stated that if the new business of the Corporation in a year exceeded Rs.1,000 crores, it might become necessary to split it up into one or more separate bodies and that the business target of Rs.1,000 crores was expected to be reached by 1963. Later in 1965, the representative of the Ministry of Finance in the course of his evidence informed the Committee on Public Undertakings that he was inclined to agree with the former Chairman of the Corporation that after the Corporation had written business up to a certain limit, it would be advantageous to split up the Corporation.

4.7. The Estimates Committee suggested a via media that the Corporation should have a federal structure with semi-autonomous Zonal Units. They thought that the grant of autonomy in the writing of business, payment of claims, grant of loans, servicing, etc., would increase the efficiency of Zonal Units. The central organisation in such a set-up need be concerned only with policy matters, overall supervision, co-ordination, rate of premia, etc. The Committee further

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CHAPTER IV

suggested that to introduce an element of competition between the different semi-autonomous Zonal Units, the figures of new business, management expenses, over-all and renewal expense ratio, profit and loss etc., could be worked out for each Zone and published separately in the Annual Reports of these Units.

The reply of the Government which was accepted by the Estimates Committee stated as follows:-

"The position at present is that the Zones are already functioning as semi-autonomous units to a substantial extent. The question of delegating the largest possible powers to the various offices of the Corporation is constantly under review.

"Even now there is competition between the Zones, Divisions, Branches, field officers and agents. The new business figures, zone-wise are already being published in the annual reports. The question of publishing renewal expense ratio and management expenses of different Zones will be examined after the work relating to decentralisation of policies issued by the erstwhile insurance has been completed.

"Profit and loss account cannot be worked out for the different zones separately as the investment work is centralised at the Central Office of the Corporation."

CPU's recom-
mendation re-
garding con-
stitution of
Zones as inde-
pendent
Corporations.

4.8.

The Committee on Public Undertakings in their Fourth Report on LIC observed as under :

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CHAPTER IV

"The Committee have considered this matter carefully. They are convinced that the tardy growth of business and deterioration of service to the policyholders..... are ascribable to the present size and centralised organisation of the Corporation."

"The Committee feel that if the standard of efficiency in the Corporation is to be improved, with better service to the policyholders, and the Corporation is to expand its business on a massive scale, its present zones must be constituted into completely independent Corporations.

"Such a major reorganisation would involve the amendment of the statute and may take some time. They, therefore, suggest that in the meanwhile the present zones should be made fully autonomous not merely by delegating more powers to the Zonal Managers but by setting up separate Boards of Management and making each Zonal Manager the Chief Executive Officer of the Zone."

4.9. In their reply to the Committee on Public Undertakings dated 30th June, 1967 the Government stated that the examination of the recommendation is likely to take more time.

Government still examining CPU's recommendations.

4.10. The Committee on Public Undertakings have made the following further observations on the Government's reply :-

CPU's further observations

"The Committee regret to note that no final decision has so far been taken on the recommendations in spite of a period of about 2½ years having elapsed since their Fourth Report on LIC was presented to Parliament in April, 1965. As this is an important matter they would urge the Government to take a speedy decision on the reorganisation of the Life Insurance Corporation of India, as recommended by the Committee."

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CHAPTER IVCorporation's views.

4.11. The Corporation's views on this subject are :-

"Insurance is an industry where, because of its very nature, a large organisation is bound to function better than a smaller one and a monolithic structure is an advantage and not a disadvantage. Setting up of five independent Corporation would, in fact, be harmful to the industry. It would mean going back on nationalisation. If we have five independent territorial Corporation, one of the social objectives of nationalisation, namely, the spreading of insurance to all parts of the country and particularly to rural areas would become difficult of achievement on an economical basis as different areas of the country do not have the same potentiality of business and require different levels of expenditure and effort for development. Splitting up of the Corporation will also make it difficult to realise another social objective of nationalisation, namely, to secure that the funds derived from life insurance business in different regions of the country are not only equitably invested in the different regions but economically backward areas also get a reasonable share of the investments for their development."

4.12. The Corporation's conclusion is that the setting up of five Corporations may in fact create more problems and difficulties and the solution, in its opinion, lies in continuous improvement in operating efficiency and such appropriate delegations and decentralisation, as may be called for, from time to time.

Suggestions made for re-organisation.

4.13. A number of suggestions were made before the Group during evidence regarding the organisational changes. One of the suggestions made was that the

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CHAPTER IV

Corporation should be split up into a number of autonomous Corporations each operating all over the country. Another suggestion was that there should be complete decentralisation of powers to the Branches to make them function as Head Office of an insurance company. There was a general consensus of opinion regarding abolition of Zonal Offices which act as post-offices and do not serve any useful function.

4.14. Arguments in favour of one single Corporation are as follows :-

Arguments
for single
Corporation.

- (i) The monolithic structure of the Corporation is a definite advantage since it can be run more economically than smaller units.
- (ii) It is better equipped to spread the message of life insurance to the hitherto neglected rural areas which was one of the main objectives of nationalisation. Since the level of economic development in the country is not uniform, the burden of development of rural business will weigh more heavily on a Corporation operating in a less economically developed area and it may, as well, be that not only development of rural business will be retarded but urban business might also be adversely affected.
- (iii) The establishment of several Corporations will involve enormous costs and wasteful expenditure

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CHAPTER IV

as each such Corporation will have its own paraphernalia of Chairman, Board of Directors, Managing Directors, Central Office, etc., in the true Parkinson style.

- (iv) In course of time these Corporations will also become uneconomic and unwieldy and will be confronted with the same endless labour troubles as they will be inheriting the present traditions of the L.I.C.
- (v) Several Corporations will not be functioning with the same degree of efficiency as even at present some Offices in the LIC hierarchy are functioning more efficiently than others. Creation of several Corporations will not, therefore, result in all round improvement in efficiency.
- (vi) The economic development of the backward regions will be retarded owing to the regional and parochial outlook of the different Corporations who will be interested in the investment of funds in their respective regions only.
- (vii) The constitution of several Corporations will accentuate fissiparous tendencies in the country and will give rise to a demand from every State for having its own autonomous Corporation.
- (viii) There will not be any constructive competition between these Corporations as they will operate in water-tight compartments. This will result in the standards of the weakest and the poorest Unit becoming the standards for all the

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Corporations by dragging them down to the same level. For example, today the performance standards of the Eastern Zone are the lowest and the poorest. If five Zonal Corporations are established, the best Units, viz., the Western and the Southern, will be satisfied if their performance standards do not fall below the level of those of the Eastern Zonal Corporation.

4.15. From the different views expressed on this subject, we gather that there were three different strains of thought running in the minds of those who have suggested the split-up of the organisation. One was the idea based on a belief in a Federal structure with Semi-autonomous Zonal Units competing with each other in a narrow sense. A second view was based upon the criterion of the volume of business ^{as} ~~was~~ stated by the then Chairman of the Corporation when he appeared before the Estimates Committee. A third view was based upon a total disbelief in the capacity of a centralised monopolistic organisation like the Life Insurance Corporation of India for rapid growth of business and better efficient service to the policyholders, as was stated by the Committee on Public Undertakings (1965), and hence, its suggestion to convert the present Zonal Units into completely independent Corporations.

Our views and
Recommendations

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4.16. . A careful persual of our discussions in Chapter III - "The performance of LIC with reference to the objectives of nationalisation" will disclose that the deficiencies in the Corporation's working are not due to the monopolistic or the monolithic nature of the Corporation, or its size, but are due to unimaginative development and administrative policies and lack of appreciation of the objectives of nationalisation.

4.17. . So far as competitive spirit is concerned, there seems to be some misapprehension in the minds of those who have suggested it. Creation of semi-autonomous Zonal Units operating in their respective Zones will not mean competition in the true sense of the word, Competition can exist only between organisations which operate throughout the country with equal opportunities for business just as the private insurers did before nationalisation. It was the evils of this competition that mainly influenced the Government to embark upon nationalisation. Now to suggest that the Corporation could be split up for the same kind of rehearsal does not appear to us to be desirable in view of the past experience. Further to assume

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that the split-up units, being decentralised Units would not resort to evil practices will not be quite correct.

4.18. As regards the argument based upon the volume of business, we consider that the handling of business of large magnitudes is an organisational problem and has necessarily to be tackled by any efficient Management. Decentralisation of powers to the Branch Offices so as to make them function as Satellite Insurance Companies of the parent Corporation is the solution which we are recommending.

4.19. The third view which is based upon a mere disbelief in the capacity of a centralised organisation to deliver the goods does not appeal to us as a valid ground. We feel that it is the quality of the people manning an institution more than its structure that is responsible for the results. Whatever the structure, it is the same personnel that have to work and if the men can work successfully in a split-up organisation, we do not see why they cannot work or achieve the same degree of success if the organisation is not split-up as suggested. In accordance to this suggestion, the Life Insurance Corporation is to

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be split-up into five Corporations, these will not be very small in size and will be manned by the same set of people. We do not, therefore, recommend any course which would once again create a host of problems without any tangible benefits.

4.20. The Corporation has during its 12 years of life passed through many upheavals, and we do not think it would serve any purpose to create another upheaval. The Corporation has now taken a definite shape and it is advisable to make improvements in the present organisation rather than disintegrate it into many parts in the pious hope that several corporations will function more efficiently. Further, once the process of fragmentation is initiated it will start a chain reaction and there may be no stopping it. It may eventually lead to each State having its own Corporation, with all its political entanglements. All the fissiparous tendencies handicapping our national life would creep into the various Corporations. Tendencies towards employment of local staff only irrespective of merit and investment of funds in particular regions irrespective of need or profitability,

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CHAPTER IV

will become dominant. The idea of Regional Corporations seems to us to run counter to the efforts towards integration of India. There will be lowering of performance and servicing standards, of integrity in management, and erosion of the trusteeship concept of Life insurance. The standards of the worst managed Regional Corporation will soon become the norm and will be quoted to justify the poor performance and servicing standards of other Corporations.

4.21. We are of the opinion that what the Life Insurance Corporation needs today is a thorough structural and functional overhaul as recommended by us and that there should be no meddling with the present single Corporation. In our view dismemberment of the Corporation will ultimately lead to the destruction of the entire concept of national life insurance in the country, which will be a tragedy indeed.

CHAPTER V
DIRECTION AND CONTROL

CHAPTER V - DIRECTION AND CONTROL.

Importance of
proper Direction
& Control in
Corporations.

5.1. The success of any corporate body depends primarily on the kind and quality of Direction and Control exercised in its policies and affairs. To the extent that the Management has so often to initiate and always to carry out the policies, the success depends on the efficiency and effectiveness of the management. However, the quality of the management itself depends on the Direction and Control. The standards of integrity of the management and staff of a corporation, their efficiency, the dynamic solution of problems, institutional approach to every question - all these depend on Direction and Control exercised in the Corporation. Where the Direction and Control is weak or non-existent, the corporation continues to drift, ceases to have any ambitions or objectives to work for, is satisfied with the status quo, and falls back in efficiency for lack of new dynamic approach, because any new approach involves a certain amount of risk and ordinarily nobody is prepared to take such a risk. Where initiative is at a discount, mediocrity flourishes. If one looks at the history of successful institutions, it will be found that the periods of growth and success were associated with the dynamic Direction and Control exercised by one or a

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CHAPTER V

group of persons with great initiative, foresight and sometimes unorthodox approach. Their Direction & Control vitalises the institution and brings out the best qualities in everyone working in the institution.

5.2. The pattern of Direction and control in well-managed corporate bodies, consists of :

Pattern of
Direction &
Control in
Corporate
bodies.

- (a) Shareholders: An active and critical body of shareholders demands continued and fast growth, efficiency and economy in management, and finally a profit as an end-product of the above. While shareholders are motivated by the profit motive, many of them judge their company by the quality of its products, its service, its contribution to the national growth and the integrity of its management. It is only the inactive shareholder who merely looks at the profit. The active and the critical shareholders demand higher standards from their directors and the company's management. Their criticism keeps everyone on his toes. However, powerful the Directors may be in their individual capacity, they cannot afford to ignore a critical body of shareholders.

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- (b) Board of Directors: The shareholders work through their elected Board of Directors. The Board exercises the Direction and Control at its regular meetings when they review the progress and decide matters of policy. For effective Direction and Control the Board should consist of (i) a few directors who have a substantial stake in the progress and prosperity of the institution, and who, therefore, take a great personal interest in the policy-making and its implementation; (ii) some directors who have a vast amount of practical and general experience of business through their association with other businesses; (iii) some directors who know the affairs of that company intimately through their long association with the company; (iv) some directors who have specialised knowledge of law, finance, management etc., and who can bring it to bear on the problems faced by the company; (v) some directors who have had experience in management of companies, and have developed the correct and appropriate techniques of direction and control.

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Such a body of directors brings together a vast amount of experience and knowledge to decide on objectives of the company, the most economical methods of achieving them, to watch the progress, and direct corrective steps to be taken long before matters reach a critical stage. To be effective, the Board has to meet regularly, the frequency depending on the size of the institution and the nature of its business and problems.

- (c) Chairman: He is the co-ordinator between the Board of Directors and management, and exercises day-to-day direction and control on the management. He is not normally involved in the details of day-to-day routine work. He, therefore, takes a detached and broader view of each problem, consistent with the objectives and policies of the company. Thus he can motivate and inspire the management to achieve its objectives. The effectiveness of a Chairman grows with the length of his association with a company and it will be seen that a good Chairman remains as the Chairman of a company for many years so that he brings to the company the advantages of continuity and intimate knowledge of the affairs

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of the company. He has a big stake in personal reputation both with the other Directors as well as the shareholders and the public in general. Many chairmen have made great contributions in laying sound foundations for their company.

Management: The management works absolutely under the direction and control of the Board of Directors. Good management is built up where merit is the chief criterion of progress rather than seniority, although seniority is an important factor and its recognition develops devotion to the institution. For effective management, the views of the Chief Executive and the Board about the merits of each individual have to be final and binding. Where these factors exist, there is much greater efficiency, a sense of pride of belonging, a spirit of loyalty to the institution and an urge to work better. With such qualities built in the management, ambitious objectives can be achieved to the benefit of all concerned.

Present Direction and Control in L.I.C.

5.3. The Life Insurance Corporation Act, 1956 has

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adopted this corporate structure of Direction and Control. However, there are very major differences between L.I.C. and other corporate bodies.

(a) Government as Shareholder

(i) The capital of the Corporation of Rs.5 crores has been provided by the Central Government. There is thus only one shareholder, the President of India, in place of many active, keen and critical shareholders. The powers vesting in the Government are limited but nonetheless potent. These powers are exercised by a Joint Secretary or a Deputy Secretary acting on behalf of the shareholder. There is, no doubt, that he can be an effective motivator and critic, if he is keen and brilliant, and can also devote sufficient time to learn and study the intricacies of the business. On the other hand, he can be quite the opposite, raising issues on trivial matters and letting important matters drift without any guidance or constructive criticism. There is also no continuity as one Joint or Deputy Secretary may be transferred and replaced by another at any time.

Powers of Government.

(ii) The Federation of Life Insurance Corporation of India Class I Officers' Association has stated in its

Views of Class I Officers.

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Memorandum to the Working Group :-

"The L.I.C. Act provides that the Corporation be an 'autonomous body'. However, in practice, it is more or less a petty department of the Finance Ministry. While casting no aspersions on the personnel of the Finance Ministry, to whom the Corporation has to refer a variety of matters, it must be said that this body of personnel in the Finance Ministry can by no stretch of imagination be termed experts in insurance matters."

"There are very many such small and big interferences from the Finance Ministry which incapacitate the Life Insurance Corporation of India from functioning on business principles. Unless, therefore, there is clear autonomy vested in the members of the Corporation and interference from the Finance Ministry is reduced to the minimum, we are afraid, the Corporation will not be able to come up to the expectations and high hopes raised in the Act."

Corporation
to be fully
competent to
frame Regu-
lations.

(iii) During evidence no concrete instances were produced by the Federation regarding "interference from the Finance Ministry which incapacitate the Life Insurance Corporation of India from functioning on business principles". We quote below from the evidence given by the representatives of the Federation before us on the 8th December, 1967.:

"Shri T. Viswanatham - You say in your memorandum that the LIC Act provides that the Corporation is an autonomous body. However, in practice it is more or less a petty department of the Finance Ministry. Say something about it.

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Shri Ashok Kaji - When Mr. B. K. Kaul was the Chairman, the Board passed certain resolutions regarding the revision of salary, D.A., etc. The Finance Ministry did not pass them at all. A number of meetings took place between Mr. Kaul and Mr. Bakshi, the then Joint Secretary, with no results. This resulted in the formation of the Federation.

A similar resolution of the Board was sponsored by Mr. Bakshi and this was unanimously passed by the Board. This was sent to the Finance Ministry but the Finance Ministry said 'NO'. That is why we said that it is a petty department of the Finance Ministry. What we insist is the complete autonomy of the LIC."

The Resolutions of the Board regarding revision of salary scales, dearness allowance, etc., affected the P.I.C. Staff Regulations which have been framed under Section 49 of the Life Insurance Corporation Act, 1956. Section 49 of the Act provides that the Corporation may, with the previous approval of the Central Government, make Regulations not inconsistent with the Act and the Rules made thereunder for giving effect to the provisions of the Act. In view of the structural and functional changes separately recommended by us in the Corporation, we recommend that the Corporation should have complete powers to

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make Regulations under Section 49 as in our opinion the Corporation should have full discretion and competence to manage its affairs in accordance with business principles.

Government's
powers of
direction.

(iv) Section 21 of the Life Insurance Corporation Act, 1956, lays down that "in the discharge of its functions under the Act, the Corporation shall be guided by such directions in matters of policy involving public interest as the Central Government may give to it in writing."

So far only three directions have been given by the Government to the Corporation, viz., the first relating to the appointment of a Board of Enquiry (Vivian Bose Committee), the second relating to the action against the British India Corporation and the third relating to the sharing of cost consequent on the waiver of premiums in certain cases on the lives of Defence Services personnel. However, we are told that interference is done in a way not capable of any tangible proof as it is done on the telephone and there is some core of truth in it.

ed for
fining
relationship
between Govt.

(v) The need for defining the exact relationship between the Government and the Corporation and for

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specifying occasions where instructions from Government should take the form of a directive has been felt for a long time. The Chagla Commission set up by Government to investigate into certain investment activities of the Corporation concluded that "Government should not interfere with the working of an autonomous statutory Corporation; that if they wish to interfere they should not shirk the responsibility of giving direction in writing..... That Government must take the responsibility of a particular matter and that policy could only become clear if it was embodied in a direction given in writing."

The Committee on Public Undertakings have observed in their Third Report (Fourth Lok Sabha) as under:-

"The Committee are not satisfied with Government's reply inasmuch as it makes no mention of the fact whether any principles for guiding the relationship between the public undertakings and the Ministries have been laid down or are proposed to be laid down. They, therefore, reiterate their earlier recommendation and suggest that Government should clearly lay down the principles as to where written directions would be issued to the undertaking so as to do away with ambiguity and the possibility of recurrence of another Mundra Affairs."

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CHAPTER VAccounta-
bility to
Parliament.

(vi) The Corporation being a statutory body is accountable to Parliament but its day-to-day administration is outside the scope of parliamentary scrutiny. The interpellations in Parliament, or a discussion on the LIC's Annual Report, which is rare on account of the preoccupations of Parliament with other important matters, cannot have the same impact on the Corporation's working as a general body meeting of the shareholders has on the management of other corporate bodies

No voice of
Policyholders.

(vii) The Corporation's policyholders who have a vital stake in the Corporation's working are not associated with the Corporation's administration; nor do they have any organisation of their own to ventilate their grievances against the Corporation. The policyholders whose number runs into millions are scattered throughout the country and their only association with the corporation's administration is expected to be through the Policyholders' Councils at Divisional levels. As pointed out by us in Chapter III - Section 4, these Councils do not serve any useful purpose.

(b) Board and its Committees.Corporation's
Board and its
Committees.

(i) The Corporation consists of 15 members, including the chairman, who are all appointed by the Central

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Government. The Chairman is also the Chief Executive of the Corporation. The Corporation is assisted by two Statutory Committees, viz., Executive Committee and Investment Committee. Under the Act the Corporation may entrust the general superintendence and direction of its affairs and business to an Executive Committee consisting of not more than five of its members and the Executive Committee may exercise all powers and do all such acts and things as may be delegated to it by the Corporation. The Investment Committee is to advise the Corporation in matters relating to the Investment of funds and consists of not more than seven members of whom not less than three are members of the Corporation. Besides these two Statutory Committees, the Corporation has constituted three more Committees, namely Services and Budget Committee, Buildings Committee and Public Relations Committee.

No qualifications for membership of Corporation's Board.

(ii) The Act does not stipulate any qualifications or experience for membership of the Corporation. The appointments to the Board are apparently made on regional, sectional, political and other considerations. Qualifications and experience of the persons concerned come into consideration; if at all, only incidentally. In this

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connection we reproduce below the recommendation of the Committee on Public Undertakings on this subject and the Government's reply thereto:-

Recommendation

None of the present Members of the Corporation had any experience in insurance. While appreciating the difficulty to secure suitable men with insurance experience to serve on the Board of the Corporation, the committee recommended that the Corporation should secure some persons with sufficient knowledge and experience of insurance so that the Board plays a more useful role."

Reply of Government

Noted. Apart from the fact that experience of life insurance business would now be available only in the Life Insurance Corporation and, to some extent, in the office of the controller of Insurance, there is also the possibility that persons having such experience and knowledge would have vested interest in it. It may, therefore, be difficult to find such persons to serve on the Board and Committees of the Corporation on this basis. The recommendation has, however, been noted and will be kept in view."

Even though Government noted this recommendation and stated that it will be kept in view, nothing seems to have been done in this direction by Government while reconstituting the Board in September, 1966

(iii) The Board is charged with the responsibility of development of life insurance business to the best

Functions of
the Corporation's Board

CHAPTER V

functions the Board shall act so far as may be on business principles. The problems of direction and control of the Corporation's business are to be tackled by the Board of Directors. However, the Board of the Corporation constituted as it is under the present Statute lacks the competence and technical ability to deal with such problems.

Meetings of
the Board
and
Committees.

(iv) The Corporation and the various Committees including the Executive Committee meet once a month (except the Investment Committee which meets more frequently). It is obvious that the frequency of the meetings is extremely inadequate to deal with the problems of a giant Corporation. On examination of the Corporation's progress from its inception which we have discussed in Chapter III wherein we have highlighted the Corporation's failure relating to the development of new business, service to policyholders, failure to reduce premium rates and also to evolve plans of insurance for the agriculturists, high overall expense ratio, etc., we feel that the Board has not been able to pay due attention to these problems.

(c) Chairman: The Chairman is selected from the administrative service, and has no knowledge of life insurance and its techniques. He is there for a short

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period, awaiting his next assignment. He has no time, and perhaps in most cases no interest, to study the problems with a view to find original approach or unorthodox solution or to take intuitive decisions in case of intricate problems since he is unlikely to be in the Corporation to ensure that his original approach or unorthodox solution is made to work in practice and that its implementation is not left to doubters who opposed such an approach or solution. In the circumstance he tends to take a safer approach by not making changes or leaving the decision to the management without any direction or control. During 12 years since the Corporation was established, there have been 6 Chairmen. As against this, Chairmen of companies like Metropolitan of New York or Prudential of U.K. occupy that position for a long period. Many of them worked as Directors for a number of years before being made Chairmen. Consequently, these Chairmen come to know all about life insurance and are able to give a proper lead to the Board of Directors as well as the management. Government should ensure that the Corporation should have a Chairman who remains long and stakes his own career in life insurance business

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staff of all the individual life companies which were operating before the nationalisation of life insurance. The standards of efficiency and knowledge of the managements differed widely from company to company. To create a unified and efficient management out of such a "motley crowd" was a herculean task. By giving unduly high weight to seniority of service and designation of the post occupied by a person in his previous company, the Corporation's task of creating a homogeneous top and middle management, motivated with high ideals of purpose and achievement, imbued with a high esprit-de-corps, was made even more difficult. The Corporation's management is thus faced with a multiplicity of views and approaches on every issue, and hence the decisiveness in finding solutions to problems and their implementation is lacking. There is thus a lack of leadership from both the management and the Board of Directors.

Views of the various Associations on the L.I.C. Board and Chairman.

5.4. In this connection it would be interesting to note the views expressed by the Federation of the Life Insurance Corporation of India Class I Officers' Association, Life Insurance Agents' Federation of India and the National Federation of Insurance Field Workers' of India, which we reproduce below :

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CHAPTER VFederation of the Life Insurance Corporation of India
Class I Officers' Association:

We feel that the members of the Corporation who are nominees of the Finance Ministry, are more often than not; not quite fitted to conduct the affairs of the sophisticated business of Life Insurance, which requires a high degree of vision, dynamic approach and expert knowledge of insurance and its concomitant human relations. Besides, they must be men who would be able to take decisions involving some risks, if there are sufficient reasons to think that this will pay good dividend, if not in the near future, at least at a later date. They must be drawn irrespective of regions from amongst capable industrialists, economists, bankers, businessmen and co-operators and who do not have to wait on the Finance Ministry for their appointment and continuance as Members of the Corporation.

"The highest executive of the L.I.C. should be drawn from within the institution and he should have considerable knowledge of the industry and initiative enough to implement the directive principles with imagination and verve. The present practice of appointing the Chief Executive from amongst civilian cadres, is not conducive to the well-being and progress of the Corporation, particularly when this appointment is for a period not exceeding three years. In the present set-up, in such cases, the first year is spent in their getting familiar with the intricacies of the industry; the second year is used to implement new ideas and before a full trial is given to this experiment, the incumbent has to start thinking about his next posting. The clock is set back over again with a new appointment."

Life Insurance Agents' Federation of India:

"Time in and Time out, the Government appointed to the Board of Directors persons who lack a knowledge of insurance, even though very capable personnel are available and even persisted in such appointments for a second term as well."

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CHAPTER V

"We will be happy if the Corporation includes among its members 2 retired high bank officers, 2 similar persons from the retired insurance officers, 2 ladies and representatives of the policyholders and the Agents. It will then become more broad-based."

National Federation of Insurance Field Workers' of India:

"In the Board of Directors of the L.I.C. representatives of all classes of L.I.C. employees as well as representatives of Agents and Policyholders should be given a place. Thereby, everyone concerned will have a sense of belonging to the L.I.C."

5.5. RECOMMENDATIONS

Codification of principles governing relationship with Corporation.

(i) We realise that for the sake of flexibility and smoothness it may be necessary for the Chairman of the Corporation to be in close touch with his counter-part in the Government; nevertheless, it will be in the interests of both the Corporation and the Government to codify the principles governing their relationship. In our view, the Government should not shirk the responsibility of issuing directions to the Corporation in cases where action on the part of the Corporation will not be in the best interests of the policyholders or where such action will be against normal business principles under which the Corporation is to act.

Board of Directors.

(ii) We have considered the different views expressed before us both in writing and also during evidence by the

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various interests concerned regarding the constitution of the Board of the Corporation. As already pointed out by us in paragraph 5.3(b)(iii), the Board constituted under the present Statute lacks the competence and technical ability to deal effectively with the problems confronting the corporation. We are, therefore, of the opinion that for a giant Corporation of the stature of the Life Insurance Corporation it is essential to have a nucleus of five permanent full-time professional Directors (including the Chairman) with background and understanding of management techniques in general and life insurance in particular. We feel that the policyholder as such should also have a voice at the Board level. We recommend that the Board of Directors should consist of

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|---|----------|
| (1) <u>Professional full-time Directors (including Chairman)</u> | <u>5</u> |
| (2) <u>Policyholders' Associations' representatives.</u> | <u>2</u> |
| (3) <u>Government nominees who would be experts in the field of agriculture, industry, financial and banking, insurance or professionals like lawyers, solicitors, accountants, management experts, economists, actuaries, etc.</u> | <u>7</u> |

While making appointments to the Board the Government should ensure that only experts fulfilling the requisite qualifications and with a definitely rural bias are appointed to the Board. The full-time directors will be

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experts in their respective fields and the nominated Directors will impart wider experience, dynamism and vision to the Board. The full-time Directors should constitute the Executive Committee.

Tenure of
the Board
Members.

(iii) The full-time professional Directors will be permanent. The Government nominees and representatives of Policyholders should have a tenure of four years with eligibility for re-appointment for a maximum of two more terms. The present practice of reconstituting the Board every two years is not conducive to continuity of administration and efficiency. The type of Board which we have recommended will ensure administrative ability and continuity which are essential for a gigantic machine and provide it the much needed direction and control to enable the Corporation to conduct its affairs in accordance with business principles.

Chairman

(iv) In our view, the Chairman should be a person with a life stake in the business, as is the practice in U.K. and U.S.A. where life insurance has made rapid strides and not a migratory bird of passage. This practice would be in consonance with that obtaining in similar giant successful Corporation and companies, both in India and abroad, where the Chairman ensures continuity of administrative ability and experience for long periods, often decades.

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(v) The Corporation has no Central Advisory body but has constituted Zonal Advisory Boards. The members of the Zonal Advisory Boards are nominated by the Corporation. The functions of these Boards are purely advisory in character and they are not competent to review or discuss matters relating to any individual employee or policyholder of the Corporation. These Boards which are bereft of any executive powers are no more than ornamental bodies. In view of our recommendations made separately regarding abolition of Zonal Offices, the Zonal Advisory Boards will automatically cease to exist.

Zonal
Advisory
Boards.

(vi) In their Memorandum to the Working Group, the Life Insurance Agents' Federation have recommended a permanent Committee to review the work of the Corporation constantly. It has been suggested that the Committee should consist of representatives of various cross-sections and segments of society, M.Ps., Members of Legislatures, retired Bank and Insurance officers, Policyholders' delegates and Agents' representatives. The Federation has also suggested that the Committee should have wide powers to receive appeals and suggestions and call upon the Corporation at various levels to action.

Need of In-
built
Agencies
for cor-
rective
Action.

(vii) The Administrative Reforms Commission have

Administration
to associate
various
interests.

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included in our terms of reference that we should suggest in-built agency or agencies for securing corrective action as well as furthering the growth of business. In fact, administration of public undertakings has become so varied and complex that unless there is a provision for an in-built agency to set right errors or smoothen matters at the earliest possible opportunity without waiting for Commissions or Committees to enquire, the administration cannot verily fulfil its obligations. The Working Group, therefore, has given deep consideration to this aspect of the matter. We consider such an agency to be a sine qua non for the growth of business of the Corporation and its progress. Also, there should be democratisation of the Corporation in harmony with the spirit of times. The administration should, therefore, associate the various interests concerned. This will instil in the organisation the spirit of collective working and collective thinking and ensure cooperative Management of the affairs of the Corporation so that the officers, employees, agents and Policyholders have a sense of belonging and loyalty to the Institution

Constitution of a General Council.

(viii) In view of the above and looking to the magnitude of the activities of the Corporation which will increase

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tremendously under a dynamic Management, we recommend that the Board of the Corporation should be assisted by a General Council with the following members :-

- (1) Representatives of Class I Officers' Association - 1
- (2) Representatives of Development Officers' Association-2
- (3) Representatives of Employees Association -- 4
- (4) Representatives of Agents' Association. - 7
- (5) Representatives of Policyholders' Association. - 14

The Members of the Board of Directors will be ex-officio members of the General Council.

The General Council should meet once a quarter.

As in the case of Board for which we have recommended nominations with a rural bias, we would recommend that one representative of the Development Officers, three representatives of the Agents' Associations and seven representatives of the Policyholders' Associations should be from rural areas. The representatives of the Associations will be nominated by them. As regards policyholders' representatives, until a suitable machinery is established, the representatives will be chosen by the Board specifically as representatives of policyholders with defined qualifications as regards knowledge of insurance and drawn from the various regions of the country. The term of the membership of the General Council will be four years.

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CHAPTER VFunctions
of the
Council.

(ix) The functions of the General Council will be to aid, advise and assist the Board in discharging its functions under the Act so as to secure that life insurance business is developed to the best advantage of the community and that in the discharge of functions the Corporation shall act, so far as may be, on business principles. The General Council will review the policies, programmes and any large-scale changes affecting administrative structure or personnel of the Corporation but matters relating to day-to-day administration or individual grievances shall not come up before it. Matters like objectives in the matter of cost, expenses of management, investment policies, targets to be achieved, etc., shall, however, be placed before the General Council before decisions are taken by the Corporation.

We hope the General Council recommended by us will go a very long way towards satisfying the demand for democratisation of our public sector undertakings and will provide the benefit of collective thinking and a sense of participation by all those connected with the institution.

Constitution
of Service
Commission.

(x) We were surprised to learn that even though the Corporation employs more than 52,000 persons, there is no Services Commission. In the interest of the efficient

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functioning of the Corporation and its services we would recommend the immediate constitution of a Services Commission with a Chairman and two Members. The Chairman and one Member may be nominated by Government and the other Member by the Corporation's Board. The functions of the Commission will be similar to those of other Services Commissions, as for example, the Union Public Service Commission, the States' Services Commissions and Railway Services Commission, etc. The main functions of the Commission will be broadly as under

- (1) Recruitment to Class I, II and III posts in the Corporation.
- (2) Promotions from Class III to Class II or Class I and from Class II to Class I.
- (3) Promotions to higher posts in Class I above the rank of Assistant Divisional Manager.
- (4) Consultation in regard to disciplinary proceedings against Class II & Class I Officers.

(xi) In sub-para (vii) above we have referred to collective thinking and collective working to ensure a co-operative Management so that everyone connected with the institution has a sense of belonging and loyalty to the institution. However, this can be achieved only if there is complete cooperation and harmony in the organisation and no acrimony, whatsoever. We feel that matters should not

Constitution
of Standing
Tribunal.

... ..

CHAPTER V

be left to agitational approach by officers and/or employees as it vitally affects the efficiency of the Corporation to the detriment of the interests of the Policyholders and the nation at large. In our opinion, there should be a permanent machinery for arbitration to ensure quick decisions on all disputes between the Corporation and its officers and employees, between the Corporation and the policyholders and between the Corporation and the Agents. We, therefore, recommend the constitution of a Standing Tribunal charged with the responsibility of resolving all disputes referred to it by the Associations of Officers, Staff and Agents and individual policyholders, speedily. The Tribunal's decision shall be binding on all the parties concerned. The Tribunal should consist of the following :-

- (1) Chairman - a retired Supreme Court Judge or a High Court Judge.
- (2) Three Members -- One Actuary, one Management expert and one nominee chosen from a panel of twelve names furnished by the recognised Associations.

The tenure of the Chairman and Members of the Standing Tribunal will be four years with eligibility for re-appointment. Industrial peace and harmony are absolutely necessary in order to enable the Corporation to be a

.....

effective instrument for mobilisation of public savings through life insurance. The expenditure to be incurred on the Tribunal will be more than recompensed by the improvement in the relations between the Corporation and the Officers, Staff, Agents and the policyholders which will be conducive to the efficient functioning of the organisation and subserve the interests of the nation. The Tribunal will be another in-built agency for corrective action referred to by us in Sub-para (vii) above.

(xii) In Appendix XXII we give the Corporation's views on the Reports and Returns submitted by the Corporation to Government. We would recommend that Government should review early the utility of these Reports and Returns in the light of the Corporation's views. We are of the view that unnecessary paper work should be eliminated and only such Reports and Returns as are absolutely necessary should be obtained by Government.

Reports &
Returns sub-
mitted by
Corporation
to Government

5.6. The Corporation's failure to act on business principles is largely due to the lack of direction and control of its affairs by a dynamic and vigorous Board headed by a permanent Chairman. If the Corporation has to live up to the nation's expectations as a nationalised undertaking, the Board of Directors should be reconstituted forthwith as recommended by us. The constitution of the General Council and the Standing Tribunal will serve as "in-built agencies" for securing corrective action, whenever necessary, thereby furthering the growth of business.

Conclusion.

Section 1: - ADMINISTRATIVE SET-UP

Administra- 6.1.1 The administrative set-up of the Corporation
tive set-up
of the is broadly laid down in Section 18 of the Life
Corpora-
tion. Insurance Corporation Act, 1956. At present, it consists of a Central Office at Bombay and five Zonal Offices (Northern, Southern, Central, Eastern and Western), with head offices at Delhi, Madras, Kanpur, Calcutta and Bombay respectively. The Zones have under them Divisional Offices, Branch Offices and Sub-Offices. A chart of the existing organisation is given in Appendix XXIII.

Number of 6.1.2 The table below gives the total number of
Offices
of the offices in each of the five Zones as at 31st
Corpora-
tion. March, 1968.

Number of Offices

(1)	Divisional Offices. (2)	Branch Offices (3)	Sub- Offices. (4)	Development Centres (5)
Northern Zone	4	65	22	19
Central Zone	7	65	21	40
Eastern Zone	8	77	29	37
Southern Zone	9	116	48	32
Western Zone	8	91	15	24
Total	36	414	135	152

6.1.3 The Corporation has either a Branch or a sub-office in 256 of the 326 Districts of the various States and in 5 out of 9 Union Territories in India. There are Development Centres in 27 Districts

and in one Union territory. The Corporation has no office of its own in 43 districts (8 Assam, 2 Gujarat 5 J & K 13 M.P., 1 Maharashtra, 1 Mysore, 2 Nagaland, 3 Orissa, 2 Rajasthan and 6 U.P.) and in 3 Union territories, viz., Andaman and Nicobar Islands, Dadra and Nagar-Haveli and Laccadive, Minicoy and Amindivi Islands. It may also be noted that the Corporation has no office in one of the States also, viz., Nagaland.

6.1.4 The functions of the various offices of the Corporation are indicated in the note received from the Corporation on its organisation set-up (Appendix XXIV) The Central Office is responsible for the formulation of broad policies and procedures.

6.1.5 The Central Office has an impressive array of Departments but the actual functioning thereof leaves much to be desired. The organisation at the Centre will also have to be streamlined so as to deal effectively with the problems confronting the Corporation. In the following paragraphs we give our comments on the functioning of some of the major Departments of the Central Office. In this Chapter we are not commenting on certain Departments like Foreign Department, Publicity Department, Investment Department and General Insurance Department as these subjects have been dealt with by us separately.

Functions
of the
various
Offices

Central
Office

Development Department. 6.1.6 The Development Department deals inter alia with planning and development of new business, opening of new offices and matters relating to Development Officers, Agents, etc. As would be observed from our comments in the various Chapters/Sections dealing with these matters, the Corporation has actually no method of planning and development of new business, especially, so in the rural areas. Further, the Development Officers and the Agents have failed in their functions with the result that the Corporation's business has not made any remarkable progress. In our view the Development Department has neglected the development of business and a stable Agency Force. The Development Department has, therefore, to be made an effective instrument for discharging the duties and functions assigned to it.

Integration Department 6.1.7 The Integration Department presently under a Zonal Manager, is charged with the responsibility of preparing for decentralisation of the existing business and also of ensuring uniformity of procedures in all the units. In spite of more than twelve years the Corporation has not been successful in decentralising the policies of the I.H.O. Units (Integrated Head Office units) to Divisional Offices. The decentralisation was taken up by the Corporation in a phased programme starting with the smaller IHO units

and then extending it to bigger Units. Before, however, the last phase could be reached, further decentralisation was stopped in 1961 because of confusion and difficulties experienced due to (1) records at the receiving ends not being complete; and (2) staff at Branches and Divisions not sufficiently conversant with the policy conditions of the different IHOs. While stopping further decentralisation, the Corporation decided that whenever possible bigger Units' policies be transferred to the Branches of those Units to be called upgraded IHOs. The number of policies remaining to be decentralised so far is 15.5 lacs, i.e. about 30% of the 50 lacs policies at the time of nationalisation. Recently the Corporation has again decided to accelerate the process of decentralisation or re-grouping and the process is expected to be completed in 4 or 5 years' time. The decentralisation will thus be achieved in about 17 years' time from the date of nationalisation. Incidentally, it is expected that in about 20 years from the date of nationalisation, i.e. by 1976, at least 75% of the policies of the erstwhile Insurers would have otherwise gone off the books of the Corporation by sheer efflux of time without recourse to decentralisation and the attendant confusion and cost involved in that process. The main objective of decentralisation was to extend service nearer home to the

policy-holders, which has virtually been defeated by the tardy and unimaginative methods adopted by the Corporation in this regard. All the difficulties that cropped up as a result of the decision to decentralise could have been foreseen with a little imagination. Even now it is impossible to hazard any opinion whether the steps proposed by the Corporation are appropriate and the decentralisation will have a smooth sailing during next 4 or 5 years' time anticipated by the Corporation.

6.1.8 The Integration Department also deals with complaints received at the Central Office. The complaints are dealt with in a routine manner without effecting any improvement in the service to the policy-holders.

O & M
Department.

6.1.9 The O&M Department deals with the following:-

- i) Simplification and improvement of office procedures;
- ii) Preparation of work-flow charts;
- ii) Forms design and forms control;
- iv) Procedures for retention and disposal of records;
- v) To review from time to time the basis on which the staff strength of various offices is to be fixed;
- vi) To formulate work norms for all measurable jobs.

6.1.10 The reports submitted by the Department have dealt with the following subjects:-

1. Revision of the manual of Statistical and Machine Department of the Divisional Offices.
2. Providing a new basis for determining the strength of Class III employees at Divisional and Branch Offices.
3. Studies of one Department at each of the 3 Divisions with suggestions to improve the efficiency by the respective Departments.
4. Jobs such as procedure for maintenance of Inward Mail Register; Organisation of PHS Department, destruction of records, etc.
5. Job break-down and work-flow charts are under preparation for the New Business Department in Branch Division, Zonal and Central Offices and of the Salary Savings Scheme Accounts in the Divisional Offices. Time studies have not been possible due to non-co-operation by the Staff Unions.
6. Elimination of redundant periodical returns to the Central Office.
7. Work relating to payment of renewal commission has been studied.

6.1.11 From the above, it will be evident that the O & M Department has not made any significant contribution to the simplification of paper work in the Corporation. The lines of communication continue to be as long as possible and no attempt has been made in regard to simplification and rationalisation of the procedures. Even such an important matter as simplification of the loan procedure on life policies has not been finalised so far notwithstanding the recommendation made by the Committee on Public Undertakings nearly three years ago.

6.1.12 In reply to our question whether the Corporation had considered any project of radically

simplifying the paper work between the public and the Corporation and rationalising the administrative procedures, record keeping and its operations to enable the management of the business most efficiently and at the same time deploying the administrative staff to more creative work as against mere record keeping and routine functions, the Corporation has replied in the negative. The Corporation has further stated that it has standardised various forms used in rendering service to the insured and have listed some of the simplifications effected which are of a routine character only and cannot be considered to be radical by any stretch of imagination and will have no impact on either efficiency or effectiveness and quickness of service and economy.

6.1.13 It would be interesting to note the views communicated to us by the Federation of Class I Officers regarding the Inspection, Organisation and Methods Department at the Central Office.

These are quoted below:-

"The LIC has already set-up an Inspection, Organisation and Methods (I.O&M) Department at the Central Office. It, however, needs considerable modernisation to cater to the needs of the organisation. This Department should continuously review and simplify the methods and procedures in vogue. It should be the work of this department to evolve simple and effective methods and procedures for disposing of

the correspondence and maintaining of different ledgers and books, more quickly and certainly more efficiently and without duplication of work".

The O&M Department has not even attempted any studies of delays in payment of claims, lapses, efficiency of the sales organisation and fixation of norms for the officers and staff of the Corporation. It is thus clear that the very object of having an O & M Department has been defeated. An efficient and technically competent O & M Department should have made a tremendous impact on the Corporation's efficiency both in the administration and in the field. The poor performance of the O & M Department is inevitably reflected in the poor management and also poor service to the policy-holders. We recommend that the O&M Department should immediately simplify the administrative procedures and operations so as to make them easily understandable and enable the Agents to render efficient and economic service to the policy-holder at his door.

6.1.14 Besides the O & M Department, the Corporation has an Inspection Department which is responsible for periodical inspection of the various offices of the Corporation. These periodical inspections keep a watch on the working of the various offices and ensure that it is in line with the various established principles and manuals. In our opinion, the periodical inspections should help in streamlining

Inspection
Department

the administrative apparatus thereby providing prompt and efficient service to the policy-holders.

But in actual practice this is not achieved as will be evident from the inordinate delays in the grant of surrenders and loans and the payment of maturity and death claims which we have referred to in Chapter III Sections 3 and 4.

6.1.15 We recommend close co-ordination between the Inspection Department and the Q & M Department so as to avoid overlapping of work and achieve quick results in streamlining the administrative apparatus.

Actuarial Department

6.1.16 The Actuarial Department, which is under the Chief Actuary, deals with the actuarial work and also keeps under constant review the underwriting methods and standards. In actual practice, it seems that the Department does not function as effectively as it should in a dynamic and progressive life office. In Chapter III Section 7 we have referred to the appointment of a Committee of Actuaries in November 1966 to study the results of mortality investigations (1961-64). As already pointed out by us, in a well-managed life office of the size of the Corporation, the facts about mortality investigations should be easily available periodically and the task of reviewing the mortality investigations and revising the premium rates completed in a period of about three months. It is

CHAPTER VI - Section 1:

a sad commentary on the working of the Actuarial Department that it has failed to evolve a plan of insurance to suit the rural population in the country, revise the scales of surrender and loan values, simplify the premium tables, policy conditions and procedures regarding service to policy-holders. Its only achievement, perhaps, is the conducting of periodical Actuarial Valuations. We recommend that the Actuarial Department should be alive to its responsibilities and function effectively.

6.1.17 The Personnel Department deals inter alia Personnel Department with all matters of policy relating to the officers and staff of the Corporation and also such matters relating to individual employees as may require consideration at the Central Office. In our view the Personnel Department does not reflect the dynamism and imagination required to handle staff problems under the present day conditions. The constitution of a Standing Tribunal for resolving all disputes between the Corporation, the employees, agents and policy-holders recommended by us separately should help considerably in improving the relations between the Corporation and its Officers and staff and bring about all round harmony in the organisation.

6.1.18 The Personnel Department is also responsible for the training programme of the Administrative Staff. Since the training programme has not produced improvements

CHAPTER VI - Section 1:

in the efficiency of the administrative staff, we would recommend that the programme is suitably revised so as to include Model Office training and thus make it really effective.

Zonal and Other Offices

6.1.19 The Zonal Offices are responsible for co-ordination and general supervision of the work of the Divisional Offices. The Divisional Offices are responsible for complete servicing of new insurance policies from the time of acceptance of proposals to settlement of claims. The Branch offices generally deal with new business development of organisation, viz., appointment of Agents, maintenance of business records of Agents and Development Officers and review of their work. There is no policy-holders' servicing by the Branches except that some 33% of the Branches have been authorised to sanction policy loans. The other so called policy-holders servicing functions which have been entrusted to Branches are maintenance of policy registers and index, collection of premium, issue of renewal premium receipts and default notices, follow up of amounts kept in deposits and payments of amounts authorised by the Divisional Offices. However, Branch Offices situated at Zonal and Divisional Centres do not perform even these limited policy-holders' servicing functions. For other aspects of policy-

the Branches forward letters

CHAPTER VI - Section 1:

received from the policy-holders to the Divisional Office and leave the rest of the service to the latter. We have found that the Branches have no means of reminding the Divisional Office in regard to the policy-holders' letters passed on to the Divisional Office in original. It is only if the policy-holder reminds the Branch Office that the latter in turn writes to the Divisional Office by way of reminder. Quite often the Branches are not aware of the reply sent by the Divisional Office to a policy-holder. The Sub-Offices are miniature Branch Offices for procurement of new business only with an Assistant Branch Manager (Development) or a Development Officer as its head. The Development Centres are opened by the Corporation with a view to developing business only.

6.1.20 It will be observed that the Branch Offices, which are supposed to be the primary Units, have neither uniform nor fully worthwhile role in policy servicing. In view of the failure of both the Agents and the Development Officers to perform their duties and functions which we have referred to in Chapter III Section 4 of the hierarchy of the Corporation's offices has made the lines of communication between the policy-holder and the Corporation too long and unduly widespread.

CHAPTER VI - Section 1:

Present set-up neither economic nor conducive to quick disposal

6.1.21 In reply to our question whether the Corporation considers the present set-up as economic and conducive to quick disposal and if not what changes are considered necessary the Corporation has referred to the functions of the various offices as given in Appendix XXIV and stated that it is always considering and taking decisions on steps conducive to economic and quick disposal of its work in the various offices. The question has not been answered by the Corporation in an unequivocal and affirmative manner. "The Corporation is always considering" is a continuing process but what steps have been taken so far as a result of this consideration have not been indicated. If the development of business and the service to policy-holders are taken into account, the present organisational set-up is neither economic nor conducive to quick disposal.

Corporation's attitude re: abolition of Zonal Offices.

6.1.22 To another question whether in view of the effective control at Central Office and in view of the demand for decentralisation at lower levels, the Corporation considers that the functions of the Zonal Offices can be substantially reduced or even the Zonal Offices can be completely abolished, the Corporation has referred to the functions of the Zonal Offices and has concluded, without giving any arguments at all, that the Zonal Offices must

CHAPTER VI - Section 1:

continue and that they cannot be possibly abolished. The Corporation has, however, admitted that there is scope for reduction of some of their minor functions but by and large there is no scope for any substantial reduction in their functions. Decentralisation of functions to the lower levels is a must if the Corporation is to survive and render proper and effective service to the policy-holders. From the present attitude of the Corporation as reflected in its replies, it seems the Corporation is in favour of maintenance of the status quo meaning thereby high expenses, inefficiency and poor and indifferent service to the policy-holders.

6.1.23. In this connection we reproduce relevant extracts on the organisational set-up of the Corporation from Memoranda submitted by the Federation of Life Insurance Corporation of India Class I Officers' Association, Life Insurance Agents Federation of India and the National Federation of Insurance Field Workers of India to the Working Group:

Views of the Associations on organisational set-up,

Federation of Life Insurance Corporation of India Class I officers' Association

"There is over-centralisation of powers in the Central Office which has reduced the initiative and scope of Zonal and Divisional Offices. This causes inevitable delays in disposal of matters which normally and profitably could be dealt with at the lower levels."

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"The functions of the Central Office should be to lay down broad principles of policy and devising ways and means of implementing the

CHAPTER VI - Section 1:

same through the agencies of Divisional Offices supervised by the Zonal Offices. Central Office should have a nucleus of a competent market-research department which would process data which can serve as basis for various targets to be achieved by the various units, keeping in view the potentiality and other allied factors, so that the business may develop on lines conducive to the conditions obtaining in different units which vary from unit to unit. Once these decisions are arrived at on worthwhile data, the implementation should be left to the units and their progress or otherwise should be measured in light of these criteria".

Life Insurance Agents' Federation of India:

"Divisional Offices act as good intermediary Post Offices; and nothing more. They may be abolished and their powers shared by the Zonal and expanded Branch Offices.

Branch Offices, one or two per District, should be made into full-fledged units. Policies upto Rs. 25,000/- can be accepted in the Branches; each Branch will have an Actuarial Assistant; and an Accountant. All the loans must be sanctioned and granted at Branch level. All the Policy records (duplicates) must be maintained at the Branch level. Powers machines must be installed in each Branch; monthly commissions of Agents calculated and disbursements made in time. There may be a section for public relations. Or the "powers" machines can be at one central place, charged with a responsibility of receiving statements from Branches and sending out worked bills.

Branches will be under the direct control of Zonal Offices, huge structures which may not serve the purpose for which they are being built. Branches can recruit locally their requirements of clerical assistants.

The Branch Manager must be an IAS Officer, who will take disciplinary proceedings against the erring employees or strikers. He will lay the norms for each category of work. When Benami Agents are reported, he will hold an enquiry and come to a conclusion.

CHAPTER VI - Section 1:

No. A.3.M's, are necessary, The number of Development Officers requires to be reduced considerably in cities and towns. They must be deployed as Propaganda Officers. No quota of business. No attachment of Agents to them in particular, all being equal to D.Os. No appraisal formula. No Bonus on 1st Year's premiums".

National Federation of Insurance Field Workers of India

Having assessed by actual survey from time to time the nearly correct NUMBER OF INSURABLE PEOPLE in every given area, LIC should open adequate number of Branch Offices for the purpose of handling and servicing the insurance business coming from that area. The effort should be to give service to the policy-holder "then and there". Acceptance of insurance, admission of age of the policyholder, registering of nomination, assignments, changes in address, giving out policy loans, settlement of claims and all such servicing including acceptance of renewal premiums should be done by the Branch Offices. In other words, Branch Offices must be in a position to render A to Z policy service to the policyholder. It goes without saying that interests of the policyholders will be better safeguarded if the transactions are conducted in regional language and not in English as is mostly done for all these years.

xxx xxx xxx xxx

In short, the Branch Offices should become full-fledged and all requirements of policy-holders and agents should be attended to by them. The tempo of administrative efficiency in the Branch Offices should be so developed that Today's Work ought to be completed next day, if not on the same day. LIC must take a clue from the work done in a Bank or the Post Office.

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If this is done, service to the policy-holders will show tremendous improvements and satisfied policyholders will give more and more business to the LIC.

xxx xxx xxx xxx xxx

Divisional Offices should coordinate the work of Branch Office. Divisional Offices should keep service record of LIC employees.

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Zonal offices are not required at all. Existing Zonal Offices do not serve any useful purpose. Abolition of Zonal Offices will bring about lot of saving in expenditure.

The present set-up is over-centralised, full of red tape, dilatory and superfluous in the existence of Zonal Offices.

Views expressed during evidence

6.1.24 Apart from the views contained in the Memoranda submitted to us, we noticed during evidence a general complaint regarding over-centralisation of powers in the Central Office which blunted the initiative in the Zonal, Divisional and Branch Offices. There was a general consensus of opinion regarding abolition of the Zonal Offices and decentralisation of powers to the Branches in respect of all policy servicing. The Divisional Offices should be there to co-ordinate the work of the Branches. There was a general demand for increase in the number of Branches so that the message of insurance is carried to every nook and corner of the country. The policy servicing at present is concentrated in the Divisional Offices which are situated at a distance of several hundred miles from the remotest corner of their jurisdiction. There is a great deal of force in the arguments and views in favour of decentralisation of powers to Branches and transfer of all policy servicing work to them so that a policy-holder has not to go more than a hundred miles at the most for reaching a Branch Office. We, therefore, recommend complete decentralisation of powers to Branches

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6.1.25 Our recommendations on the organisation of the Corporation are as under:- Recommendations.

- (i) We consider that to spread the message of life insurance to every family and to mobilise the savings of the people through life insurance for national progress, the Agent should be made the king-pin in the organisational pattern. He should be trained and equipped to render service at the door of the policy-holder, including the collection of premium. In this way at least 80% of the servicing work now done at the Branch or Divisional Office will be taken over, thereby reducing the correspondence between the Corporation's offices and the policyholder to about 20% of the present volume. An agent in an urban area would be given 700 to 1000 households to service. He would then have about 300 policies to service, and he would be in a position to sell about 50 new policies in a year with a sum insured of Rs. 2 to 3 lacs. In the rural areas, there would be Special Agents with about 5,000 families to service through sub-agents in various villages.
- (ii) The Development Officer should have 15 to 20 Agents under him. His functions will be to ensure that his Agents intensively work in the area and among the families allotted to them,

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and develop new business as well as do the servicing expected of them. A Development Officer will thus be able to develop a new business of about Rs. 50 lacs a year.

- (iii) There should be a Branch Office at every District headquarter. Each Branch Office will have between 10 and 15 Development Officers with responsibility to develop a new business of Rs. 5 to 7 crores a year. To start with the present business in force of Rs. 4,500 crores, will mean that a Branch Office will have a business of about Rs. 10 crores to service through its Agents, and by actively developing new business the Branch will in the next 10 years have a total business of about Rs. 70 crores to service.

Each Branch Office must be most effectively organised to achieve the fullest development of new business and efficient service at the door of the policyholder.

Since the Branch Office is made the complete servicing and development unit, it will work almost like a satellite insurance company with some of the company's functions taken over by the Central Office, like investment of funds, valuations, calculation of premium rates, personnel and establishment etc.

CHAPTER VI - Section 1:

- (iv) There should be a Divisional Office for about 10 to 15 Branch Offices. The functions of the Divisional Office will include co-ordination of the activities of the Branches under their jurisdiction and seeing that the policies laid down by the Central Office are implemented. They will also be responsible for rendering mechanised accounting service to the Branches by means of Punch Card Machines at present in use. The Divisional Offices will also be responsible for auditing and financial control over the Branches and Development Force. The Inter-Branch transfers of officers and staff within their jurisdiction should also be done by the Divisional Offices. The Divisional Office will be responsible for making assessment of the personnel and the performance of the Branch. Thus while the Divisional Office will not in future be doing most of the routine jobs which will now be done by the Branch Office and it will be entrusted with the more important and necessary functions of direction and control of the Branches within the framework of the policies and regulations laid down by the Central Office.
- (v) With complete decentralisation of powers to Branches, there is no need for the Zonal Offices which should be abolished.
- (vi) The Central Office should simplify the policy conditions, administrative procedures and

CHAPTER VI - Section 1:

operations so that each Agent can render efficient service to the policyholder at the door.

- (vii) The Central Office has to be efficient and strong, and has to work as the Chief of Staff at the Army Headquarters. The Central Office must not be involved in routine work but must be concerned with the planning and development of business, to take life insurance to the farthest corners and to every household, to plan simplification of work and procedures, to reduce cost of management, to carry out research and surveys, to mobilise its army of Agents, to equip them, and to motivate and encourage them to achieve big objectives.

Economy as a result of the recommendations.

6.1.26 The recommendations made by us in regard to the organisation of the Corporation will result in substantial economies in expenditure. The abolition of the Zonal Offices might by itself result in a saving of over Rs. 2 crores out of the annual budgeted expenses of Zonal Offices. This will lead to a substantial reduction in the first year's expense ratio and the renewal expense ratio since the Zonal Offices cost 1.71% of the premium income. Apart from this economy, the decentralisation of powers to the Branches and establishment of Branches

CHAPTER VI :- Section 1:-

in every district coupled with service at the door to the policy-holder which will reduce correspondence very substantially will have a tremendous impact on development of new business thereby achieving great economies in administrative expenditure which are expected from a monopoly undertaking.

CHAPTER VI - ORGANISATION

Section 2 - PERSONNEL

Importance of Personnel in Life Insurance. 6.2.1 The personnel of a life insurance company is often called the Plant and Machinery of Life Insurance industry. This is a very apt description. Just as the quality of the product manufactured in an industry depends on the efficiency of its machinery, so also in life insurance. Life Insurance offers security to the people - security in old age or in case of early death. The quality of this security, the price at which it can be sold, its effective distribution all over the country depend on the personnel. Security, unlike other manufactured products, is an intangible thing. The man buying life insurance gets only a piece of paper. His satisfaction with the product he has bought, his confidence in the paper he has received, depend on the service he receives at the time of purchase and subsequently, and on what he hears from other people who have bought life insurance. This service has to be rendered by the personnel of life insurance. Thus it is the quality and number of the personnel employed in life insurance, which determine what success a life insurance company will achieve.

6.2.2 The qualities required in the personnel are knowledge, hard work, and devotion. Knowledge of the technical work one is called upon to perform

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whether it is at the highest level of management or at the level of routine administrative work, whether on the organisational side or on the selling side - is a must. Without such knowledge, the work could not be done efficiently. At the same time, this knowledge has to be combined with hard work - not necessarily long hours, but effective work during the regular hours of office - if it is to produce results. This combination of knowledge and hard work is most effective when combined with devotion. This devotion implies a sense of loyalty to the institution for which one works, a recognition that one is dealing with the savings of the people, and acceptance of a responsibility for rendering efficient service to the policyholders. Devotion is reflected in the acceptance of discipline at all levels, a desire to do better and readiness to accept changes. When the personnel is imbued with these qualities, the success of Life Insurance Corporation is certain.

6.2.3 The main function of Life Insurance Corporation is to sell life insurance at the cheapest cost, and to mobilise the maximum amount of people's savings and channelising them for the development of the nation. Therefore, economic management of the business must get a priority over all other considerations. The fact that life insurance business also provides employment for a large number of people is a secondary consideration. In other words, the

Life Insurance and Employment

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success of Life Insurance-Corporation cannot be considered from the point of how many people are employed, but how much business is written and at what cost.

Personnel
employed

6.2.4 As on 31.3.1967 the Corporation employed a total staff of 52,131 consisting of .

Class I	-	3,025
Class II	-	8,513
Class III	-	33,592
Class IV	-	7,001

Total - 52,131

6.2.5 As compared to the position on 1.1.1957 soon after nationalisation (when the staff was 27,672), this represents an increase of 24,459. The total salary cost in 1966-67 was Rs.426,89 crores, representing 51% of the total management expenses in that year as compared to the total salary expenses of Rs. 10.54 crores representing 46% of the total management expenses in 1956-57 (16 months). This shows how the salary cost forms the largest single item of management expenses and highlights the importance of making the fullest utilisation of the manpower if life insurance business is to be managed economically.

6.2.6 Considering the position from cost angle, we find that the total salary bill (excluding the salaries to Development Officers) represents 10.57%

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of the year's new and renewal premium income. We consider this cost very high. The ideal cost for life insurance business, as managed by the Corporation with all its advantages of a monopoly, should be 60% of 1st year's premium and 10% of renewal premium. In the renewal cost of 10%, the salary cost should not exceed 3% renewal commission accounting for 5% and other management costs for 2%. As compared to this, the renewal cost of the Corporation on the basis of 70% for 1st year expenses, was 19% in 1966-67. We have taken 70% for 1st year expenses, as we find that the current 1st year expenses are around 70%. While speaking on the Life Insurance Corporation Bill, 1956 in Lok Sabha on the 18th May 1956, the then Finance Minister stated as under

".....The Corporation should certainly be able to keep its renewal expense ratio at a much lower figure than this 15% which incidentally is rather a high limit".

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"The Corporation will not really need the large number of employees it would be inheriting The best solution is to expand the business and thus find real work for all."

The Corporation's performance is thus far below the expectations of the nation.

6.2.7 The high expense ratio of the Corporation is in the main due to its failure to utilise its manpower effectively. At the time of the nationalisation, the Corporation inherited the personnel employed by 246 different units, varying widely in their knowledge.

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ability, training and standards. It was a difficult task to make a very cohesive and disciplined staff out of this. However, many of them have since retired and otherwise left the service since then. Out of the total staff of 52,131, as many as 44,251 were recruited after 1.1.1957. We, therefore, fail to understand why the Corporation has not been able to develop better standards of service for personnel with such a large proportion of qualified and competent staff recruited since 1957.

6.2.8 The only plausible explanation can be that the staff is not properly motivated and has not developed a feeling of belonging to a national institution entrusted with the duty of achieving a high social objective. The principle of seniority of service adopted immediately after nationalisation put in the top management many officers who did not otherwise qualify for these positions. They were unable to train their juniors or motivate them with the result that even the staff recruited since 1957 has not come up to the high standards of performance which are so necessary if the business is to be economically and efficiently managed.

Review of
staff
structure

6.2.9 Even though the Committee on Public Undertakings recommended a review of the Corporation's staff structure, the Corporation has not done so. The Corporation has simply stated that the review

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of the strength of the Class I Officers at all levels is a continuous process and the need for utmost economy in this regard is always borne in mind. The Corporation makes the review at the beginning of each year and while certain additional posts are sanctioned to cope with the increased work, some posts are down-graded or abolished. The Corporation has further stated that the Class I Officers' strength is growing broadly in line with the growth of business. We are not satisfied with the Corporation's attitude to the problem.

6.2.10 As regards Class III and IV staff it has been stated that their requirement in the Branch Offices and Divisional Offices are determined on the basis of findings of studies made by the O&M Department. It is difficult for us to accept this statement of the Corporation, especially so, when according to the Corporation's own admission no norms of work have been prescribed for the officers and staff.

6.2.11 The Corporation has also stated that the efficiency and performance of a Development Officer is measured by the strength of his organisation in terms of the number of qualified Agents working under him, the volume of business and the scheduled premium brought in by him. When the Development Officer is in a position to have the necessary Agents (how many - it is not known) it is the Corporation's experience that the scheduled premium income brought in by him will not

monuments of the

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Development Officer. Such performance of a Development Officer is considered by the Corporation as satisfactory. In actual practice, however, the Development Officer is working on about 28% cost ratio which is 75% higher than 16% cost ratio considered as satisfactory by the Corporation. The performance of a Development Officer should, in our opinion, be judged not only on the basis of scheduled premium income brought by him and the proportion it bears to his emoluments but also on the basis of his efforts in the direction of recruitment and training of Agents, activating and motivating his Agents and service to the policyholders. Moreover, it is not understood how 16% cost ratio for Development Officers can be considered as a correct standard. In the days of competition this ratio might have been justified but not under a monopoly. We have separately recommended that the cost ratio of Development Officers should not exceed 10%.

6.2.12. The Corporation has not laid down any norms of performance standards of the administrative staff and has stated that in the absence of this no objective rating is possible. The Corporation has inter alia stated that if the performance of any member of the staff is reported as 'under-average' he should be informed about his deficiency by his supervisor and if

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necessary given fresh training to improve his standard of performance. What steps have been taken by the Corporation for improving standards of performance of 'under-average' staff have not been indicated. Further, there is no indication about the number of staff declared as 'under-average' and improved by such methods. We do not see how 'under-average' can be decided without first fixing what is the average standard of performance. While it is difficult to fix performance standards in administrative work, it is not an impossible thing. A continuous effort must be made to define the standards if any improvement in service is to be achieved.

6.2.13 The Corporation has a detailed programme of training for Officers and Staff. Refresher courses are also held for the Officers. According to the Corporation, the calibre of the Officers and Staff recruited appears to be quite good. The Corporation has an Officers' Training College at Nagpur and the programme of training both theoretical and practical extends to two years. All direct recruits to Class I are required to undergo the training. The number of Class I Officers at the end of December 1961 was 2,162 vis-a-vis 3,025 as at the end of March 1967. After making allowance for wastage due to retirement and death, it would be safe to conclude that about 75% officers are fully trained. However, this training is not reflected.

Training of
Officers and
Staff.

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either in the policy servicing by the Corporation or in business procurement or for that matter in management technique. The manpower available to the Corporation has to be properly harnessed to produce the desired results. As it is either the management is lacking in the capacity to utilise the manpower properly or the training given is inadequate and ineffective.

6.2.14 In our opinion, the present theoretical and practical training is not adequate. We recommend that the Corporation should set up a few Model Offices where Officers and Staff should be given thorough training under the supervision of capable instructors.

Recruitment to Class I.

6.2.15 During evidence we found a general demand amongst Class III employees for cessation of direct recruitment to Class I Officers' post. We are afraid, we cannot accept this demand for obvious reasons. In every organisation and especially so in a Corporation which is to be run on business principles, it is necessary that recruitment to the Officer's Grade is made partly directly and partly by promotion from amongst the existing staff. We understand that under the present Rules 40% of the vacancies in Class I are filled by promotion and 60% by direct recruitment. We recommend that the promotion quota to Class I should be raised to 50% from both Class II and Class III. While making such promotions care should be taken to ensure that the candidates selected

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for appointment to Class I satisfy the basic qualifications required for a Class I Officer, and they should be as well qualified and competent as direct recruits. We would also recommend that the Corporation's employees should be eligible to compete along with outsiders for posts reserved for direct recruitment, if they satisfy the basic requirements for such selection. The examinations for recruitment to the Corporation's services should be held at regular intervals. In determining the vacancies, the posts demanding technical or special qualifications, should be excluded.

6.2.16 There should be no direct recruitment to Class II, i.e. the Development Officers' grade. We recommend that all vacancies should be filled by promotion from amongst the the Block Officers and Agents by means of a competitive examination and interview in which special consideration should be given to their performance in the field, i.e, procurement of business, lapse ratio and efficient service to the policyholders.

Recruitment to Class II

6.2.17 During evidence the Group noticed the inherent antagonism between Class I and Class II Officers and also amongst Class I Officers inter se, i.e., Actuaries and Non-Actuaries, Development and Administration. This is not a happy augury for efficient functioning of the administration. This tendency has to be curbed and equal opportunities provided to the officers of the various categories to rise up to

Inter-changeability of Development & Administrative Officers

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the highest posts on the basis of merit. One method of eliminating this sort of antagonism will be to have inter-changeability between the Development and the Administrative Officers so that they do not function in water-tight compartments but develop a sense of unity of purpose. We recommend that the administrative and organisational talents of the Officers of the various categories should be properly harnessed for the maximum benefit of the Corporation so that a cadre of well-trained and experienced Officers is built up.

Frequent changes in Executives

6.2.18 The Corporation has stated that it is not correct to say that there are frequent changes in the executives at different levels. The Corporation's reply is too general and is not borne out by facts which came to our knowledge during evidence. We, however, quote a few instances of such transfers. Gauhati Division has had nine Divisional Managers during the last ten years. The position of Zonal Manager in Bombay was occupied by at least six different persons in 11 years. The effect of such frequent transfers on the business and service to policyholders can only be imagined. We recommend that frequent transfers of officers should be avoided.

Appointment of Assistants as Block Officers.

6.2.19 In Chapter III, Section 4, while dealing with efficient and economic service to the policyholders by providing service at the door by the Agent we have recommended the creation of a new

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cadre of Block Officer (Development & Service) to function as Agents in the Blocks allotted to them. The scale of pay and other allowances for the Block Officer recommended by us are the same as those for Office Assistants. To provide further incentive to Office Assistants to come forward for appointment as Block Officers we would recommend an incentive remuneration equal to the difference between the remuneration accruable to the Block Agents and the Block Officers' guaranteed remuneration. Since the post of Block Officer will be inter-changeable with that of Assistant, he will be able to return to Office work as Assistant at his request. We hope that Class III Staff including Staff Agents will opt for appointment as Block Officers in large numbers as field work, in our opinion, will provide them with greater opportunities of earning additional remuneration.

6.2.20 The recommendations made by us in the various Chapters will enable the Corporation to function on business principles. Our recommendations, relating to the re-organisation of the hierarchy of the Corporation's Offices including inter alia the decentralisation of powers to the Branches so as to make them function as satellite insurance companies of the parent Corporation will necessitate re-allocation of duties and functions of the Officers and the other categories of Staff. The strength of each Office should be determined by the O&M Department of the Corporation in the light of Optimum utilisation of manpower

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our recommendations and the Officers and Staff
deployed effectively in the various Offices. We
recommend that the Corporation should ensure
optimum utilisation of the available manpower
so as to render economic and efficient service
to the policyholders thereby making life
insurance more popular and attractive to the vast
millions in the country and thus become an effec-
tive instrument for mobilisation of public savings.
We further recommend that until the entire strength
of the Corporation's Officers and Staff is
effectively harnessed there should be no fresh
recruitment to any posts in the Corporation. If
necessary, suitable steps should be taken to impa-
proper training to the existing personnel for the new
duties and functions assigned to them consequent on
the implementation of our recommendations.

Settlement
of problems
arising out
of trans-
fer of
staff.

6.2.21 The reorganisation of the Corporation on
functional basis will necessitate transfer of staff
from one station to another particularly to the
Branches. The Corporation will no doubt take into
account the human aspects involved in such transfers
and settle the problems on business principles. We
would recommend that the Corporation should undertake
construction of staff quarters for its officers and
staff, especially at the Branch Headquarters. Till
such time as adequate quarters are provided at
these places, we are of the view that the Corporation

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may grant some suitable allowance to the Staff to compensate them for the difficulties caused by these transfers.

5.2.22 While the Corporation is fully competent to deploy its officers and staff effectively we would recommend that the salary and promotion prospects of the staff should be assured by the Corporation. We have no doubt in our mind that the officers and staff of the Corporation will in turn extend their whole-hearted co-operation and loyalty to the Corporation in the implementation of our recommendations which are not only in the interests of the Corporation, its Officers and staff but also those of the policyholders and the country as a whole.

Salary and promotion prospects to be assured.

6.2.23 Our recommendations regarding democratisation of the Corporation's set-up should instil in the Officers and Staff a sense of belonging and loyalty to the Corporation as they will be having an effective voice in the administration. The Standing Tribunal recommended by us will serve as an in-built Agency for corrective action for settlement of disputes between the Corporation and its personnel. Our recommendation regarding the establishment of the Services Commission has been made in the interests of the Officers and Staff of the Corporation so that there can be no grievance on the part of anybody regarding

Promotion of Cordiality and harmony in the Corporation.

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injustice or nepotism. We, therefore, trust that the recommendations made by us should go a long way in promoting cordiality and harmony all round in the Corporation and instil in the Officers and Staff and the Agents a sense of loyalty and belonging to the organisation and thus make nationalisation of life insurance a resounding success.

CHAPTER VI. - ORGANISATION

Section 3: - AGENCY FORCE

6.3.1 The Life Insurance Corporation has been set up to spread the message of life insurance to about 10 crores families in India. The task before the Corporation is that of selling an intangible item like social security through life insurance. To sell such a commodity requires high power salesmanship which has not merely to sell the idea of diverting existing savings of the family to life insurance but also to inculcate the habit of saving itself. This aspect of the problem requires all the more attention and hard selling since the per capita income in our country is not so high as to permit easy savings. Under such circumstances, therefore, the salesman has to bring home the future advantages of savings to a family and to impress the special advantages of saving through life insurance so that an average family is able to put its savings to the best use, i.e., not only build up a retirement benefit but also an estate in case of premature death of the bread winner.

The problems of selling and servicing.

6.3.2 If selling life insurance is a hard task, it is equally a hard task for the Corporation to see that the life policies which are once sold are maintained by the policy holders. If this is neglected or is not paid sufficient attention, the effort and expenses on procuring new business will prove infructuous and the

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same amount of efforts and expenses will have to be incurred over again when the policy holder is to be once again brought on the books of the Corporation. It costs several times as much to get a new policy on the books of the Corporation than to maintain one policy of equivalent amount. It should, therefore, be the responsibility of the sales force to see that it is responsible not only for bringing in new business of sound quality but that it takes an active part in maintaining each and every policy in force.

6.3.3 In this difficult job of procuring and maintaining policies, the Sales Force has to contend with the low level of education in our country and the lack of understanding of the advantages of saving in general and of life insurance in particular.

It is, therefore, necessary that an active Agent keeps regular contact with the families in his area and does not wait for the need to be felt by the prospect when he is merely called in for advice. He has to visit the families, impress upon them the need for savings, advise them on planning their family budgets and make them understand the advantages of life insurance for the family. It is, therefore, apparent that the Agency Force selling life insurance in India will have to be a force which goes from door to door spreading the message of life insurance.

Selling and maintaining of life policies require that an Agent remains in touch with the policy holder all the time and is ready to help him with all the service that the policy holder needs on his existing policies. If service is thus readily available at his door, lapses will be substantially eliminated and all the chances of writing new business from the same family can be exploited to the fullest extent whenever there is a possibility of such new business.

6.3.4 Under such circumstances, the Agency Force has necessarily to be well-organised, well-trained and effectively and constructively harnessed to cover every family without wasteful competition. The Agent should not have to work any where and every where motivated by his desire to earn more and more though in an unmethodical and unorganised manner. He works for his own targets without appreciating his role in the achievement of the targets of the Corporation as a whole. Therefore, it is imperative for the Corporation to plan its business laying down precisely the targets for each Agent and the period within which he has to achieve it.

Requirements
of a success-
ful Agency
Force.

6.3.5 The Agent should be well-trained to enable him to sell life insurance by creating in his prospect a feeling of want for the same, and not because he is able to cash in on the goodwill or contacts arising

Well-trained
Agency Force

out of his other activities. The Agent will thus be able to sell the maximum cover and create a climate in which the policy holder will never forget this need, will continue to listen to the Agent's advice and keep his policy in force at any cost. This can be done only by a well-trained Agent who can render real post-sales service and all necessary assistance throughout the currency of the policy and act as his friend, philosopher and guide.

Effectively 6.3.6
and construc-
tively har-
nessed

Agency Force
with no
wasteful
competi-
tion.

The Agency Force must be effectively and constructively harnessed to cover every family. An agent should be made responsible for developing life insurance business in a given block of families where there already exists a certain known potential for business inasmuch as certain proportion of families are uninsured while others are insured for inadequate amounts. The Agent's responsibility should be to bring every family in his Block on the books of the Corporation for adequate amount and also to render Service at the door to every family. It is only under such a set up that the Agent will be effectively and constructively harnessed and his sales efforts will be beneficial not only to himself but also to the Corporation. This will also eliminate wasteful competition amongst the Agents. At present the efforts of all the competing Agents on the same prospects give the plums to the few only which affects the morale of the other Agents and thus retards the growth

6.3.7 In the urban areas we have a population of about 10 crores. The density of population is high and each street has a number of families. The urban population has its own characteristics. Most of the people are in service or self-employed as merchants, shop-keepers, traders or professionals like Doctors, lawyers, wage earners, domestic servants, etc. Their incomes are generally good and regular. In the urban areas the Agent may sell policies with regular periodical premiums, the dates to coincide with payment of salaries, profit distribution in business or trade, etc. As far as the small wage earners are concerned, they may be covered under Group Insurance so that the effort in maintaining the policies for small amounts is very much reduced. In view of the high density of population if the Agent is entrusted with a block of families, he will be able to cover a much larger number of families with the same time and effort than by canvassing in a haphazard and unplanned manner

Problems of Agency Force in Urban Areas.

6.3.8 The rural population is about 40 crores. It is scattered in villages and the density of population is comparatively low. There are long distances between villages. The income pattern is quite different. The income is mostly irregular and intermittent depending upon whether it is a good crop year or a bad crop year. The incomes are generally lower than those in urban areas. The

Problems of Agency Force in Rural Areas

CHAPTER VI - Section 3:

rural people have their own preferences for investing their savings and diverting them to life insurance will require greater sales efforts on the part of the Agent. Besides, the Agent has to operate over long distances where facilities of transport and communication are not developed. The educational standards are lower and the people are generally ignorant of the benefits of life insurance. Selling the habit of savings through life insurance will be a difficult task for the rural Agency Force and the policyholder has to be approached personally and convinced of the need for life insurance. Even in the matter of servicing the rural policyholder does not know how to communicate with the Office of the Corporation; nor does he understand and appreciate the letters received by him from the Corporation's Office.

Finance Minister's
comments on
pre-nation-
alisation
Agency Force 6.3.9 The then Finance Minister while dealing with the agency force remarked in the Lok Sabha on 29th February, 1956 as under:-

"Most of the field agents are dummies and their main purpose seems to be to function as the channel for passing illegal rebates. The code of conduct which incidentally was framed by the industry itself tried to arrest this mad race for business by providing that there shall be only one intermediary between the agent and the branch office but industry, I am sorry to say, soon got round this. Branches came to have several Branch Secretaries, Joint Branch Secretaries....".

6.3.10 The Corporation has an army of 167,000 agents. The Corporation has had no systematic plan to build up the profession of insurance Agents and has worked on the basis of casual Agencies and Agencies related to rich prospects. This has been the biggest deterrent to the development of the profession of Agents. The following table gives the necessary detail about the turnover of the Agency Force from 1961 onwards:

Army of Agents - Heavy turnover

(Figures in thousands)

Year	1961	1962-63	1963-64	1964-65	1965-66	1966-67
No. of agents at the beginning of the year.	140	156	172	174	170	171
No. of agents recruited during the year	60	87	63	50	46	41
No. of agents terminated during the year	44	71	61	54	45	45
Total No. of agents at the end of the year	156	172	174	170	171	167

N.B. Terminations of agents within 1st year and 2nd year of appointment are not available separately.

On a sample survey made recently in three Branches at Calcutta, it was found that out of 428 agents appointed in 1960, only five did qualifying business in each of all the 7 years. (Minutes of the meeting of the Eastern Zonal Advisory Board held at Patna on 4th January, 1968).

Corporation's
indifference to
Agency
Force

6.3.11 It would be observed that between 31 to 46% of the Agents are terminated each year and roughly the same percentage is recruited. An indication of the Corporation's indifference to the quality and stability of Agency Force will be seen from the fact that it has no information available regarding termination of Agencies within 1st year and 2nd year of appointment. The Corporation has also no statistics of Agents working on a full-time basis; nor of the quantum of business procured by an Agent in the rural areas.

Educational
qualifications for
Agents.

6.3.12 The minimum educational qualifications prescribed by the Corporation for new Agents is at least VII standard in the rural areas and Matriculation in urban areas subject to relaxation.

Duties and
functions
of Agents.

6.3.13 The duties and functions of the Agents as given by the Corporation are "bringing new business, servicing the policyholders, keeping business in force and propagating the message of insurance to the people". We have dealt at length with the functions of Agents in Chapter III - Section 4. The Agents have failed to discharge these functions satisfactorily and their service to the policyholders is conspicuous by its absence.

Training of
Agents.

6.3.14 Development officers are responsible for primary training of Agents to begin with. Arrangements are made to train Agents at the Branches and Development Centres by deputing Divisional Instructors

of the rank of Assistant Branch Manager (Dev.). Sessions for training Agents are conducted at Branch Headquarters or at such place, where the Agents could meet. The Agents are familiarised with the Agents' Manual and Agent's Training Courses with a view to making them understand the principles and problems of salesmanship and service.

6.3.15 There were 32,434 trained agents on 31st March, 1967. If each trained agent were to bring in an annual business of Rs. 2½ to 3 lacs, an amount which should be easily within his reach, the Corporation's new business should be of the order of Rs. 900 crores. This figure of business would leave about 1,34,500 agents who could be deemed to be casual Agents but still giving some business to the Corporation. Since the Corporation's new business is of the order of Rs. 770 crores annually, the obvious conclusion would be that the Agency Force is not harnessed properly and that the training imparted is ineffective. Each Development Officer has on an average Agency Force of 17 out of which less than 4 are trained. The training of Agents in the A.B.C. of life insurance is relatively a very easy job and the Development Officer had enough time to train up his 17 Agents. If the quality of Agents is improved there is no reason why the Corporation's business should not expand rapidly. The training programme will have

Number of
trained
Agents and
their per-
formance

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to be radically revised so as to build up a stable force of professional Agents.

There are 4,920 Staff Agents, i.e. Class III (excluding Superintendents) and Class IV employees of the Corporation. The Staff Agents represent about 12% of the Class III and Class IV employees of the Corporation.

During evidence the Agents' Associations stated that the Staff Agents derived undue advantage on account of their official position. These Associations were in favour of abolition of Staff Agencies. The Corporation, of course, is in favour of these Agencies.

Cooperative Societies and Panchayats as Agents.

6.3.16 The Corporation has appointed 34 Cooperative Societies and Panchayats as Agents. Strangely enough, the Corporation, however, does not collect statistics of business done through such Agencies. This lack of enquiry or review into the performance of such Agents, their problems and their suitability to operate as Agents also illustrates the indifferent and unbusinesslike attitude and approach of the Corporation to these basic problems. In our opinion, Life Insurance is a highly personalised service and there is not much purpose in appointing such Agents.

In reply to our question asking for the number of Agents appointed in the rural areas and the average quantum of business procured by an Agent in the rural areas and whether any attempt has been made to demarcate areas for their operations, the Corporation has stated as under:

"An Agent can work anywhere in India. In view of this, we do not collect statistics of the kind asked for".

In the above answer, the Corporation has bypassed the problem and in another reply, the Corporation has stated:

"One of the methods adopted by the Corporation for developing the business in rural areas is what is known as "sectorwise" planning. The areas are divided into compact groups and one or two Agents are given the responsibility of developing intensively one such compact group."

The obvious contradiction between the two replies by the Corporation shows that the Corporation is not alive to the need of developing an Agency Force in the rural areas. The 'Sectorwise' planning is just nothing more than a paper plan only. If the Corporation has to live up to its responsibility of carrying the message of insurance to every nook and corner of the country, the haphazard method of recruitment of Agents and the muddled thinking on the sectorwise planning of the Agency Force should be ended. In our view, the Corporation does not seem to have given proper thought to development of the Agency Force which is very vital for the growth of business.

6.3.17 In spite of the recommendations made by Benami Agents the Estimates Committee (1961) and the Committee on Public Undertaking (1965) the benami Agencies are still widely prevalent. The recommendations made by us in this Section regarding the building up of a stable Agency Force will eradicate this system.

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Rebating

6.3.18 The Corporation has confessed that rebating takes place with mutual consent of the Agent and the prospect and that it is practically impossible to obtain any tangible evidence about rebating. However, the Corporation has not replied to our specific question as to what structural and functional changes would it suggest to do away with the evil of rebating. If a stable agency force is developed and clear cut areas marked out for each Agent in which the Agent has exclusive responsibility for selling and servicing, it should be possible to eradicate the evil completely. The plethora of benami Agencies and wasteful and unhealthy competition between Agents are the two main factors responsible for this evil.

Incentives
to Agents

6.3.19 On the subject of incentives to Agents the Corporation has said:-

(1) Interest free loans are given for the purchase of cycles, scooters and motor cars on the basis of Renewal Commission of the Agents in the previous year provided they fulfil certain business requirements.

(2) Similarly, loans are given for the purchase of typewriters, installing telephones and purchase of other equipments.

(3) Advances are given on interest for repairs to vehicles, payment of incometax, medical treatment, children's marriage and house building, if not otherwise eligible under the OYH Scheme.

The Corporation is already paying the maximum rates of commission permissible under the Insurance Act and no additional benefits could be granted within the framework of the Act. The Corporation is, however, considering the creation of a cadre of Senior Agents who would be entitled to certain fringe benefits.

6.3.20 The Committee on Public Undertakings have observed as under:-

CPU's re-commendation regarding development of stable Agency Force.

"The Committee have noted earlier that the lapse ratio of the Corporation is rising and the service to the policy holder is also poor. In the opinion of the Committee this appears to reflect the unsound procurement of business and unsatisfactory after sales service on the part of the agents. The Committee understand that the better managed insurance companies in the past used to depend a great deal on professional Agents whom they used to properly select and build up by training. The Committee, therefore, recommend that the Corporation should endeavour to develop a stable Agency Force built on a nucleus of whole time professional Agents not only by exercising care in their proper selection but also by imparting them suitable training which would equip them better for their task."

6.3.21 With regard to the development of a stable Agency Force built on a nucleus of whole time professional agents as recommended by the Committee on Public Undertakings the Corporation has pointed out that in the social valuations of the middle class in this country sufficient prestige does not attach to (life insurance) salesmanship as an occupation.

Corporation's views on development of stable Agency Force.

Considerable difficulties are experienced in attracting youngmen of requisite aptitude, calibre and qualifications to the profession of Insurance Agent. This problem has grown more difficult today than in the past as under the impact of the National Development Plans, a number of new employment opportunities have opened up to the young men and, therefore, a majority of recruits to the Agency Force take up an insurance Agency only as a subsidiary occupation and in some cases only as a temporary expedient while looking for more acceptable occupations. The Corporation has, however, not explained why sufficient prestige is not attached to an Insurance Agent. The Corporation has monopoly of life insurance and its Agents should enjoy sufficient social prestige and earn handsome remuneration if persons with the requisite calibre and qualifications are recruited as Agents and wasteful competition in the profession is eliminated. It is, no doubt, true that the National Development Plans have opened up new employment opportunities but it should not be forgotten that these have also generated more national income giving thereby greater opportunities to the Agents for earning more and more from salesmanship. The average income of an agent is about Rs. 1,000 per annum, i.e. about Rs. 84 per month which is below subsistence

made lucrative and attractive by the Corporation by structural and functional changes of the Agency Force. The Corporation must build up a profession of Insurance Agents if it has to survive and achieve the objectives of nationalisation. The difficulties of finding suitable insurance salesman as pointed out by the Corporation are, in our view, imaginary.

6.3.22 The Corporation has inter alia pointed out that selection of Agents on the scale required by the Corporation cannot be effected through the usual process of advertisement or dissemination of literature, describing the prospects available in the occupation and suitable recruits have to be sought out and given theoretical and practical training. This seems to be an exaggeration indeed. When recruitment to the highest services in the country including the Class I Service of the Corporation can be made by advertisement, examination and selection, there is no reason why the Corporation should go out hunting for selection of Agents and in the process succeed only in planting in rich families casual and lazy agencies who are merely spotters of business and have no interest or aptitude for the profession.

Difficulties in selection of Agents

6.3.23 The responsibility of selecting and training Agents has been assigned primarily to Development Officers. Since the Agency Force includes a large proportion of casual Agents, the

Development Officers responsible for selection & training of Agents.

Development Officers have to spend a good deal of time in activising and assisting the existing agents.

About the improvement in standards for selection of Agents the Corporation has stated:-

"In a situation where, it is difficult to find young men willing to act as Agents, the Development Officers have limited time available to look out for new recruits and there is temptation to increase production by accepting a new recruit who is likely to bring some new business without regard to his interest in salesmanship, aptitude or capacity, it is natural that efforts to improve the standards of selection should not prove very effective."

The Corporation has further stated that it gives sufficient weightage to Development Officer's performance in recruiting and building up career Agents in the evaluation of his work.

From the above it will be clear that the vital problem of selecting and training of Agents is being handled in a casual manner, notwithstanding the insuperable difficulties encountered by the Corporation in hunting the Agents as mentioned in the preceding paragraph.

Conclusions 6.3.24 There is thus no planning for the Agency about the present Force. It is the same rabble army as the pre-nationalisation Agency Force where most of the field Agency Force of the Corporation. Agents are dummies and their main purpose seems to be to function as the channles for illegal rebates. The intermediaries between the Agent and the Divisional Office continue to be many.

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Although the competition between Agents of different insurance offices has been eliminated, the same wasteful, unhealthy competition prevails between the Agents of the Corporation. Since Agents are allowed to canvass business in any area many Agents spend their time and efforts on the same rich prospects and neglect other poor prospects. The message of life insurance is not carried to the poorer families where life insurance has to be sold by convincing the families that it is a dire necessity.

The Corporation has no proper planning of business with the result that the plans set out before the Agents are only on the basis of their past performance. The Agent thus works without a proper plan trying only to maximise his earnings as best as he can. He moves haphazardly from prospect to prospect on the basis of the contacts or leads secured through his other activities or due to his position in life. The training, which can build up an Agent capable of canvassing and servicing the policies, is ineffective and inadequate. The termination and discontinuance of Agencies is so heavy that whatever little training that is given goes waste. With no plan before him, with wasteful competition, with rewards for his efforts likely to be reaped by others in the field, the Agent is poorly and ineffectively harnessed. In sum, the Agency Force works

without a systematic plan to cover all the families in the country - it is "Mud at the wall" plan.

6.3.25 Most of the Agency Force is concentrated in the urban areas. Even there, it is inefficient and it is ineffectively harnessed to fulfil its proper functions. This is obvious from the fact that only 15% of the urban households carry insurance.

6.3.26 In the rural areas there is hardly any Agency Force worth the name. Whatever little rural business that might have been developed is through visiting Agents from the urban areas and there is no systematic plan to extend the coverage of life insurance to more and more families in rural areas. To meet the special conditions prevailing in the rural areas, and the special characteristics of the rural population, a suitable Agency Force on a pattern different from the urban one is necessary.

Our re-
commendations
Exclusive
Block for
Agent.

6.3.27 We recommend that for effective develop-
ment of business the Corporation should have a
well-planned, well-trained and efficient Agency
Force, each Agent working in a well-defined
compact area, hereinafter called a Block, without
any wasteful competition and entrusted with the
responsibility of bringing on the books of the
Corporation the maximum number of families in the

in the Block within the shortest possible time.

The Agent will thus have a monopoly of business in his Block.

Our concept of Blockwise development of life insurance is not new. This system has stood the test of time in developed countries like the U.K., where Industrial Assurance is sold and serviced by the Agent working in a specified area. The basic unit in the Prudential sales organisation is the District Agent (like the Block Agent of our conception) who represents the Company in a specified area which might be only a fraction of a square mile in a town while in a thinly populated country district the territory may extend to several hundred square miles. Furthermore, the concept of exclusive areas for rural Agents has also been recommended by the Life Insurance Agents' Federation in their Memorandum submitted to us. The Federation has suggested that exclusive areas in rural parts should be carved in such a way that an area serviced by an Agent gives minimum of Rs. 1 lakh business per year and the Development Officer can supervise between 10 to 20 such areas.

6.3.28 We recommend that the duties and functions of the Agents should be procuring new business by propagating the message of insurance intensively and effectively and servicing the policyholders with maximum efficiency. Since the Agent will be in charge of a Block, he should be in a position to conduct a quick survey of the insurance potential of the families

Duties &
functions
of Agents

CHAPTER VI - Section 3:

residing in his Block and prepare his plan of harnessing the potential. The service to policy holders to be rendered by him will include:

- (a) completing all the proposal papers upto a stage when only underwriting decision is left with the Branch;
- (b) calculation of premium only to be checked at the Branch.
- (c) Preparation of first premium receipt-cum-acceptance letter and Policy Pass Book ready to be signed at the Branch;
- (d) admission of age;
- (e) preparation of assignment endorsements fully and getting them registered at the Branch;
- (f) collection of premiums at the door and issue of receipts in a Pass Book held by the policyholder;
- (g) quotation of surrender and loan values;
- (h) preparation of complete documents for surrender and loans;
- (i) preparation of documents for revival of lapsed policies if any; and
- (j) preparation of all the claim documents ready in all details for the Branch to sanction and settle claim.

In due course, the Agent may also be entrusted with the task of underwriting on the spot

and issuing an Acceptance letter-cum-first premium Receipt in majority of cases which can be readily accepted on standard terms. To enable the Agent to render all these services efficiently, we recommend that the procedures, tables and forms including medical forms and reports should be thoroughly simplified so that a well-trained Agent can carry out all the functions with ease.

If a well-trained Agent well-versed in simplified procedures renders all the service at the door of the insured it will go to reduce considerably the communication between the policyholders and the Corporation and our estimate is that it will be reduced to about 20% of the present level.

6.3.29 We recommend that under such a pattern of Agency Organisation full-time Agents will be re- Full-time Agents preferred.
quired. We, do not however, suggest that if an Agent is able to render all the service efficiently in his Block, he should be debarred from taking up any other employment, if such employment does not affect his efficiency and effectiveness as Agent. We are of the view that the full-time Agent, not having any other pre-occupations, should be preferred since he will be able to devote more time to his task. We have, however, an open mind on this aspect of Agency Organisation and would only suggest that it should be with reference to the

individual Agent's own capacity and the needs of the individual Blocks.

Training

6.3.30 In addition to radically simplifying the policy conditions and thoroughly overhauling and rationalising procedures, the Corporation will have to train the Agents most effectively. In order to enable the Agents to discharge their functions most efficiently, we recommend that the training should be both theoretical and practical, and should include training in a Model Office for a period of 3 months during which period they should be made to go through all the procedures which they would be required to handle in actual practice when in the field. It is only such practical training which will prepare the Agent to perform his functions successfully. His training should also prepare him for the task of bringing up to date the existing policies of families in his Block so that it is easy for him to service them thereafter. That is, age should be admitted, nomination or assignment effected, all deposits under the policies properly adjusted or refunded, listing of the existing policies of his families and familiarising himself about all the relevant details of their policies. All these will be in addition to training him to sell and service optimum life insurance to every family in his Block.

Our recommendations will take care of the recommendations of the Committee on Public Undertakings, viz.. "... to develop a stable agency force built up on nucleus of full-time professional agents....". These will also result in eliminating the problems of benami Agencies and rebating.

5.3.31 The existing Agents, we recommend, should be given the option to work as Block Agents in their respective areas, whether rural or urban. The option once exercised will be final and no change should be permitted thereafter. We can visualise that some of the big Agents will not find the Block Agency sufficiently attractive in view of the high incomes earned by them at present. To obviate hardships to such Agents we would recommend that they may exercise the option of working as Free Agents in which case they should be allowed to procure business only from any of the urban areas with the stipulation that individual policies sold by them are of, say, Rs. 50,000 or more. We would recommend that the minimum amount for each individual policy to be sold by such Free Agents may be determined by the Corporation in consultation with the Life Insurance Agents' Federation. In our opinion, such a restriction regarding the size of policies sold by them is both essential and desirable so that

Free Agents

the income prospects of the Block Agents are not unduly impaired. The terms of remuneration of the Free Agents, as regards first year's commission will remain as at present. As regards renewal commission, the Free Agents will be entitled to it in full if they render service at the door of the policyholders booked by them. In case, the Free Agent is unable to provide service at the door to the policyholders he will be entitled only to 2½% renewal commission and the balance of 2½% will have to be given to the Block Agent actually doing the servicing work.

Free Areas in Big cities.

6.3.32 Further, in big cities and towns there will be some areas where the people of higher income live or where there is a concentration of big shops or business houses. Such areas will provide a Block Agent with a possibility of earning a much bigger income than what the Block Agents have in other parts of the cities or towns. We, therefore, recommend that such areas in the big towns and cities should be made open areas for all Free Agents to sell new business without any restriction on the amount of sum insured under the policy.

However, to ensure that the servicing of the families in such open areas is not neglected we recommend that even in the open areas,

there should be persons entrusted with the responsibility of servicing in the Block. These persons should be taken from the new cadre of Block Officers (Servicing & Development) which we have separately recommended. These Block Officers will, of course, be free to sell life insurance in their Block in competition with Free Agents.

6.3.33 A Block Agent's terms of remuneration, we recommend, should comprise of commission on First Year's premium and on the renewal premiums that he collects in his block and Goodwill value of the Block Book. The Agent's performance shall be assessed on the following criteria:

Block Agent's Remuneration

- (a) the proportion of families in the Block that he brings on the books of the Corporation;
- (b) the amount of renewal premium income he has built up in his Block;
- (c) extent of arrears of premium in his Block;
- (d) a factor to provide for his efficiency in service to the policy-holders based on mistakes and complaints in his Block; and
- (e) a corrective factor to take into account the effect of the quality of Block he has been allotted.

On this basis he will be rated. Depending on this rating an Agent will, in the event of his withdrawal from Agency work due to any cause except dismissal, be entitled to either the full renewal commission or a lower renewal commission for a maximum period of 15 years. In the case of dismissal, the Agent's renewal commission will be forfeited.

Therefore, the Agent will try to work at his best efficiency so that when he retires, gets incapacitated or thinks of changing his vocation or dies, the renewal commission will be payable at the maximum rate possible. It is this which he will consider as the Goodwill Value of the Block Book. If due to his gross inefficiency or fraud he is dismissed, he loses this goodwill value.

Prospects
for Urban
Agents.

6.3.34 If an Agent in the urban area is entrusted with a Block of 1,000 families he will have a potential of business of between Rs. 30 to Rs. 50 lacs, among about 500 estimated insurable families in the Block. There will be no travelling expenses, no competition with other Agents and no rebating. To start with, if he sells Rs. 3 lacs new life business in the first year in his Block of families, he will earn a first year's commission of not less than Rs. 3,000 per annum. He will have scope for earning even higher first year's commission in subsequent years. Besides the first year's commission, he will earn additional income through renewal commission for servicing the existing policies in his Block (i.e. those policies sold by previous Agents). This will amount to about Rs. 1,000 to Rs. 2,000/-

income should touch minimum of Rs. 6,000 per annum and thereafter it will continue to rise. Therefore, an Agent in the urban area will hold out the prospect of earning Rs. 400/- to Rs. 600/- p.m. in less than 5 years of the Agent's association with the Corporation and still higher earnings as he taps more and more of the potential in his Block. This is for the average Block. If the Block of families has greater potential his income will be higher. The Agent's income will depend upon the speed with which he succeeds in tapping the potential available in his Block. Our estimate is that if he were to skilfully tap the available potential in his Block, his New Business and Renewal Commission should earn him Rs. 10,000 to Rs. 15,000/- per annum. It is unlikely that he will reach a stage when no more potential will be left in his Block, since fresh potential will always emerge as the incomes and savings in his Block rise due to general improvement in the economic conditions.

In contrast to the present level of income of an average agent the income of the Block Agent will be much higher. There will no longer be the sorry spectacle of a few Agents getting very good income and most others getting paltry income from life insurance Agency. Apart from income his social status and prestige will be enhanced as he need no

longer stoop to rebating as a result of unhealthy competition. Unlike the present, all that he will earn will belong to him. His "Block Book" of collections will have value to him as it gives him the monopoly of business in the Block thereby ensuring good prospects in his Agency career.

Equitable allotment of Blocks.

6.3.35 The Block System will raise the question of equitable allotment of Blocks of families among the Agents. Unless this problem is taken care of adequately it may lend itself to abuse and favouritism. Therefore, we recommend that the Blocks of families should be assessed for their respective potentials and the type of Agent who will be best fitted for the Block. The Blocks should be graded according to the grade of Agents suitable for the Block. Similarly, on the basis of Agent's past experience about the type of clientele he handled, the amount of average annual income he made from life insurance agency, his qualifications, his aptitude and his performance at the training school, each Agent should be rated and all Agents should be graded to suit the requirements of different Blocks. We do not anticipate any difficulty or inequity if the Agents and Blocks of families are properly matched in this manner.

6.3.36 The urban population will need about 20,000 to 30,000 full time agents. Out of 1,67,000 Agents, only 10 to 15,000 may qualify to be appointed as full-time agents to carry out all the functions as outlined under the new dispensation. Most of these will prefer to continue in urban areas. With reallocation of duties and functions of the Staff, some 15 to 20,000 persons from the administrative staff may be appointed as Block Officers (Development & Servicing). They constitute the most desirable and suitable reservoir of persons for working in exclusive Blocks. As we have already pointed out, such Block Officers will render service at the door of the policyholders, eliminating 80% of the work at present done in the Corporation's offices.

Manpower
required
for Blocks
in Urban
areas.

6.3.37 As discussed earlier, the developing of rural business is beset with special problems. The rural population consists of farmers, those connected with processing of produce, workers on land as labour and others depending on rendering other services to the rural population.

Problems in
the rural
areas

6.3.38 A large portion - more than 50% - of national income goes into the hands of the rural population. Agriculture alone accounts for 50% of the national income. With the passage of

Rural's
share in
national
income

time, with better farming techniques and higher prices of raw produce, the income resources of the rural population will keep on expanding. The potential for saving by the well-to-do section among the rural population can be quite substantial inasmuch as a number of necessities of life are available to them in kind.

Active savings Agency required to tap the available potential

6.3.39 The rural sector of the population today rightly derives the benefits of all kinds of incentives and subsidies for agricultural development thereby improving their general level of incomes. There is a significant section, about 30% of the rural population, say 2.4 crore families who can be said to have good incomes, who can save and who can buy life insurance. However, at present there are no energetic active Agencies to promote savings habits and mobilise them for productive purposes. The result is that the available savings get locked up in the form of gold or in the form of hoarding of produce which result in inflation and price spiral. The rural population has conservative habits. The habit of saving has to be sold to them the hard way by continuous persuasion and by holding out incentives which will encourage them to save. Therefore, the passive savings agencies like the Banks, post office savings banks, etc., cannot be the effective modes inasmuch as for their

success the essential pre-requisites are: (a) all persons, on their own initiative decide to save and refrain from withdrawing such savings; and (b) that those who save on their own initiative will go to the post office, bank or treasury regularly to deposit their savings. This is too much to expect from people with low educational levels and whose savings habits are not developed. If rural savings are to be channelised through such passive agencies only, the progress in national savings will be very slow, having its repercussions on the nation's economic development. Therefore, active agencies for promoting savings are necessary; agencies which can sell the concept of saving from door to door, which can offer some driving incentives for effecting those savings and which can at the same time, extend to the rural community benefits and services they need most.

6.3.40 Life Insurance is ideally suited to take up the role of such active savings Agency. Selling of life insurance from door to door not only will inculcate the habit of saving but will also provide the facilities of gainfully investing those savings at

Life Insurance
suitable to
tap rural
savings.

Moreover, it will extend life insurance coverage which every family needs badly. Besides door to door selling and servicing, if life insurance is to reach the rural masses, it must offer some driving incentive. What should be this incentive?

LIC's diffi- 6.3.41 The Corporation has argued that the difficulties for rural business development. are difficulties in active development of life insurance in the rural sector. These difficulties may be genuine to some extent, but the Corporation is only theorising on the problems. It has not stated as to what effective steps it has taken in practice to overcome these difficulties. In short, it has not applied itself seriously to this problem.

Saving potential in the rural area for an effective agency, active savings agency

6.3.42 According to agricultural statistics, in 1962-63, only 19 per cent of the 336 million acres net sown area was irrigated area. On this basis and taking into account the fact that cash needs of a farmer are comparatively much less since he gets most of his necessities in kind, it can be stated that 16 million families (i.e. about 20% of the rural families) have a potential of saving Rs. 750 crores per annum since these families enjoy rather stable incomes than those who do not have the facilities of irrigation. However, this potential cannot be harvested by passive agencies. If the Corporation continues to function like any other passive agency, these potential savings will continue to be neglected resulting in wasteful expenses and adding to inflation. In the ultimate, the country suffers. Life insurance being the ideal medium of saving, the Corporation has to tap this potential by door

to door selling and servicing and by making life insurance most attractive by offering special benefits so that life insurance ranks highest in priority in the family budgets.

6.3.43 We recommend that the life policy for the rural population should combine the following features in particular:

Attractive features in life policies for rural areas.

- (a) Whole Life Limited Payments or Endowment Assurance.
- (b) Marriage or Educational Endowments after selected number of years.
- (c) Premium payments may be permitted at irregular intervals so that it affords a facility to the farmer to pay when he realises the proceeds of his produce.
- (d) Two/three years' Term Insurance Premium should be collected at the outset so that the policy does not lapse if two/three years' premium fall in arrears. For reinstatement of the policy, no medical evidence but only arrears of premium with interest will be required.
- (e) Benefits available on death by snake bite or by accidents which are more to be found among the rural population, should be larger than the normal benefit available on death as a result of any other cause.
- (f) Facilities to policy-holder to deposit amounts over and above the premium instalments, such deposits to earn attractive rate of interest comparable to that available in the market. It should not be a meagre 3% allowed by the Corporation at present.

6.3.44 As stated earlier, life insurance in order to be sold to the rural population must offer some driving incentive to the rural community, particularly the cultivators to promote

Driving incentive to rural population for life insurance.

CHAPTER VI - Section 3:

the habit of thrift and to channelise maximum possible savings. We now examine what such driving incentive the Corporation can offer. The national economy needs massive doses of capital. The capital programme for the agriculture and irrigation in our country is as large as that for industry and mining. It is estimated that at present 75 million acres is irrigated and yet this 75 million acres of land is not so fully irrigated as to make it risk-proof and thus there is not optimum production. Even in areas that are irrigated, often the farmer lacks the medium-term capital to bring to his farm the full facility of irrigation, to supplement irrigation by other necessary inputs and capital to buy agricultural equipment. In 1964-65, the area sown more than once was about 50 million acres and net area irrigated was about 65 million acres and it could not be that all that was sown more than once was fully irrigated. Even from the point of view of irrigation, therefore, if 75 million acres are to be fully irrigated and developed to make it risk proof and raise $2\frac{1}{2}$ -3 crops on such land, it will require a large capital outlay. At the rate of Rs. 1,000 per acre, the programme to raise optimum production from 75 million acres will require a capital outlay of Rs. 7,500 crores. In view of the limited

resources, such a programme can be implemented only in phases. In the first phase, only such farms should be tackled which can be developed at minimum capital cost to yield the largest return and in subsequent phases those more cost to develop may be tackled.

6.3.45 A capital programme of this magnitude for the rural sector will basically depend upon generation and channelising of the savings of the rural sector itself. The organisation responsible for channelising the savings from the rural sector will succeed only if it can, by its performance, convince the rural population that all such savings are harnessed for the benefit of the rural sector e.g. for building up risk proof farms. Such an intensive programme of irrigation and developing of 75 million acres can yield farm produce worth Rs. 15,000 to 20,000 crores only in the irrigated sector.

6.3.46 As stated earlier, life insurance sold and serviced at the door is the only ideal and active medium for channelising savings in the rural sector. In order to provide the driving incentive so essential for its success, the Corporation has to play the dual role of channelising the savings in the rural areas and at the same time in a phased programme harnessing those savings for building up risk proof farms by introducing a Farm Loans Scheme of the Corporation.

6.3.47 The Corporation must naturally have full security for such loans to make the farms risk-proof to yield 2½-3 crops per annum. Prima facie this may look difficult and risky. However, a pattern can and must be developed to make such loans safe and thus enable the Corporation to play the pioneering role in national development. The following tentative points are illustrative of the steps necessary to integrate and improve the security of such borrowers:

- (a) Loans will be only for making the farm risk-proof.
- (b) Loans only against compact areas of five acres and more belonging to the borrower
- (c) A prosperous farmer to be a counter-guarantor for the borrower. He will:
 - (i) have a good compact farm of five or more acres, (ii) have to his credit with LIC a good amount by way of deposit under his life insurance policy; and (iii) be permitted by law to hold land in excess of the land ceiling if his holding happens to exceed the ceiling as a result of his repaying the Corporation's loan and taking over the land of the borrower who defaults.
- (d) In the later paragraphs we recommend a special type of agency organisation for the rural areas, where we recommend that there should be a Special Agent who will have the primary responsibility for development of new business in a cluster of villages with population of 20 to 25,000. He will have exclusive rights for selling and servicing in his area and will have a right to appoint sub-agents in villages under his control so that there is representation of the Corporation in every village. Besides this, he will have one more role to perform viz., to be responsible for recommending farm

loan applications to the Corporation. He will be also required to undertake the liability to reimburse to the Corporation the first loss due to default of the Borrower of farm loan, say to the maximum extent of 10% of the capital sum borrowed. He will be paid commission for the loan which he arranges and guarantees.

- (e) The borrower should have marketable title to the agricultural land on the security of which farm loans are to be advanced. The Special Agent will help the borrower in securing the requisite certificate regarding title.
- (f) It is not enough to grant loans on the basis of the need for such loans as assessed by the farmer himself. More often than not, the farmer cannot realise in what directions, his farm requires improvement so as to increase the yield per acre. Again, it is not proper to leave the farmer to utilise the loan without proper supervision and advice from experts in the field. It is, therefore, advisable that the Corporation should set up a machinery for survey, supervision and advice to the farmers.

6.3.48 On such secured cases, it should be possible for the Corporation to advance 50% of the value of land for capital programmes, the loan being proportionate to the amount of deposit made by the farmer with the Corporation. Such loans will be very well secured and easily realisable. The Special Agent will be responsible for recovery of the loan as he will undertake a part of the risk. This is one reason why the Special Agent should be a man of adequate means. Enforcement of the security will not be a problem inasmuch as the guarantor will be ready to take over the borrower's land if he is called

upon to pay under his guarantee. Since the loan will be proportionate to the farmer's own deposits, this will act as the driving incentive for the rural population to take to life insurance and to make larger and larger deposits under their policies so that in times of need he will be entitled to larger amounts of loans.

6.3.49 Under such a scheme, a farmer with 15 acres can obtain a loan of Rs. 10,000 for land improvement repayable in 3 years if (1) he has a clear title to his property and (2) he can obtain a guarantee from another farmer, having a life policy of Rs. 10,000 on which at least 3 premiums aggregating to Rs. 1,000 are paid, having an unencumbered farm of at least 5 acres and having a deposit of Rs. 2 to 3,000 made on an average for 2 years. Besides, there will be advice and supervision of the Special Wing of the Corporation and the guarantee of the Special Agent for proper utilisation of the advance and for repayment of the advance in 3 years, if crops in the area are normal.

6.3.50 The Corporation under such a plan can channelise about Rs. 1000 crores per annum in the form of premiums and deposits and build up the rural sector with doses of capital increasing in arithmetical progression.

3.51 The Agency Force which the Corporation should have for the rural sector should be so organised that it is capable of fulfilling all the duties expected of it and at the same time able to represent the Corporation all over the rural areas. The Agency Force for the rural sector, which we recommend, will be organised as under.

Agency Force for the rural areas.

(a) As in the case of urban areas, Agents will be responsible for Blocks of families and will render all the service at the door of the policyholder.

(b) Every village should have a representative. He will be one of the 20/25 Sub-Agents working under a Special Agent. The Sub-Agent (or Village Agent) cannot and need not be a full time Agent. In villages with population less than 2,000 he may be a part-timer like the village Primary School teacher, Post Master, etc. We would recommend that the Central/State Governments should permit village Post Masters and School Teachers to act as Sub-Agents. However, he may be a full-time agent if the village has population over 2,000. He will have the exclusive privilege of canvassing new business among the families in the areas allotted to him.

Distribution of villages according
to population:

1961

Population range	Number of villages	Population (million)
less than 500	349,568	75.24
500 - 1000	119,197	83.87
1000-2000	65,309	89.48
2000 - 5000	26,475	76.42
5000 - 10,000	3,396	22.18
over 10,000	773	12.25
Total	564,718*	359.44*

*Excluding NEFA and Goa, Damman & Diu

Therefore, about 50,000 full time Agents will be required for villages with population over 2,000. It is suggested that such a full time Agent be also given some small villages around his village of residence to make up a block of 700 - 1000 families. One Sub-Agent can also be posted for a group of small villages with 500 population. The rest of the villages should have one Sub-Agent per village. On this basis about 4 lac Sub Agents (3.5 lakhs part time and 50,000 full-time) will be required. Each Special Agent will have about 25 Sub-Agents under him.

(c) A local person of influence, good standing and substantive means should be appointed as a Special Agent to organise the business of a cluster of villages, accounting for a population of 20 - 25,000. His remuneration as a special Agent will be for appointment of Sub-Agents, for servicing them.

for controlling them and for being responsible for their acts of commission and omission. He must be responsible for developing the business dynamically in these villages, to effectively service this business and to act as a liaison between the farmer seeking the farm mortgage loan and the Corporation.

(d) The Special Agent should be given an Office Allowance of Rs. 125 p.m. Besides, he will be entitled to commission at the following rates:-

Difference between 50% on 1st year's premium and 7½% on renewals, and the commission paid to village

Sub-agents:

Service Commission for policies sold by previous agents. : ½%

Loans Commission : 2% on loans arranged and guaranteed by him provided loan is repaid in time plus incentive for early recovery of loan.

(e) Commission payable to Sub-Agent should be:

On First year Premium : On a sliding scale on fulfilment of certain performance standards and certain conditions - 25% to 35%.

On Renewal premium : On a sliding scale on fulfilment of certain servicing standards and volume of work - 2½% to 5%.

Rural population is about 40 crores out of which about $\frac{1}{4}$ th will be serviced directly^{by} the Development Officers (cf. Section 4). If there is one Special Agent in charge of an area with population of 25,000 the Corporation will need about 12,000 Special Agents for servicing the remaining population in the rural areas.

Advantages of the proposed organisation for rural areas.

6.3.52 The advantages of such an organisation will be as under:-

(a) The Special Agent will act in dual capacity - as Agent for developing life insurance business in the rural area as also Agent for bringing to the rural sector the benefits of Corporation's schemes for rural development. In this dual capacity, he will be a person who will command respect in his area.

(b) In the rural areas with small villages spread over long distances, it is not economical to have one full time agent in every village. At the same time, when the need arises, an experienced and influential man like the Special Agent will be there to help the Sub-Agent.

(c) The Special Agent will be responsible for appointment, servicing and control of the Sub-Agents thereby reducing the need for incurring heavy costs on Development Officers to undertake these functions.

(d) The Special Agent being remunerated on commission basis and enjoying the exclusive rights for selling and servicing in his area, will do his best to intensively develop life business in his area. He will attempt to bring all the families on the books. Therefore, he will take great care in the appointment of his Sub-Agents since their performance will determine his remuneration.

(e) A Special Agency with its Sub-Agencies will cost 50% on First Year's Premium and 7½% on Renewal premium. With these Commission costs, it will be possible for the Corporation to manage the Rural Business within 75% on First Year's Premiums and about 11 % on Renewals.

6.3.53 If two/three years' term assurance premium is collected at the outset, lapsation will be reduced considerably. Moreover, the Agent's performance will be assessed on the basis of extent of lapsation in his Block of families.

Lapsation
and Agency
Force.

6.3.54 The Agency Force we have recommended will be effective, economical and efficient in service and will reduce chances of lapses. It will be effective since it will operate with a planned target, exclusive privilege, prospect of increasing the income proportionate

Conclusion
about the
proposed
Agency Force
for Rural &
Urban areas.

to the Agent's efforts and with sufficient security for the Agent's family in case of his early death or incapacity. The Agency Force will be economical inasmuch as the Agent will be paid his first year's and Renewal Commissions for the actual work he will put in and not only by way of a right. It will also be economical to the extent that duplication of efforts on the same prospects as also the waste of time, effort and expenses on moving over long distances will be eliminated. Under this set up, the Service by such an Agency Force will obviously be efficient. When a family is linked to one particular Agent, he will have full understanding of most of the problems of that family. Every change in the family circumstances which may lead to increase in the potential for life insurance will be known to the Agent and he will immediately try to tap that potential. Every claim, surrender or loan promptly settled through him in his Block of families will earn for him greater good-will on which he can cash for procuring further business in the Block.

SECTION 4 : DEVELOPMENT OFFICERS.

6.4.1 In a country of the size of India with its vast population, it is not feasible for the Corporation to conduct its sales operations only through the Agents. With a large army of Agents operating in the field, a supervisory cadre is imperative to supervise, control and check on the activities of the Agents in the field. Moreover, since all the Agents are not of the same intelligence and calibre, the Development Officer must help to the extent the Agent lacks these qualities.

Need for
Develop-
ment
Officers:

6.4.2 The functions of Development Officers are:

Functions
of De-
velopment
Officers:

- (1) Develop and increase production of new business.
- (2) To guide supervise and direct the Agents.
- (3) To recruit and train new Agents so as to develop a stable Agency Force.
- (4) To act generally in such a way as to activate existing Agencies and motivate new Agencies.
- (5) To render all such services to policyholders as conduce to better policy servicing.
- (6) To work in the area allotted to him as representative of the Corporation and perform as such representation such other duties as the Corporation may call upon him to do.

6.4.3 Our comments on the Agency Force in the preceding Section would go to show that the Development Officer is discharging his functions properly in regard to development of Agency Force, guidance,

supervision and direction, activating existing Agencies and motivating new Agents. As regards development and increase in the production of new Life Insurance business in a planned way, attention is drawn to our comments in Chapter III - Section 4 . The average number of active Agents per Development Officer is stagnant at around 17 and the average number of policies per active Agent between 10-12½. About the role of the Development Officers in training new Agents it would be interesting to note that the number of trained Agents as on 31st March, 1967 was 32, 434 that is less than 4 per Development Officer. Even then the training of the Agents has been most ineffective as can be gathered from our review of the Agent's performance under the present set-up.

No service to Policyholders:

6.4.4 With the existing number of 1.20 crores of policies, each Development Officer has less than 1,500 policies to service. In actual practice, however, the Development Officer is not rendering any service to the policyholders. In reply to a question about the functions assigned to the Development Officer in regard to the servicing of policies the Corporation has stated that the Development Officers are expected to render all services to policyholders as conduce to better policy servicing.

The Corporation's reply is too vague and general and does not answer the point clearly and precisely. On the other hand, while analysing expenses, the Corporation has not allocated any renewal expenses to Class II Officers (Development Officers) thereby indicating that the Development Officer renders no service after the 1st year of the policy.

6.4.5 As earlier stated, the Corporation has admitted that the Development Officers are tempted to increase production by accepting new recruits to the Agency Force those who are likely to bring new business, without regard to their interest in the salesmanship, aptitude or capacity. Therefore, the Development Officer does not fulfil the functions for which he is appointed, but acts more as a Super-Agent for the dummy Agents.

6.4.6 The conclusion drawn by us in Chapter III - Development Officers' remuneration & business procurement: Section 4 is that considering the remuneration received each Development Officer should by himself be in a position to bring in new business of Rs. 7 to 8 lakhs per annum without having the force of an Agency Force. The Development Officers' contribution to business by direct Agents numbering 4051 is nil. On the basis of Rs. 7 to 8 lakhs business by each Development Officer and the business of direct Agents the Corporation could reach the existing annual business of Rs. 770 crores without the Agency Force.

Demarcation of Areas of operation for Development Officers: 6.4.7 About the demarcation of areas of operation for each Development Officer, we can do nothing better than reproduce the Corporation's reply:-

Question:

"Has every Development Officer a clear-cut area to operate in?"

Answer:

"In big cities, the area of Development Officers is common, i.e., they can procure business in any area bounded by these cities. In the mofussil areas it has been possible to assign particular areas such as Talukas, etc., exclusively to the Development Officers. It also happens that Development Officers have also got some common area and some exclusive area."

The above quoted reply is as ambiguous as several replies already referred to earlier.

No classification of Development Officers according to Agency Force & Business: 6.4.8 In reply to our question whether the Corporation has any system of classifying the Development Officer according to Agency Force per Development Officer and the business procured by them, the Corporation has stated that it had no such system of classifying the Development Officers. In the absence of classification of the Development Officers according to the Agency Force and business we cannot conceive that the Corporation has any control over the activities of its Development Force.

6.4.9 Further, in reply to our question regarding the total number of Development Officers posted in the rural areas during the last 5 years, ratio of the number of Development Officers to the growth of rural business and details of business done yearwise by them and the expenses incurred on them, the Corporation has stated that "In view of the fact that the Development Officers are not posted in rural areas proper, it is not possible to give the statistics asked for."

6.4.10 In this connection it will also be interesting to note the obvious contradictions contained in the various replies of the Corporation. To quote from the Corporation's reply. "The Corporation has appointed a good number of Development Officers in the various mofussil areas with a view to spreading the message of insurance to every nook and corner and the business from rural areas has gone up which would go to show that they are adequately serving the aforesaid objective."

6.4.11 Such contradictory replies are a sad reflection on the Corporation's Management, to say the least. Incidentally, we found concentration of Development Officers in the cities. In Calcutta alone, about 10% of the country's Development Officers are located.

High cost of 6.4.12 To our question as to what is the
Development
Officers: percentage cost incurred on the Development
Officers for the development and procurement of
new business and what steps both functional and
organisational are suggested to reduce this
percentage cost substantially, the Corporation
has stated that the percentage cost on Development
Officers on the 1st year's total premium of
Rs. 32,03 crores for the year 1966-67 which
includes the premium income on the business done
by 8,971 staff and direct agents comes to 19.3%.
This percentage cost does not include "other
indirect expenses such as travelling expenses
for the tours undertaken by them." In
this connection it would be relevant to mention the
percentage indicated in another reply where the
cost break-up of Development Officers inclusive
of travelling expenses 2.35% and bonus commission
0.72% aggregated to 22.57%. This percentage too
is not arrived at after excluding the premium
income brought in by direct Agents and Staff Agents
who are not controlled by the Development Officers.
If the premium income brought in by 8,971 Staff and
direct Agents is excluded from our reckoning while
determining the cost of Development Officers as
it should be

6.4.13 Interestingly enough, even though the Corporation was specifically asked about the steps both functional and organisational, suggested to reduce the percentage cost on Development Officers substantially, the Corporation has stated that it has been decided (i) not to recruit any more Development Officers, and (ii) to increase the average production per Development Officer and that these organisational steps would help the Corporation in reducing the percentage cost to a certain extent. Apparently, the Corporation does not consider necessary any other steps, either functional or organisational, to reduce the cost. Further, it is inexplicable why the Corporation did not think of increasing the average production per Development Officer earlier.

Corporation's
decision not
to recruit
Development
Officers:

6.4.14 We recommend that the Development Officer should also be given an exclusive area and the Block Agents working in that area should be responsible to the Development Officer. The Development Officer will have his office at a central place in the area allotted to him. In this way the Development Officer will be able to concentrate his attention on his area for new business and will not dissipate his energies in running about for business aimlessly from area to area at random.

Recommendations:

His functions shall be:

- (1) To develop and increase production of new business;
- (2) To recommend recruitment of new agents;
- (3) To guide, supervise and direct the Agents;
- (4) To give on the spot training to new Agents;
- (5) To activate the existing Agents and motivate new Agents;
- (6) To supervise and audit the policyholders' service rendered by agents in his area;
- (7) To check on policyholders whose premiums are unpaid and ensure that there is no defalcation by the Agent;
- (8) To certify copies of documents submitted as proof of age by the policyholders;
- (9) To certify that an applicant for insurance under non-medical schemes has been seen by him and is in apparent sound health;
- (10) To work in the area allotted to him as representative of the Corporation and perform such other duties as the Corporation may call upon him to do.

Development Officers under the proposed set-up: 6.4.15 For the quality agency force comprising of well trained capable agents rendering service at the door and operating in Blocks of families as recommended by us, a Development Officer should be able to supervise about 15 active Agents or Block Officers in the urban area. 1,300 to 2,000 Development Officers will be required for the 20,000 to 30,000 Agents or Block Officers in urban areas. In rural areas there should be a Development Officer at the headquarters of each Development

Block of the Panchayat Raj in the Country. There will be thus about 4,800 Development Officers required for effective development of the rural areas. As the population of a Development Block will be about 70,000 to 1,00,000 i.e. 14,000 to 20,000 families, it should be divided into three to four sectors for development of life business and service to policy-holders. Out of these Sectors one will be in charge of the Development Officer himself and the other Sectors under the Special Agent each. The Sector under the direct charge of the Development Officer should be carved in such a manner that he can develop and service it fully besides supervising the work of the three Special Agents working in the Development Block.

6.4.16 The present cadre of Development Officers should be fully geared up by further training, if necessary, for intensive development of life insurance both in the urban and rural areas. We estimate that the total development force required will be about 6,500. The remaining Development Officers should be profitably utilised by Rural Development Wing recommended by us in Chapter IX.

6.4.17 An Agent posted in urban areas will have in his Block a potential of Rs. 30 to 50 lacs among his 1,000 families. Therefore, 15

Development
Officer's
cost:

Agents will mean Rs. 450 lacs to Rs. 750 lacs business or an annual premium income of Rs. 18 lacs to Rs. 30 lacs. To start with, if the Development Officer is able to develop in his area a new premium income of Rs. 2 lacs to Rs. 3 lacs in the first year, an annual cost on the Development Officer of Rs. 12,000 will give a cost ratio of 4% to 6%. This will be in contrast to the present high level of 28% first year's cost ratio for Development Officers. This low cost ratio will fall further in future as the new premium income through each of his Block Agents increases. It will also be observed that the Development Officers' cost will no longer be fully allocated to the first year's cost inasmuch as, under the new dispensation he is expected to and will have to supervise and control the service to policyholders by his Agents. For this purpose he will be provided with an audit team of 2 or 3 Assistants. The cost of audit staff of about Rs. 15,000 per Development Officer should be allocated to renewal costs and will hardly amount to 1/2 to 1%. Thus the objective of 10% cost ratio for the Development Officer as recommended by us in Chapter III Section 5, is not difficult to achieve.

3.4.13 In the rural areas a Development Officer will be incharge of a Development Block

with about 20,000 families. There will be 3 Special Agents with 70 to 75 Sub-Agents under them and 5 to 10 Agents working directly under the Development Officer. The total potential of business for each Development Officer will, therefore, be Rs. 2 crores and his premium potential around Rs. 8 lacs. To start with, if he develops in his area new premium income of Rs. 1 lakh, his cost of Rs. 12,000 will mean about 12%, First Year's cost ratio. The Development Officer in the rural areas also will be assisted by an audit team of 2 or 3 Assistants referred to in the preceding paragraph, cost of which will be allocated to the renewal costs.

CHAPTER VII - L.I.C. AND COMPUTERS

CHAPTER VII - L.I.C. AND COMPUTERSMachines used
by Corporation

7.1 The Corporation has been using Punch Card Machinery in its various Divisional Offices for accounting purposes ever since its inception. This type of machinery was already in use by the big erstwhile insurers.

7.2 In August 1963 the Corporation decided to install computers in its Divisional Offices at Bombay and Calcutta. While the Computer for the Bombay Divisional Office has already been installed and commissioned, the Computer at the Calcutta Divisional Office has not yet been installed. The Computer at Bombay is not yet utilised to capacity as only a small percentage of the policies of the Division have been computerised so far and that too only for some of the first priority jobs.

Employees'
opposition
to Computeri-
sation

7.3 The representatives of the All India Insurance Employees' Association at the Central, Zonal, Divisional and Branch Levels were vehemently opposed to the installation of electronic Computers by the Corporation. The Computers are part of the machines used by the Corporation and we would not normally have considered them as coming under our terms of reference. However, we cannot

afford to ignore the impact of the Computers on the Administration especially when the question has been prominently put before us and the Corporation's views are strongly in favour of computerisation. We, have, therefore, thought it fit to express our views on the subject without going into detailed arguments on this issue.

7.4 On a careful perusal of the evidence before us, it seems that the reliance of the Employees' Association on the Tripartite Agreement entitling them to previous consultation by the Corporation on the question of installation of computers is right and the insistence of the Corporation to the contrary is not correct. Without, however, resorting to a legalistic interpretation of the Tripartite Agreement the Corporation should, in our opinion, have adopted a more conciliatory attitude and carried the employees with it rather than aggravate its personnel problems and those of the country and the Government by taking too rigid a view on this subject. In this connection it should be noted that in their Memorandum submitted to the Standing

Labour Committee by the All-India Trade Union Congress as early as on the 18th July, 1968, they have stated, "...it has been repeatedly stressed that organised labour is not opposed to technological progress." In the paper prepared by the Ministry of Labour & Employment presented to the Standing Labour Committee at that meeting it was stated as follows:-

"Technological advance itself will prove self-defeating unless it is made consistent with and ensures the social good of the community, a principle which has been evolved by the Indian Labour Conference and adopted by the Government as a policy. During the tripartite discussions two other principles have also been accepted, that there should be no retrenchment or loss of earnings and there should be close consultation with the employees at all stages."

Our recommendations - 7.5 We see from the above that the views

of the Labour and the Government are not altogether divergent but are in the direction of convergence. Therefore, there should be no difficulty for the Government or the Corporation coming into contact with the Trade Union and discussing these problems with a view to arriving at a settlement without any loss of prestige. We, therefore, recommend that any further steps regarding the computer

should be taken only after consultation with the employees. In the same spirit, the utilisation of the two computers - one which has already been installed in Bombay and the other which is to be installed at Calcutta - can be discussed by the Corporation with the Employees' Union and some solution arrived at. But one thing must be noted, that is, the principle adopted by the Government that there must be close consultation at every stage, should be followed by the Corporation. If this is done, we believe there should not be any great trouble.

7.6. In view of the recommendations made by us already regarding decentralisation of the powers and functions of the Corporation to the Branch Offices which will, in effect, be functioning like satellite insurance companies, we do not consider that computerisation is an urgent necessity. Under our scheme of reorganisation the Divisional Offices will have to make full utilisation of the Punch Card Machinery already in use at these Offices.

CHAPTER VIII - PLANNING OF BUSINESS

Need for Planning

8.1. Any business organisation to be successful has to plan its future activities. Planning includes estimating and projecting into the future the sales of its wares in the market. Based on this the organisation will make its detailed planning as regards its plant and machinery, its sales organisation and its other requirements. If the organisation works without plans it is bargaining for unexpected profits and losses which can land the organisation into difficulties. If there is success it may be short-lived and achieved because it is working in a sellers' market or because of fortuitous circumstances.

Recommendations of the Parliamentary Committees.

8.2. The Estimates Committee recommended that future targets should be based upon collection of statistics of potential business through Field Officers by means of properly devised proforma. On this subject the Committee on Public Undertakings stated as under:-

"In the Committee's view drawing up of a suitable plan by the Corporation is absolutely essential for a proper and purposeful development of its business. They, therefore, hope that the Corporation would draw up a Five Year Plan of development of its business commencing from the 1st April, 1965"

"It was the declared objective of the

Corporation to spread insurance as widely as possible and in particular to rural areas. The Committee would, therefore, strongly urge that the Corporation should lay much more emphasis on popularising insurance in rural areas than they do today."

"The Committee feel that the fixation of targets for rural areas is a sine qua non for spreading rural business and the Corporation should do it in the future years."

8.3 The recommendations of the Committee on Public Undertakings were accepted by Government. In a further reply dated 4th February, 1967 the Government stated that action was being taken to fix separate targets for rural and urban areas while drawing up the Corporation's five years plan. It is regrettable that neither the five-year plan has been drawn up nor any targets for new business for rural areas fixed. The Corporation, however, understands (from whom and how it is not clear) that about 30% of the new business envisaged in the annual targets would be derived from rural areas. The approach of the Corporation to new business targets and especially so in the rural areas is passive and unfortunate.

8.4 At present the Corporation fixes its annual targets on the basis of new business prospects within each

Fixation
of Annual
targets by
Corporation

Branch by taking into account past sales performance and the capacity of the Branch to improve upon it. Planning, therefore, is confined to determining a percentage increase on the last year's performance by the Divisional Office, the Branch Office and the Development Officers. Divisional Manager, the Branch Manager and the Development Officers do their own planning by rule of thumb method and try to achieve the maximum possible results by employing at times high pressure salesmanship.

Periodical Conferences are held at all levels starting from Development Officers and ending with Zonal Managers to review inter alia the progress of business. The swan song at all these Conferences in relation to development of business is to improve upon the record of business done in the previous year. The brief which the Divisional Managers and Zonal Managers generally carry at such Conferences is the one given to them by Branch Managers and their Development Officers. So the main part in the drama is played by these two classes of officers who are familiar with the trend of business because of their

being in constant touch with the operations in the field.

8.5 It would, therefore, be obvious that the year's targets by the Corporation do not bear any direct or indirect relation to the potential for life business which the Corporation as a whole should attempt to reach. This is because past performance is the only guide and if that past performance has not been as successful as it should have been, the future targets will be under-estimates of the task before the Corporation. These observations apply all along the line from the Development Officer to the Divisional Office inasmuch as these targets are based on the same unscientific basis.

8.6 It appears to us that the Corporation's Officers, the Development Officers and the Agent do not have before them clearly defined objectives. There is also absence of sector-wise planning spelling out the targets to be achieved within a sector in a given period of time based on the potentiality of that sector. Although in theory, in the rural areas sectorwise development of business is stated to be operating, in practice this is

nullified inasmuch as the jurisdiction of the Agent is not confined to a particular territory and the Agent has freedom to canvass life business anywhere in the country.

8.7 Planning of business pre-supposes planning the Agency Force possessing the necessary qualities. The recruitment of Agents is done indiscriminately and the Development Officer appears to have the final say in the matter. The indiscriminate appointment of Agents without regard to quality leads to heavy casualties among the Agency Force thus disorganising the business plans.

8.8. Planning of business also demands extensive random sample surveys to assess the needs of life insurance by the public. It is only then that new techniques of meeting the needs of the public can be developed and the targets of business can be fixed in terms of what is required by various sections of the community. At present there are no such sample studies upon which the Corporation can base its future plans.

8.9 To our question whether the Corporation has any Research Division to ascertain the insurance potential in the various parts of the country and, if not whether the Corporation considers it desirable to start such a Division, the Corporation has replied that it has set up a "small Research Section in the Development Department at the Central Office, which is expected, inter-alia, to undertake studies and investigations bearing on the potential of life insurance in different areas." It will thus be noted that even after more than twelve years the Corporation has no full-fledged Research Division to study the insurance potential in the country.

Research
Division

8.10 The Corporation has made the following observations on the problem of estimation of life insurance potential:-

Corporation's
observations
on estimation
of life
insurance
potential.

- (a) Potential for life insurance means the maximum quantum of savings which can be directed into life insurance, given the most effective sales effort.

- (b) It is necessary to guess whether and to what extent the proportion of savings invested in financial assets and the proportion of new financial assets represented by life insurance premiums could be increased.
- (c) Estimates of ultimate potential are of limited usefulness in planning the targets by which such potential could be tapped. At best it provides an idea of the order of magnitude of the new business targets and it may also help to locate areas in which investment of resources may prove relatively more fruitful.
- (d) Estimates of potential will have to be obtained separately for each representative region. This would involve sampling on an extensive scale and the heavy cost of surveys is not likely to be commensurate with their practical utility.
- (e) At present the pace and growth of life insurance in this country is determined less by the extent of untapped potential than by the size

and capacity of the available agency force and the possibility of increasing them and this position is likely to continue for some time.

- (f) Figures of national income or the savings of the household sector or the part of such savings which is directed into financial assets may serve as an appropriate basis for external forecasting provided forecast of the trend of the basic series become available. The overall targets have to be then broken up according to the relative potential of various areas. This is based on some general index reflecting the importance of various areas. No such index is available in India.

8.11 The above observations reveal that the Corporation's approach to the basic problem of ascertaining the insurance potential is not business-like. In our opinion, research should be given the importance that it deserves. The problem of estimation of life insurance potential has necessarily to be tackled by the Corporation's Research

Department. It will also be noted that the Corporation has not thought of estimating the insurance potential by conducting direct sample surveys amongst the families in the country with the help of its large Development Staff and has been thinking in terms of estimates based on data collected by other institutions and agencies. The observation at (e) is significant and an admission by the Corporation, though indirectly, of the fact that the untapped potential is great for the growth of business but the limiting factor is the size and capacity of the Agency Force and the possibility of increasing it and that this position is likely to continue for some time. We have separately recommended the re-organisation of the Agency force and we hope that this will no longer be a limiting factor in the growth of life insurance in this country.

Creation
of Research
Department.

8.12 We recommend the Corporation should create a very well organised Research

Department to conduct random sample studies among the families in the country and among its policyholders. The study should be with

a view to finding out what adjustments to
make in different life coverages, to determine
the objective targets for new business, to
fashion appropriate methods of procurement
and conservation of life business, to
determine the appropriate type of Agency Force
which the Corporation should have for different
types of areas, etc. The Corporation has a
large Development Staff at its disposal and
is ideally placed for conducting such random
sample studies of a very large number of
families in the country. The Corporation could
have conducted a study based on a sample of 1
to 2 million families if only each Agent had
interviewed 10 to 20 families. In fact, with
its vast Agency Force the Corporation could
become the research laboratory for investi-
gation of many economic problems of the nation.
The collected data could be thoroughly
analysed to yield important and revealing
results.

8.13 We recommend that the Corporation
should be vested with Statutory powers to
conduct its surveys regarding potential
of life business in the country which
will inter alia include the size of each

Corporation
to have
statutory
powers for
surveys.

family, its various sources of income,
its expenditure on important items,
net income, investments whether in
financial or physical assets, etc.

8.14 The present method of fixing targets is based more on the Development Officer's effectiveness, his qualities and performance in the past years, irrespective of the potential of the area in which the Development Officer is to operate. Besides, there appear to be no specific areas for the Development Officer in large cities. This type of planning results in multiplication of efforts concentrated on certain individuals and pockets where it is considered to yield quick results. Perhaps, with a lesser amount of effort and time if an Agent works in his own allotted area, he would produce better results. The Planning, therefore, must be based on a Block of families exclusively reserved for an Agent. Similarly, the Development Officer should be responsible for a certain number of Agents.

We, therefore, recommend that planning
of business should start with the Agent as the
base and related to the potential of his

his Block of families. With the Agent as the base the pyramid should be built up; the other tiers consisting of Development Officer, Branch and the Corporation as a whole.

8.15 The plan for the Agent will inter alia include the responsibility to find out how many families in his allotted Block are insured and the scope for selling further insurance to them. He will then plan which of the families, who have already been sold the concept of life insurance, can be tackled for further insurance in the first phase of his plan. He has also to analyse and plan how he proposes to bring the rest of the families on the books of the Corporation in the next few years for a minimum sum assured (say, Rs.5,000) per family. In respect of those families who cannot be sold even such minimum sum assured due to their low incomes, the guidelines could be provided by the Corporation's Research Department. as to how best to extend the benefit of insurance to such families.

Planning of business at all levels. 8.16 We, therefore, recommend that planning should include:

Planning for the Block Agent, or the Special Agent (in rural areas);

Planning for the Development Officer;

Planning for the Branch Office;

Planning for the Corporation as a whole.

This method which has to apply to both urban and rural business will have the following advantages:-

- (i) The Branch Office, the Development Officer and the Block Agent or the Special Agent will know the total potential available and how to tap it successfully year after year. The development of business will proceed on a planned basis throughout the year without any attempt to put in the maximum amount of business towards the end of the year to achieve the target.
- (ii) There will intensive development of every area in the country rather than uneven development of life business among certain families and pockets.

- (iii) The targets for new business will be on a scientific basis and within easy reach of every Agent.
- (iv) The Agents and Development Officers will have to explain why certain specified families are not brought on the books of the Corporation as every family will receive attention of the Agent and Development Officer.

CHAPTER IX

L.I.C. AND RURAL DEVELOPMENT

Nationalisa- 9.1 Nationalisation of Life Insurance was
tion a mile-
stone towards conceived in a genuine spirit of service to the
the goal of
socialistic people and to achieve our goal of a socialistic
pattern of pattern of society. Therefore, about the role
society. of the nationalised Corporation in rural develop-
ment, it would be relevant to quote from the then
Finance Minister's broadcast speech on the 19th
January 1956:-

"The nationalisation of life insurance will be another milestone on the road the country has chosen in order to reach its goal of a socialistic pattern of society. In the implementation of the Second Five Year Plan, it is bound to give material assistance, into the lives of millions in the rural areas it will introduce a new sense of awareness of building for the future in the spirit of calm confidence which insurance alone can give. It is a measure conceived in a genuine spirit of service to the people. It will be for the people to respond, confound the doubters and make it a resounding success."

Rural Develop- 9.2 The Corporation, "considers" that rural
ment Corporation's
difficulties. development will undoubtedly raise savings
and standards of living of the rural population
and incidentally lead to an increase of the
potential for life insurance in rural areas.
The difficulties cited by the Corporation in
its active assistance towards rural develop-
ment are, however, as under:-

- (1) Agricultural credit requires a great deal of specialised expertise.
- (2) Local knowledge is required to assess credit-worthiness and productive potential of the borrowers and their prospects for securing timely access to the various in-puts necessary for crop production.
- (3) Two-thirds of the cultivators have holdings of less than 5 acres and, therefore, their ability to use borrowed funds for productive purposes is doubtful.
- (4) Easy credit might increase the burden of indebtedness.
- (5) Rural credit is a specialised field and the Corporation does not possess the expertise.
- (6) There should be security for investment and good net return.
- (7) The Corporation is already contributing to rural development through Land Mortgage Banks, Electricity Boards, loans to Co-operative Sugar Factories, assistance to financial Corporations and subscription to central and State Government loans.
- (8) Rural housing is a problem of colossal dimensions and is a specialised field of activity.
- (9) There is no special advantage in setting up a Rural Development Corporation either as an independent organisation or as a separate wing of the Corporation. Furthermore, there would be no particular advantage in limiting the scope of such an institution only to the policyholders.

9.3 In our view, however, if the Corporation has to penetrate into the remotest corners of

the country for spreading the message of insurance it will be necessary to present its right image to the rural population. The rural people are not in a position to know or realise the part played by the Corporation in rural development, if the Corporation's funds are routed through the organisations mentioned by the Corporation. Moneys advanced through the Land Mortgage Banks, Electricity Boards, Government loans, etc., are not known to the rural population. Direct investments by the Corporation by the establishment of a separate Wing of the Corporation will enable the rural people to identify and appreciate the role of the Corporation and will enthuse them to invest their savings whether by way of life insurance premium and/or deposits with the Life Insurance Corporation. This will have a big impact on the development of the Corporation's life business in rural areas. To the extent the Corporation can provide necessary capital to individual farmers for development of their farms so as to make

them risk-proof from vagaries of nature. the Corporation will be contributing to the economic growth and prosperity of the country by providing stability to agricultural production. Insurance Companies in foreign countries, particularly in U.S.A. have played a big part in the development of agriculture. The investments of "Metropolitan Life" (U.S.A.) alone in mortgage loans on farms aggregate \$594 millions.

9.4 The national economy needs massive Capital needs for agriculture doses of capital. The capital programme for the agriculture and irrigation in our country is as large that for industry and mining. It is estimated that 75 million acres of land is irrigated and yet this 75 million acres of land is not so fully irrigated as to make it risk proof and thus to yield optimum production. In 1964-65 the area sown more than once was 49.9 million acres and net area irrigated was 64.7 million acres and it could not be that all that was sown more than once was

fully irrigated. Even from the point of view of irrigation, therefore, if 75 million acres are to be fully irrigated and developed to make it risk proof and raise 2 1/2-3 crops on such land, it will require a large capital outlay. At the rate of Rs.1,000 per acre, the programme to raise optimum production from 75 million acres will require a capital outlay of Rs.7,500 crores. In view of the limited resources, such a programme can be implemented only in phases. In the first phase, only such farms should be tackled which can be developed at minimum capital cost to yield the largest return and in subsequent phases those more costly to harness may be tackled.

Rural Housing

9.5 The problem of Rural housing is of colossal dimensions as according to the estimates available 63 million new houses are required in the villages which would mean an outlay of nearly Rs. 10,000 crores. It would be impossible for any single agency to undertake this colossal task, and in this great national effort the Corporation should play its role. There should be no insuperable difficulty for the Corporation to gear up its organisation and help the development of rural housing under a phased programme over

a decade. Investments in rural housing by the Corporation will have a big impact on the development of rural business.

9.6 A capital programme of this magnitude for the rural sector will depend largely on the generation and canalisation of the savings of the rural sector itself. We consider that the Life Insurance Corporation is perhaps the only organisation suited for achieving this objective. This objective can be achieved only if by its performance the Corporation is able to convince the rural population that all such savings are being harnessed for their benefit only. We recommend that the Corporation should introduce schemes for Farm Loans and Rural Housing so that the rural population is able to identify and appreciate the Corporation's role in rural development thereby making life insurance purposeful, attractive and popular in the villages.

9.7 The national income in 1964-65 from agriculture was Rs. 10,000 crores. Even after allowing for the drought

Mobilisation of additional rural incomes by deposits on attractive terms.

conditions in the succeeding two years, namely, 1965-66 and 1966-67, agricultural incomes have gone up substantially in 1967-68 on account of the bumper crops. On a conservative estimate it seems to us that at least Rs.2,000 crores of additional gross income should have accrued in the agricultural sector during 1967-68. This additional agricultural income of Rs.2,000crores could have been effectively tapped by the Savings Organisations. Life insurance schemes of the Corporation with provisions for attracting deposits over and above the regular payment of premiums could have gone a long way in mopping up a substantial part of the extra agricultural earnings at least of the richer sections of the agriculturists during the year 1967-68. Even if fifty per cent of it were mobilised by the Corporation it would have done a great service to the national economy. Mobilisation of savings of this order would have made a tremendous impact on the national economy in general and on agriculture in particular. With the service

recommended, life insurance should be an effective medium for mopping up the surplus incomes in the rural sector.

In Chapter III Section 1, while dealing with the special characteristics of the agricultural sector we have recommended a system of deposits being received by the Corporation from the policyholders at harvest time on an attractive rate of interest. The rural policy will have built-in advantages for the farmer such as borrowing facilities for productive purposes equal to 'n' times his deposit ('n' having defined values) with suitable security. At the time of a good harvest the Corporation should be able to mobilise savings of the order of Rs. 500 crores to Rs.1,000 crores.

9.8 For rural development including rural housing, we would recommend the formation of a Rural development Wing in the Life Insurance Corporation. The Wing should be headed by an Executive Director of the Corporation-Member of the Board of Directors. The difficulties

Rural Development Wing.

cited by the Corporation in regard to its active assistance towards rural development which we have mentioned in paragraph 9.2 are, in our view, not insurmountable. The Wing should have its own field staff to survey the farms and supervise the utilisation of credit as well as providing timely technical guidance to the farmers. Further, the field staff should consist of agricultural graduates specially trained in processing credit proposals received from the agriculturists by conducting on the spot inspection of the farms. Besides, the Special Agent of the Corporation in the rural areas and the Development Officer will have local knowledge to assess the credit-worthiness of each borrower and their prospects in securing timely access to the various inputs necessary for agricultural production. The farm loans will necessarily have to be given for compact and viable holdings to eliminate risks. The security of the land, the farmer's own deposits with the Corporation referred to by us in Chapter III - Section I and the life insurance policies held by him should make the loan secure and at the same time enable the

Corporation to earn a good return on farm loans. To begin with, the Corporation should deal with medium term and long term loans to agriculturists for purposes of land improvements like sinking of tube-wells, clearing of jungles, land reclamation, construction of irrigation and drainage channels, fencing etc., and purchase of agricultural machinery, namely, irrigation pump sets, power sprayers, power tillers, tractors, etc. The agricultural credit should be covered by mortgage of properties and/or hypothecation of agricultural machinery and further security in the form of life insurance policies as under the O.Y.H. Scheme of the Corporation.

9.9 In Chapter III - Section 6 - we have recommended that the Corporation should invest 25% of its investible funds every year for rural development. Besides, the Corporation will be able to mobilise rural savings of several hundred crores by means of deposits at attractive rates of interest. The Corporation will thus have huge resources for rural development in a very effective manner.

Funds for
Rural
Development

Ushering 9.10 The formation of the Rural Development
in era of
prosperity Wing of the Life Insurance Corporation will

usher in a new era of prosperity in the agricultural sector by increasing the productivity of the agriculturists and thus reducing our dependence on imports. The generation of higher agricultural incomes will automatically enhance the potential for development of life insurance in rural areas and effectively mobilise rural savings for national development. The recent entry of the commercial banks in the field of agricultural financing should not be advanced as an argument against the Corporation's entry in this field. For a dynamic and vigorous development of agricultural production, competing agencies should be an advantage rather than a disadvantage for achieving the objective and a nationalised agency is, in our opinion, better equipped to do so. The message of life insurance will be writ large in every village in the country on account of the rapid strides in development of agriculture through the agency of the

Rural Development Wing of the Corporation.

9.11 The Rural Development Wing Wing's separate
should have its own Budget & Accounts Budget & Accounts
including profit and loss account so
that its operations and achievements
are known widely thereby furthering
the growth of life business.

CHAPTER X

GENERAL INSURANCE BUSINESS

Introduction

10.1. - We have to make it clear at the outset that as Mr. B.K. Shah, a Member of the Group, is interested in General Insurance business in his capacity as the Managing Director of the New India Assurance Company Limited, he did not take any part in the discussions of the Group with regard to General Insurance business of the Corporation. The following analysis, comments and conclusions are, therefore, those of the remaining three members of the Group only and Mr. B.K. Shah is not associated with them.

General Insurance Business

10.2. The Corporation commenced General Insurance business from 1st April, 1964. In the beginning, the administrative work relating to Underwriting and Claims of General Insurance business was confined to 19 Divisional Offices only. Subsequently, however, the work was decentralised to all the 36 Divisional Offices of the Corporation. The Corporation's Branch Offices are authorised to issue cover notes (or insurance certificates) in respect of Fire, Motor and Miscellaneous business. Specialised classes of business like Marine Hull, Aviation Hull, Guarantee,

etc., are handled by the Central Office.

10.3 From 1st January 1966 in accordance with the directive issued by the Government of India, the insurance of properties or goods under the direct or indirect control of Government is required to be placed with the Corporation only. A special discount of 15% in respect of Fire and Miscellaneous and 10% in respect of Marine is to be allowed for all such risks under the control of Government.

Insurance of properties controlled by Government

10.4 The General Insurance business written by the Corporation from public and private sectors during the last three years has been as follows:-

Progress of General Insurance

Year	<u>Gross Premium income (in lakhs of rupees)</u>	
	<u>From Public Sector</u>	<u>From Private Sector</u>
1964-65	Negligible	46.52
1965-66	157.18	99.88
1966-67	544.89	154.78

10.5 It would be observed from the above that out of the premium income of about Rs. 7 crores 78% pertains to public sector which business comes to the Corporation automatically under the Government.

78% business of Public Sector

directive and involves no sales efforts and very little expenses.

Transfer of General Business to O.F.&G. Ltd. 10.6 The Corporation's subsidiary, the Oriental Fire and General Insurance Company Limited, has been operating in the General Insurance field since the inception of the Corporation. Even after the Corporation started general insurance business in 1964, the "Oriental" has continued to operate in general insurance business as a separate organisation competing with the Corporation as well as the other private sector companies. In our opinion, there is not much point in the Corporation transacting general insurance business also, especially so, when its performance in the life insurance field is far from satisfactory. The duplication of effort in general insurance by the Corporation and its subsidiary is apparently wasteful. Secondly, we feel that the Corporation's energies are being frittered away on trying to attract a small volume of general insurance premium from the private sector, when these should have

been concentrated on the far more important objective of channelising the national savings of the order of Rs.1,000 crores annually into the development of the nationaleconomy through a more efficient organisation of life insurance business.

We are of the opinion that the Corporation must concentrate on the more important national task of developing life business only and recommend the transfer of the Corporation's General Insurance business to the Oriental Fire and General Insurance Company Limited.

CHAPTER XI

FOREIGN BUSINESS

Foreign countries in which Corporation operates. In the pre-nationalisation period, many of the Indian insurers were transacting life insurance business outside India. With the nationalisation of life insurance business in India, the Corporation took over the foreign life insurance business of Indian insurers, and continued to transact new life business in some of the countries where the Corporation was able to register itself as an insurer under the local laws. Some years back the Corporation commenced to write life business in Aden and U.K. The Corporation now transacts new business in Aden, Fiji, Hongkong, Kenya, Malaysia, Mauritius, Singapore, Uganda and the United Kingdom. The Corporation is not transacting new business in Tanzania since February 1967 owing to nationalisation of insurance in that country. The Corporation has stated that there is no proposal at present to start life business in any other foreign territory.

11.2 The progress of the Corporation's new life business in foreign countries is as follows:-

New foreign business of the Corporation.

Year	New Business sum assured Rs. crores.
1962-63 (for 15 months)	11.24
1963-64	10.21
1964-65	11.05
1965-66	8.50
1966-67	12.33*

* The substantial increase is due to the devaluation of Indian rupee in terms of foreign currency.

It would seem that in terms of foreign currency, the new business in 1966-67 was a little less than in 1965-66. The number of new policies issued in 1966-67 was 5,887 as compared to 6,445 in 1965-66.

This table shows that the Corporation's life business in foreign countries has not shown any progress.

11.3 The Corporation has stated that taking into account the bonuses

Subsidy to foreign business.

declared by it in respect of With-Profit policies the foreign business of the Corporation cannot be regarded as self-supporting in any of the foreign territories where it is operating. The subsidy by Indian business of the Corporation to the foreign business is estimated by the Corporation at about 9% of the premium income in the foreign territories, i.e. a subsidy of about Rs.50 lacs annually.

11.4 We find that the Corporation has earned a rate of interest of 4.62% on its foreign investments, as compared to a rate of 5.22% on its investments in India. This difference in yield would account for some of the subsidy. Other reasons may be that the rates of premium in foreign countries are lower than in India and the cost of management of foreign business might be higher than that in India. The Corporation has not indicated to us the reasons why the subsidy is necessary and whether it is going to be a permanent feature or not.

11.5 We are not impressed by the progress of the Corporation's new Life business in foreign countries.

Conclusion and recommendation.

The subsidising of the foreign business is against the interests of the Indian policyholders. Further, it is also against our national interests as it involves a drain on the country's foreign exchange resources. We would, therefore, recommend that the Corporation should devise ways and means of making the foreign business self-supporting by (i) earning a higher rate of interest on its foreign investments; (ii) cutting down its Management cost on foreign business; and (iii) developing foreign Life business more intensively and stepping it up substantially. In our view, the Corporation should make the business self-supporting to write new foreign business as we cannot afford to subsidise it permanently.

within the next three years at the most or else cease

CHAPTER XII

PUBLICITY AND PUBLIC RELATIONS

CHAPTER XII - PUBLICITY AND PUBLIC RELATIONSNeed for
Publicity

12.1 In a country like India, where the concept of Life insurance is not widely known and there is a lack of appreciation of what life insurance can do for the individual and the country, there is a great need for publicity by the Corporation. The best form of publicity is a satisfied client. Prompt settlement of claims gives the type of publicity which cannot be obtained by any other method.

Corpora-
tion's
expenditure
on Publicity

12.2 The Corporation spends annually a sum of Rs.34 to 40 lacs on publicity. More than one quarter of this amount goes on press publicity. In our opinion, the approach of the Corporation to the question of publicity lacks imagination. In India, the usual passive methods of publicity like advertisements in newspapers and leaflets explaining various plans of life insurance have to be supplemented by other methods, particularly audio-visual methods like films and radio. The Agent who gives efficient service is the best person to publicise life insurance. His efforts have, however, to be supplemented by other types of publicity.

Our
recommenda-
tions.

12.3 We recommend the Corporation to take the following steps:

(1) The Corporation's budget on film publicity should be increased. Films should be made to bring out the benefits provided by life insurance. Such films should be shown along with other films on topics like religious festivals, or educational films on farming, irrigation, use of fertilisers, etc. The idea should be to show how the people can improve their surroundings, better their life, and then bring in the part that life insurance plays in this. This type of publicity is aimed at creating a fertile ground to receive what the Agent has to say about life insurance when he calls on the family. Films shown in each area must take into account local customs and feelings.

(2) The Corporation should utilise fully the advertising facilities now available on the radio. This publicity would reach the rural areas.

(3) The Corporation should publicise the contribution made by it towards the improvement of the rural areas in particular. For this purpose, wherever possible, the name and symbol of the Corporation should be shown

prominently on projects completed with the aid of funds supplied by the Corporation e.g., housing projects, electrification projects, etc. Such concrete instances would make the people appreciate that the savings are used for their benefit.

(4) The Corporation should publish booklets on various matters which are of great importance to the public, e.g., health, diseases and how to prevent them, career and education, farming, and so on. While these are not directly concerned with life insurance, they will generate tremendous goodwill for the Corporation and its Agents.

Public Relations Committee.

12.4 The Corporation has at present a Public Relations Committee consisting of the Members of the Board of Directors. We are not clear as to what functions are performed by this Committee. There is no association of the Policyholders or the Public with this Committee.

Appointment of a Public Relations Officer at each Branch.

12.5 In our opinion, the best relations with the public are established when the public is made to feel that the Corporation is for their benefit and is not a soulless body. We recommend that there should be a Public Relations Officer at each Branch Office.

to attend to the policyholders who call at
the Office with their complaints and problems.
This Officer may have other functions as well,
but nobody should leave the Corporation's
Branch Office with a feeling that his
complaints were not looked into by a
responsible Officer.

CHAPTER XIII

MISCELLANEOUS

Capital of the Corporation 13.1. The capital of the Corporation is Rs.5 crores provided by Government under Section 5 of the Life Insurance Corporation Act, 1956. While sub-section (1) of Section 5 of the Act stipulates ".....and the terms and conditions relating to the provision of such capital shall be such as may be determined by the Central Government", the Central Government have not so far prescribed any terms and conditions in regard to the provision of capital to the Corporation. This should be done early to satisfy the requirements of the Act.

Actuarial surplus under Section 28 Government to get dividend of one per cent above Bank Rate. 13.2. Section 28 of the Act provides for utilisation of the surplus from Life Insurance business. Under this section 95% of the actuarial surplus under section 26 or such higher percentage thereof as the Central Government may approve is to be allocated to or reserved for the Corporation's life insurance Policyholders and after meeting the Corporation's liabilities under Section 9, if any, the remainder is to be paid to the Central Government or if the Government so directs be utilised for such purposes and in such manner as Government may determine. It would be relevant to mention that on a capital

of Rs.5 crores provided to the Corporation. The Government has been allocated the sum of Rs.3.61 crores from the surplus disclosed for the last inter-valuation period of 2 years. This represents a return of 36% per annum on the capital. The return will go on increasing with the growth of business and may go up to 100% in the not very distant future. The Corporation has accumulated Life Fund of the order of Rs.1,124 crores and the Government have guaranteed the payment of the sums assured and the bonuses declared on the Corporation's policies under Section 37 of the Life Insurance Corporation Act, 1956. In our views, therefore, the Corporation does not need a capital of Rs.5 crores from Government for extending security to the policyholders. The capital provided by Government is absolutely secure and is not in the nature of risk capital. The allocation of such enormous amount from out of the actuarial surplus to Government by way of dividend is, therefore, unjustified.

We recommend that the Government should get a dividend equal to one per cent above the Bank Rate and the balance of the actuarial surplus should constitute a special reserve to be used by the Corporation for its pioneering activities such as mobilisation of rural savings, Investment in the Rural areas for building up Risk-Proof farms, promotion of health of policyholders etc.

Providing Life Insurance to Armed Forces in Border Areas 13.3 During evidence there was a demand for the development of life insurance in the border areas particularly for the benefit of our Armed Forces stationed there. On account of security restrictions it is not possible for any Agent to visit these areas. We recommend that Government should make adequate Agency arrangements for providing life insurance to our Armed Forces personnel who are defending the borders. We would also recommend that Government should permit Welfare Associations of the Armed Forces to function as Agents of the Corporation so that the commission on life business developed in the border areas is spent on the welfare of our Jawans.

Publication of monthly figures of Corporation's business. 13.4 The Corporation has no general practice of submitting to the Government monthly or quarterly reports as such and the Chairman

writes at a personal level to the Secretary to the Government, Department of Revenue and Insurance periodically to keep Government informed about matters of special interest.

Since the Corporation's working vitally affects the policyholders, we recommend that the Corporation's performance should be publicised every month for the benefit of the general public.

13.5 Some of our recommendations particularly those relating to the constitution of the Corporation (Board of Directors), Zonal Offices, utilisation of surplus from Life Insurance business, investments, Standing Tribunal, General Council and Services Commission, statutory authority for collection of data by sample surveys, etc., will require amendments to the Life Insurance Act, 1956. Similarly, our recommendations regarding the Special Agents and Agency Commission will require amendments to the Insurance Act, 1938. There may also be other consequential amendments necessary in these two statutes. We recommend that Government should give priority to the legislative amendments that may be required for implementing our recommendations promptly.

Legislative Measures

CHAPTER XIV

EPILOGUE

14.1 We have finished our work; it was complex but interesting. It has given us satisfaction that we have been able to make recommendations giving a new face to the Life Insurance Corporation of India. It should no longer be a mere replica of bureaucracy; it would be a joint venture of the Board, Officers, the Staff and the Policyholders and Agents put together. In fact, the Policyholder with whose money this gigantic organisation is functioning has so far been given no respectable voice in the policy making; the Policyholder has been kept too much in the background even as is done in the case of a minor proprietor. On the implementation of our re-organisation proposals, the Policyholder will come of age, have a place in the Board and possess complete security. Officers of all classes, Policyholders and Agents will have a new sense of belonging and a fairly effective voice in the shaping of the Corporation's policies. We have suggested that creation of a General Council which on a democratic basis will give them good opportunities.

for exchange of opinions from time to time and for reshaping programmes in accordance with growing needs of the Corporation. Besides, we have suggested a high level Tribunal, easy of approach to all those who have a grievance to be redressed. No one will go home with a feeling of frustration that his case has not been heard.

14.2 On the development side we have suggested an Agency Force that will be in close and constant touch with every village and hamlet and every sector in urban areas and a Development Force with the aid of Special Agents that will be in greater touch with the Agency Force to activise and co-ordinate their activities and will carry the message of Life Insurance to every nook and corner of the country and will offer officer after-sales service at the door of the policyholder. We have suggested a separate wing of the new concept of life insurance that it is not

merely a measure of cover in case of risk but it is an immeasurable means of mobilising nation's savings for the benefit of the masses of this country and strengthening the rural base of nation's economy. Our suggestions regarding investment policy are meant to implement this idea. Life insurance run on sound business principles by a Corporation that treats itself as the Trustee of the Policyholder, quality business, larger life fund, higher yields, on investments, lower lapsations, lower premium rates, quicker servicing and lower expense ratios will replace the present dismal picture.

14.3 We have suggested the maximum amount of decentralisation as it has been realised at all levels that decentralisation is the only potent remedy that will cure most of the ills that beset Life Insurance at present. The Branch of the future will no longer be a Branch of today. It will be a Head Office itself for all practical purposes, fulfilling the functions which a Head Office fulfils. The Divisional Offices will gain in stature as there will be no more Zonal Offices.

be coordinating the work and see to the implementation of the policies of the Corporation. The Central Board at Bombay as reconstituted will formulate policies in consultation with the General Council.

14.4 Here, therefore, will be a Corporation extending its vigilant eye and benevolent care throughout the length and breadth of India. Here will be a band of efficient Officers that will work out the objectives of life insurance to serve national ends. Here will be well satisfied employees recruited by a Services Commission acting as the eyes and ears of the Corporation. Here will be an Agency Force that will act as the king-pin of the whole structure carrying the message of Life insurance and service at the doors of the Policyholders. Here will be Policyholders who will have the satisfaction that their money is not merely giving benefit to themselves or their own families but is utilised to move the wheels of modern industry on the one hand and to rural development on the

other. Here will be an organisation with its parts knit together by bonds of mutual accord and goodwill, each wing of it responding to the call of the other and guiding itself by its own voice and authority derived from mutual consultation going forward along the way shown by the light of experience.

14.5 Our endeavour has been to create a machinery that will enable the fulfilment of the hopes raised in the minds of the people of this vast country, that nationalised Life Insurance does mean an effort on a national scale to supplement the efforts of a democratic Government based on a socialistic pattern to translate into action the Directive Principles enshrined in the Constitution. If after a few years we find that the Life Insurance Corporation has advanced in this direction it would give the greatest satisfaction to us wherever we may be.

CHAPTER XV

SUMMARY OF CONCLUSIONS AND RECOMMENDATIONS

CHAPTER XV - SUMMARY OF CONCLUSIONS AND RECOMMENDATIONSCHAPTER II - NATIONALISATION OF LIFE INSURANCE AND ITS OBJECTIVES.

15.1 Prior to nationalisation, no serious efforts were being made by companies engaged in life insurance business to develop it intensively with the result that life insurance touched only the fringe of the community and its immense benefits to the family, the society and the country remained unknown to large sections of the people. (2.1)

15.2 One of the main objectives of planned development was to build up rapidly a Welfare State and it was, therefore, essential that the benefits of life insurance should be made available to every family in the country and that life insurance should be conducted with the utmost economy by the management acting in a spirit of trusteeship and canalising the life funds into the country's development programmes. (2.1)

15.3 The objectives of nationalisation as contained in the Statement of Objects & Reasons of the Life Insurance Corporation Bill, 1956 and as defined in the Finance Minister's speeches were:-

- 1) Spread of message of life insurance as far and as wide as possible reaching out beyond the more advanced urban areas well into the hitherto neglected rural areas;

- ii) Effective mobilisation of the people's savings;
- iii) Complete security to policyholders;
- iv) Prompt and efficient service to the policyholders;
- v) Conducting its business with the utmost economy and with the full realisation that the money belongs to the policyholders;
- vi) Investment of funds in such a way as to secure maximum yield consistent with the safety of capital;
- vii) Economic premium rates;
- viii) Development of a dynamic organisation under a management conducted in a spirit of trusteeship; and
- ix) Formulation of schemes of insurance to suit different sectors of the community (2.4)

CHAPTER III - THE PERFORMANCE OF LIFE INSURANCE CORPORATION WITH REFERENCE TO THE OBJECTIVES OF NATIONALISATION

Section 1: SPREADING THE MESSAGE OF LIFE INSURANCE.

15.4 We are constrained to state that the Corporation's approach to the basic problem of spreading the message of insurance to every nook and corner of the country is not constructive and lacks the zeal required of a nationalised undertaking especially charged with this responsibility. It is indeed a pity that even after 12 years of its establishment the Corporation has no

statistics of its own regarding the number of individuals or families who have life insurance policies and has to rely on the N.C.A.E.R. Surveys. (3.1.3.)

15.5 It seems to us that the number of households on the books of the Corporation will not be more than 40 to 50 per cent, between 4 to 5%. Since there has been no appreciable increase in the rural business during the last six years, the proportion of insured households will not perhaps be higher than 15.6% of urban households and 1.6% of rural households who paid life insurance premiums in the reference years of the N.C.A.E.R. Surveys. (3.1.3.)

15.6 We are, therefore, led to conclude that the Corporation has not even touched the fringe of the problem of carrying the message of life insurance to every home. Rationalised remains yet to be achieved. (3.1.4.)

15.7 We recommend that the Corporation should devise ways and means of collecting statistical data regarding the number of individuals and households on its books and publish the data in its Annual Report. (3.1.5.)

15.8 The immediate objective of the Corporation should have been a provision of life insurance protection of a modest amount of at least one year's income, viz., Rs. 2,400 per household. On this basis, the Corporation should have easily achieved a total life business in force of the order of Rs.24,000 crores and an annual premium income of about Rs.900 to Rs.1,000 crores. (3.1.6.)

15.9 Even amongst the employed population in the urban areas only about 15% had life insurance. Evidently the Corporation has not made any serious efforts to insure even the employed population in urban areas. It is also obvious that the lower and middle income group households have been neglected by the Corporation. (3.1.9.)

15.10 The Group Insurance Scheme and the Salary Savings Scheme were specially introduced by the Corporation with the intention of providing life insurance protection for all the employed population. (3.1.10)

15.11 We do not share the Corporation's view that the Salary Savings Scheme is specially designed to reach all the employed persons as we find that the Scheme has still not permeated to the employees in the lower income brackets. (3.1.13.)

15.12 We recommend that under the Salary Savings Scheme the procedure relating to deduction of premiums, their remittance to the Corporation and adjustment thereof should be simplified and rationalised in the interests of the policyholders. We recommend that the policy should not be treated as lapsed once the premium is deducted from the pay of the employee by the employer regardless of the fact whether it has actually been remitted to the Corporation and adjusted in its books. Where, however, the Corporation feels that the employer is regularly defaulting in remittance of premiums, the Corporation will be justified in asking the employer to keep in deposit with the Corporation an amount equivalent to two month's Salary Savings Premium Deductions, failing which the facility of the Scheme should be discontinued by giving proper notice, say, of two months to the employees. (3.1.13.)

15.13 We recommend that the Corporation should pass on the benefits of special features of the scheme, namely, reduction in collection expenses and better mortality experience, to the insured by way of lower rate of premium under the Salary Savings Scheme than at present. Since under the

Salary Savings Scheme than at present. Since under the Scheme the Agent does not render any post-sales service to the policyholders there will be scarcely any justification to pay the full renewal commission. We also recommend that the benefit of reduction in the renewal commission should also be passed on to the policyholders under the Scheme. (3.1.14.)

15.14 We further recommend ^{that} the Scheme should be introduced in all the remaining Central Government Departments and Public Undertakings without further delay. The State Governments should be requested to introduce the Scheme in all Government Department, Quasi-Government bodies and local bodies, etc., under them. (3.1.15)

15.15 It is our considered view that the Group Insurance Scheme is a more effective means of bringing the employed population in the country within the scope of life insurance. The Life Insurance Corporation has not, however, succeeded in making the scheme popular. There is a vast scope for development of this class of business particularly if the employer can be persuaded to pay a part of the premium for each insured employee. The principal reason why the Group Insurance Scheme has not made rapid strides is that the Corporation's premium rates for this class of business are unduly high and

unattractive. (3.1.16)

15.16 The Corporation's rates under One Year (Group) Term Insurance are 200 to 250% higher than the U.K. rates and there is no wonder that Group Insurance Scheme has not become popular as it should have been and brought under its scope practically all the employed population in the country. It is obvious that the Corporation has failed to tackle the problem of Group Insurance Scheme on business principles. (3.1.16)

15.17 We recommend that Group Insurance rates should be reduced sizeably and the Corporation should intensify its efforts to bring the employed population under the Group Insurance Scheme. (3.1.17)

15.18 The Corporation has not introduced any Industrial Assurance Schemes even though such schemes are very popular in U.K. and Germany. (3.1.18.)

15.19 We recommend that the concept of Industrial Assurance especially all services at the door of the insured should be introduced in both rural and urban sectors. (3.1.18)

15.20 We are of the opinion that the Corporation's failure in the development of business is attributable to its unimaginative management and ineffective sales organisation. (3.1.19.)

15.21 According to the N.C.A.E.R. statistics 1.6% of the rural households paid insurance premiums in 1962. In other words, 98.4% of the rural households were without insurance protection. This is a sad commentary indeed on a nationalised Corporation especially charged with the responsibility of spreading the life insurance into the hitherto neglected rural areas. (3.1.20.)

15.22 The savings potential of the rural sector has considerably increased in recent years but this increase is not reflected in the Corporation's new rural business. (3.1.22.)

15.23 The Corporation cannot justify its inertia and indifference to its vital task of spreading life insurance to the hitherto neglected rural areas by merely citing the factors responsible for limiting the scope of life insurance in the rural sector and take the business as it comes without actively adopting ways and means to combat the limiting factors.

(3.1.24)

15.24 While the Corporation has listed different characteristics special to the rural population, it does not consider it necessary to make any adjustment in its machinery for canvassing business in the rural areas and in the existing facilities provided by it for rural policyholders and prospects. (3.1.26)

15.25 The type of life insurance offered by the Corporation is based on the pattern of life insurance in the industrialised West where a majority of the population has regular incomes. The Corporation has not evolved any special scheme to suit the needs of the rural masses. (3.1.27.)

15.26 Our own conception of such a policy which we would recommend for adoption by the Corporation will firstly include a system of collecting a deposit of two/three years' Term Insurance Premium along with the First Premium for every policy so that if the premium along with the First Premium for every policy so that if the premiums fall in arrears for two/three years, the policyholder will continue to enjoy the life insurance cover for

the policy will not involve any complications like medical examination but only simple recovery of arrears of premium with interest. Such a system will help to keep the policy alive when the life insured is unable to pay the premium in time because of late crop realisation or because of inability to pay the premium due to failure of crops. Secondly, the policy should be so designed as to permit the collection of as many premiums as possible at odd intervals and to allow interest on deposits at an attractive rate of interest. Thirdly, the policy must have built-in advantages, particularly for the farmer, such as borrowing facilities for productive purposes equivalent to 'n' times his deposits ('n' having defined values) with suitable security. Such a facility will act as a big incentive for this section of the community to place as high a deposit as possible with the Corporation. (3.1.28.)

15.27 The Corporation's approach to the basic problem of a really efficient premium collection machinery especially for rural areas is wrong. (3.1.29.)

CHAPTER XV

15.28 We recommend that for conservation of rural business and proper servicing premiums should be collected at the door of the policyholders at intermittent intervals as and when agricultural incomes are available. (3.1.29.)

15.29 The Corporation has apparently not developed an Agency Force entrusted with the responsibility of developing intensively and exclusively particular rural areas. One of the methods adopted by the Corporation for developing the business in rural areas is what is known as "sectorwise" planning. This is apparently a paper plan only since the Corporation has also stated that an Agent can work anywhere in India and that it does not collect statistics regarding the average quantum of business procured by an Agent in the rural areas. (3.1.30.)

15.30 At the time of nationalisation the Finance Minister stated that even though it was claimed on behalf of private enterprise that it was confident of increasing the total life business in force from a little over Rs.1200 crores to Rs.8,000 crores and the per capital insurance from Rs.25 to Rs.200 per head in the course of the next 10 years there was little doubt that the

CHAPTER XV

nationalised life insurance will be able not only to achieve it but exceed it. Even after 11 years the Corporation's life business in force on 31.3.67 was only Rs.4,736 crores and per capita insurance only Rs.95. The Corporation has thus failed to fulfil the hopes the Government had cherished at the time of nationalisation. (3.1.35).

SECTION 2: EFFECTIVE MOBILISATION OF PEOPLE'S SAVINGS.

15.31 It is rightly said that savings are the prime mover of economic development of a country. Effective mobilisation of savings by widening and deepening all possible channels can substantially step up the rate of capital formation in the country and lead to higher levels of national income. (3.2.2.)

15.32 Since life insurance fulfils the dual role of family protection and promotion of savings it can be made the most effective instrument for mobilisation of savings of the people. This can happen only if a dynamic, efficient and economic life insurance organisation is built up. (3.2.3.)

15.33 The Corporation's achievements in the direction of mobilisation of savings and its contribution to the country's needs for long-term capital for economic development can be measured by the

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the accretions to the Life Fund. The Life Fund increased from Rs.631.59 crores as on 31st December 1961 to Rs.1123.90 crores as on 31st March 1967, registering an increase of 77.95%. (3.2.6.)

15.34 While during the years 1962-63 to 1966-67 the Small Savings and Commercial Banks Savings Deposit registered an average annual increase of Rs.115 crores and Rs.100 crores respectively, the life fund had the smallest annual increase of Rs.94 crores only. We may, however, mention that life insurance is not only a savings medium but also provides for family security and has, therefore, a definite edge over other savings media. In this context the performance of the Corporation in mobilisation of public savings vis-a-vis other media of savings appears even more disappointing.

15.35 While the national income and domestic savings increased by 72.5% and 113% respectively during 1960-61 to 1966-67, the premium income and the business in force of the Corporation increased by 95% and 73% only. It is evident that the development of life insurance has not kept pace with the increased national income and domestic savings.

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In fact, the percentage of premium income to domestic savings decreased from 8.5% in 1960-61 to 7.8% in 1966-67. Therefore, the conclusion is obvious that life insurance is not being developed intensively by the Corporation. (3.2.8.)

15.36 The growth of life insurance in India bears no comparison with U.S.A. and U.K. The disparity assumes more serious proportions when we take into account the vast untapped potential in the country. (3.2.9.)

15.37. We are inclined to think that the Corporation is not serious about propagation of life insurance intensively in the country. (3.2.15)

15.38 We are of the view that the Corporation's management lacks imagination and dynamism necessary for the growth of life business in consonance with the needs of the individuals for family protection and of the country for mobilisation of public savings for development purposes. (3.2.15.)

15.39 In our view a dynamic Life Insurance organisation should generate the habit of thrift and savings even amongst the poorest sections of the society and should not depend on its share of the national pool of savings generated in the natural course by the community. It should be

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possible for the Corporation with purposeful endeavour to accelerate the savings rate amongst both the urban and rural households.

(3.2.16.)

15.40. Even in industrially advanced countries, life insurance plays the most significant role in mobilisation of people's savings, supplying long-term capital to the national economy and accelerating the processes of self-generation of gross national product and savings. (3.2.17.)

15.41 The Corporation's contribution to the country's needs of long-term capital has to be judged in the context of the family security and national needs. The Deaft Fourth Five Year Plan envisaged a capital outlay of more than Rs.4,000 crores annually. Life Insurance bsiness has to make its proper contribution to the development plans as by its very nature it is best suited to gather the small savings of the people. Even if the per capital income in our country is lower than that in other countries, there is imperative need to earmark a part of it for life insurance

(3.2.18.)

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15.42 If the Corporation is able to achieve an annual premium income of Rs.1,000 crores, as it should, by 1971 its contribution to long-term capital should be of the order of about Rs.700 crores annually. Such a massive contribution will act as a catalytic agent for accelerating the pace of development and generating

national income at a much faster pace. This will substantially step up the per capita income which will, in turn, make available further savings through life insurance. (3.2.20.)

15.43 The Corporation's failure to effectively mobilize public savings is due mainly to its failure in spreading the message of insurance thereby bringing under life insurance all insurable households in the country for adequate amounts. The other factors which have contributed to this are:-

- (1) Inadequate security to policyholders;
- (2) Poor and inefficient service to policyholders;
- (3) Inadequate return on life policies on account of the Corporation's investment policy;
- (4) High premium rates; and
- (5) Poor and unimaginative Management (3.2.21.)

CHAPTER. XVSection 3: COMPLETE SECURITY TO EVERY POLICYHOLDER

15.44 While the ability to pay the sum assured is certainly a basic requirement, there are other factors which are equally important to ensure complete security to the policyholder. These are:-

- (a) Safety and security of basic sum assured and prompt settlement of claims on death and maturity.
- (b) Adequate and reasonable surrender values and loans on policies, with facility to obtain them as quickly as is the case with a depositor who withdraws his deposits from his Bank account.
- (c) Adequate return on the policy through attractive bonuses comparable with that on any other media of savings.
- (d) Protection of savings of the life policyholders against depreciating value of currency, at least to the same extent as could have been possible had the life policyholders pursued a prudent policy of investment.
- (e) Service to policyholders at their door in the context of Indian conditions.

(3.3.2.)

15.45 The Corporation has accumulated a large amount in the Life Fund, and the Government has also guaranteed the payment of the sums assured and the bonuses declared on the Corporation's policies under Section 37 of Life Insurance Corporation Act, 1956. If the claims are not paid promptly, the concept of complete security loses its meaning.

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This seems to have actually happened in practice.

(3.3.3.)

15.46 36% of the maturity claims are settled in time, while the remainder took an average of 96 days. Out of the death claims, only 3% were paid within one month of the intimation of death and for the remaining death claims the average period was 199 days or 343 days, depending on whether the claim needed investigation or not. (3.3.5.)

15.47 We are of the opinion that there should not be any difficulty in keeping the policy files complete in every respect. We recommend that the delays caused by the administrative procedures should be eliminated by making the procedures simple and understandable and by providing maximum service to the policyholders personally at their door. (3.3.6,)

15.48 The delays due to the fact that claimants have not proved their age when the policy was issued, or had made no nominations or have not completed the legal requirements only bring out the fact that the Agent is not rendering the proper type of service. (3.3.7.)

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15.49 . We are constrained to observe that notwithstanding the categorical assurance given in 1956 by the then Minister of State for Finance that claims would be settled by the Corporation more expeditiously than was being done by the erstwhile insurers, there has been no improvement in this direction so far. (3.3.9.)

15.50 . We recommend that maturity claims should be paid on the date of maturity and death claims within a week of intimation of death. We appreciate that on the spot investigations may be necessary in a small percentage of claims. Such investigations must be very prompt, and should not ordinarily take more than a month. The importance of expeditious settlement of claims cannot be over emphasised, for most of the families on the death of the bread-winner depend for their sustenance principally on the life insurance claims proceeds. (3.3.9.)

15.51 . The recommendations of the two Parliamentary Committees regarding enhancement of the surrender values of the Corporation's policies have been practically ignored by the Corporation (3.3.13.)

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15.52 We cannot imagine how "the present Surrender and Loan Values are considered to be reasonable" when "the Surrender Values are deliberately kept low." (3.3.14)

15.53 The Corporation's approach should be human and sympathetic and the Corporation should not penalise the policy-holders by keeping the Surrender Values deliberately low. The Corporation proposes to review the Surrender Values after the Report of the Committee of Actuaries appointed by the Corporation for review of premium rates is received. We confess we are unable to appreciate why it should be necessary for the Corporation to wait for this Report. We recommend that the Surrender Values of the Corporation's policies should be stepped up forthwith. (3.3.14.)

15.54 We find that the procedures of the Corporation for granting loans are also cumbersome, complicated and smack of red-tapism. The delay in settlement of loans and Surrender Values are cruel when one realises that people who ask for loans or surrender values are, generally, in financial distress. (3.3.15.)

15.55 According to the Corporation the time lags in payment of surrender values, granting

loans and settling claims are criteria for measuring the efficiency of service to the policyholders, but the quality of the security is not impaired. This is not correct as the security is vitally affected if the liquidity of the security offered is impaired in any way. (3.3.17).

15.56 If the objective of nationalisation of life insurance, viz., to provide economic certainty and security, is to be realised the policyholder should be able to get surrender value or loan on his policy and maturity claims the same day and the death claims should be paid within a week. (3.3.18)

15.57. Therefore, to make life insurance attractive to the common man, we recommend that the surrender values and policy loans are made available to the policyholders with the same speed, simplicity and facility as withdrawal of a bank deposit from a bank and should be settled the same way. (3.3.18)

15.58 Even though the Committee on Public Undertakings recommended simplification and liberalisation of the rules for sanction of loans, the Corporation has not yet succeeded in doing so even after a lapse of three years. (3.3.20)

15.59. We recommend that the procedure followed by Commercial Banks in this matter should be adopted by the Corporation forthwith. We also recommend that the Corporation should immediately authorise all its Branches to grant policy loans. (3.3.21)

15.60. Despite favourable factors, the bonus to the policyholders has gone up from Rs.12.80% on Endowment policies and Rs.16% on Whole-Life policies in 1957 to Rs.16% and Rs.20% respectively in 1967 representing an increase of Rs.3.20% and Rs.4.00% only during the decade. In our considered opinion, this is not enough. (3.3.23)

15.61. We feel that the Corporation does not appear to have properly channelised and effectively utilised its resources to ensure higher bonuses to its policyholders. It may be noted in this connection that one of the major factors for higher bonuses paid by the U.K. companies is their lower expense ratio, notwithstanding their lower premium rates vis-a-vis those of the Corporation. (3.3.27.)

15.62. The Corporation's policies provide a return of 1% to 2% per annum compound interest to the policyholders as against 4% to 5% by U.K. Companies. (3.3.28)

15.63. We are of the view that if one of the objectives of the Corporation, viz., to provide a fair return to the policyholders is to be achieved, the Corporation's bonus has to be stepped up substantially. In our opinion, the Corporation's inability to declare better bonuses in spite of the favourable experience in interest yields and mortality rates is due to its high overall expense ratio. The expense ratio can be drastically reduced, if the Corporation curtails its administrative and other expenses substantially

and the Agent is made to render every type of service at the door of the insured. The bonus rates can be further stepped up if the Corporation follows a dynamic investment policy in respect of its investments so as to secure higher yields. We recommend that the Corporation should make earnest efforts to enhance the rates of bonus. (3.3.29)

15.64 The rupee has depreciated by about 50% between 1955-56 and 1966-67 which acts as a disincentive to save through life insurance. Most of the Life Companies abroad pay higher bonuses consequent to investment gains due to depreciation in currency and higher values. It is regrettable to note that in India no effective steps have been taken by the Life Insurance Corporation to protect the policyholders against depreciation in the value of their policy amounts. (3.3.30)

15.65. With dynamic administrative machinery and more imaginative investment policy, it is possible for the Corporation to step up its bonuses substantially which should mitigate to some extent at least the hardships suffered by the policyholders as a result of depreciation in the value of rupee. We fear that if the Corporation fails to take effective steps in this matter on the lines of life insurance companies abroad, the security to the policyholders will be vitally affected. (3.3.31).

15.66. The Agent at present renders hardly any service once the insurance policy is sold to an insured. If a policyholder has a readily available facility of a well-trained and qualified Agent rendering all the services at his door, it will add to his feeling of security and make life insurance more attractive to him as a mode of savings. (3.3.34)

15.67. The Corporation cannot, therefore, be said to have afforded complete security to the policyholders. Our conclusions are summarised below:

- (a) Delays in settlement of claims have created a sense of insecurity and in turn have lessened the value of security afforded by a policy.
- (b) The surrender values are unattractive; these are deliberately fixed low to penalise the life policyholders who are in distress and who seek surrender of their policies. The policy has very poor liquidity for securing loans and surrender values, and for collecting claim amounts on death and maturity.
- (c) The bonuses are inadequate in the context of bonuses declared by the British Life Offices and excellent interest and mortality margins which the Corporation enjoyed during the last ten years.
- (d) The Corporation has never been conscious of its responsibility or has shown concern in its role of trusteeship in protecting the savings of their insureds, to the extent possible, from being eroded by falling value of the rupee.
- (e) The Corporation does not give personalised service at the door of the insured and the insured is left to fend for himself. (3.3.35).

Section 4: EFFICIENT SERVICE TO THE POLICYHOLDERS

15.68. A life insurer's responsibility to its policyholders is not over with the issue of a life policy only. It is also an essential part of an insurer's responsibility that the sale of a policy is followed up with a good post-sales service and regular contacts with the policyholder. (3.4.7)

15.69. The Insurance Agent at present renders practically no post-sales service and is rarely seen by the policyholder after the policy is taken. Post-sales service is effected principally by the Divisional Office of the Corporation. In a vast country like ours where distances are long and economic and literary standards are poor, policyholders' servicing from 36 Divisional Offices through their Policyholders' Service Departments only, cannot achieve the objective of rendering prompt, efficient and economical service to the policyholders and cannot make insurance widely popular. (3.4.10)

15.70 The Corporation has so far made no random sample surveys even after twelve years of its inception, about the quality of service to the policyholders and the difficulties experienced by them. (3.4.12)

15.71. We find that the standard of service by the various agencies of the Corporation is not uniform and the Corporation itself is aware

that there is a considerable scope for improvement in its efficiency. (3.4.14).

15.72. We are of the opinion that the number of outstanding claims is staggering and reflects upon the service rendered by the Corporation to its policyholders. (3.4.18)

15.73. We are unable to appreciate the reasons for inordinate delays in the settlement of the maturity claims. In our opinion, maturity claims should be dealt with like discharge of the Fixed Deposit Receipts by commercial banks and paid immediately on maturity. Delays on account of want of age proof and policyholders not returning the discharge vouchers in time and also those on account of policyholders being untraceable go to show that no personalised service is rendered to the policyholders. We believe that such an impersonal approach of the Corporation is one of the basic factors impeding its progress in the development of life business in our country. (3.4.22)

15.74. To eliminate delays on account of want of age proof or nomination we recommend that no proposal should be accepted by the Corporation unless it is accompanied by age proof and nomination. (3.4.22)

15.75. Delays in payment of death claims are unpardonable and cannot be countenanced if life insurance is to form and develop as an integral part of the social security system in our country.

15.76. We would recommend that in the case of policyholders who have not attended any school and who are residing in villages, a certificate about age from either the revenue official or the village Panchayat official or statement countersigned by two respectable residents of the village should be accepted for purposes of age admission. (3.4.24)

15.77. We recommend that the Corporation's correspondence with the policyholders, and particularly with the rural policyholders, should as far as possible be in the regional language. All literature pertaining to life insurance, forms and policy conditions, etc. should be made available to the policyholders in both English and the regional language. (3.4.25)

15.78. The very fact that about Rs.50 lacs of death and maturity claims are written back annually because the claimants are not traceable and another Rs.50 lacs are written back because the policyholders do not furnish complete data according to the Corporation's requirements clearly proves that the Corporation's business is absolutely impersonal and there is no personal contact of the Agent with the policyholders. (3.4.27)

15.79. We are of the view that if the Agent is required to develop and maintain personal contacts with all policyholders and to provide service at their door, no such cases need arise. (3.4.28).

15.80. The Corporation seems to take complaints for granted. The Corporation also seems to be completely oblivious of the fact that lapse ratio is the highest in the Eastern Zone. (3.4.31)

15.81. The Corporation's overall lapse ratio of 7.4% is indeed high. During 1955, the overall lapse ratio of all the private insurers was 7.6%. As a monopolistic organisation, the Corporation should have done certainly better and it is strange that there has been no improvement in the lapse ratio even after 12 years of its existence. (3.4.32)

15.82. That the lapse ratio varies from region to region due to differences in literacy standards, economic factors, etc. between the regions may be partially correct; but in our opinion, poor management means poor business and, therefore, high lapses. (3.4.35)

15.83. The lapsation in the year of issue of policies being as high as 4% is not a rare phenomenon with Divisional Offices during the last five years. (3.4.37)

15.84. We feel that the Corporation has not made any serious endeavour to arrest the high lapse ratio which is, in a large measure, due to the inefficient and ineffective selling. The most important reason given by the Corporation, i.e., "deterioration in the general economic conditions", which we do not accept as correct, should have been taken care of by collecting "term insurance premium" at the outset as recommended by us

earlier. This system will also take care of one more cause of lapsation, viz., "inability of the policyholder to continue insurance". The reorganisation of the Agency Force and the service at the door of the policyholders as recommended by us should help in combating the other causes of lapses. (3.4.45)

15.85. The administrative machinery has to be thoroughly overhauled to help the policyholder so that his documentation with the Corporation is kept up-to-date to enable him or his successor to get prompt policy servicing policy loan, surrender, adjustment of deposits and prompt settlement of claims. (3.4.47)

15.86. The real answer to the problem of poor, inefficient service under the conditions prevailing in India lies in rendering of service at the door of the policyholders. This can only be done by the Agents of the Corporation. (3.4.48)

15.87. An insurance Agent is the focal point of contact between the public and the life insurer. The extent of success of a life insurer in achieving the basic objectives of social security for the community depends largely on the initiative, enterprise, dynamism and efficiency of the Agency Force. (3.4.49)

15.88. Besides, the insurance Agent practically renders no service at present. The Agent just sells and that too poorly. He is rarely seen by the policyholder once the life policy is sold by him. (3.4.53)

15.89. It is evident that not only the insurance Agent has failed in carrying the message of life insurance to every home, the Development Officer has also failed to fulfil the task assigned to him. (3.4.58)

15.90. It has to be noted that neither the Agent nor the Development Officer renders personalised service at present. There are a large number of policies without age admission, nomination or assignment, with the result that claims settlements are delayed and large amounts of outstanding claims have accumulated. (3.4.59)

15.91. Most of the functions which according to the Corporation fall under the concept of service representing action at the Office could, in our opinion, be safely entrusted to the Agents. We, therefore, recommend that such functions pertaining to policyholders servicing should be discharged by the Agents. (3.4.60)

15.92. We do not agree with the Corporation that the complexities of policy servicing limit its decentralisation in Branches to comparatively simple functions. According to us, there is no reason why Agents cannot render these services independently in most cases and by personal discussion with the Branch Manager in those cases which are complex in character. The Administrative Manuals prepared by the Corporation should provide all the necessary guidance to the Agents for policy servicing. (3,4.61)

15.93. The Corporation's apprehensions regarding the mistakes and defalcations by the Agents are misplaced. The defalcations, if any, can be taken care of by means of fidelity guarantee insurance. (3.4.63)

15.94. After examining the various facets of policyholders' servicing, we are of the view that the Corporation has failed to discharge its basic responsibilities to the policyholders in regard to post-sales service and in making insurance widely popular. In our opinion, to protect the interests of the policyholders and to make the Corporation an effective instrument for the mobilisation of public savings and thus realising the objectives of nationalisation, radical structural and functional changes are necessary. We would, therefore, recommend the establishment of a stable agency force entrusted with the task of developing life insurance business intensively sector-wise. The Agent should be fully responsible for servicing the policyholders in each sector throughout the currency of the term of policy and act as a friend, philosopher and guide to the policyholder in all his financial matters. The Agent will be the king-pin in the organisation and will, in fact, be the Corporation personified in the sector allotted to him and will be in a position to carry the message of insurance to every household in his sector, thereby mobilising the savings of every household in his area of operation

The Agent shall also provide the much needed personalised service at the door of the policyholder. (3.4.64)

15.95. We recommend the creation of a new cadre of Block Officers (Service and Development) Class III. The scale of pay and allowances for the Block Officers should be the same as for Assistants. The posts of Assistants and Block Officers will be inter-changeable. The duties and functions of the Block Officers will be identical with those of the Block Agents. (3.4.66)

15.96. The Block Officers will be, by and large, proficient in the policyholders servicing work and should be able to function very effectively after some intensive training in salesmanship. This training may not be necessary in the case of existing Staff Agents who may be appointed as Block Officers. Consequent on the introduction of the service at the door of the policyholders as recommended by us, the existing Staff Agents, who are more than 5,000 should be deployed as Block Officers to function in the field for cultivating the block of families allotted to them, intensively by providing them with service at the door as well as selling life insurance in the Block. Such other Assistants as may be required for deployment as Block Officers may be given the requisite training in salesmanship before

being posted as Block Officers. (3.4.67.)

15.97. We recommend that the functions of the Development Officer should be reoriented for sector-wise development of life business. The existing functions of a Development Officer inter alia include rendering all such services to policyholders as are required for better policy servicing. (3.4.68)

15.98. We also recommend that the Branch Offices which are ineffectively organised at present should be organised and harnessed to be self-sufficient to render all the services from proposal to policy claim to the policyholders. (3.4.69)

15.99. The Corporation does not seem to take the Policyholders' Councils seriously. (3.4.73)

15.100. We would, therefore, recommend that the Corporation should publicise the activities of these Councils and take appropriate steps to make them an effective instrument for improvements in policyholders servicing. (3.4.74)

15.101. The policyholders are scattered throughout the country and do not have any organisation of their own to ventilate their grievances against servicing. We recommend that the Corporation should provide all necessary facilities to the policyholders to organise Policyholders' Associations at least at each Divisional Headquarters immediately

and in due course at each Branch level. (3.4.76)

15.102. Personalised, prompt and efficient post-sales service on the lines recommended by us is a must if the Corporation is to make life insurance widely popular and attractive and live up to the nation's expectations. (3.4.77)

Section 5: ECONOMY IN EXPENDITURE

15.103. Insurers all over the world take great pains to keep the cost of life insurance as low as possible by effective economies in administration, i.e., both selling and servicing, so as to make it attractive and popular compared to other media of savings. (3.5.2.)

15.104. The standards generally adopted for judging whether a life insurance administration is economic are to compare its over-all and Renewal Expense Ratios over a period of time or to compare them with those of other life insurers. A comparison of the overall expense ratio is not very meaningful. The renewal expense ratio gives a better appreciation of the economic administration of a life insurer. (3.5.4)

15.105. The statutory limit on expenses prescribed under Section 40B of the Insurance Act, 1938, allow expenses up to 90% of first year's premium for new business with a reduced percentage for short-term policies and 15% of renewal premium.

In the pre-nationalisation period, most of the good life companies remained well within these limits.

(3.5.5.)

15.106. The overall expense ratio of the Corporation has varied between 27.20% and 29.31%. The renewal expense ratio has been above 12.42% and climbed the peak level of 15.91% in 1966-67. (3.5.6)

15.107. On the first year's expense ratio of about 72%, the renewal expense ratio of the Corporation has been over 16.9% every year. The allowance of 90% of first year's expenses under the statute could have been considered reasonable for the erstwhile insurers working under competitive conditions; but not for a nationalised monopolistic undertaking of a giant size capable of achieving the requisite economies in administrative expenses by rationalising and simplifying its procedures. (3.5.7)

15.108. The renewal expense ratio of 'New India' and 'Oriental' was not more than 14.8%. We are, therefore, inclined to think that the record of the Corporation in the matter of expense ratios is poor and that nationalisation has not helped to check extravagance in administrative expenses. (3.5.8)

15.109. The comparison of the Corporation's expense ratio with the expense ratio of the British Companies is very telling. The Corporation

for a first year's cost of 72% incurred a renewal expense ratio varying between 17 to 19.6%, whereas the Prudential's renewal expense ratio is about 7.5%. The Legal and General shows very much smaller first year's and renewal expense ratios. (3.5.9)

15.110. The overall expense ratio of all U.S. Companies is about 6% less than that of the Corporation. (3.5.10)

15.111. The companies in U.K. and U.S.A. have to operate under very competitive conditions. On the other hand, the Corporation is a monopolistic concern, functioning under very favourable circumstances with no competition and a vast untapped potential ready to be harvested. (3.5.11)

15.112. The Corporation seems to be completely oblivious of the necessity to reduce the expense ratio. (3.5.13)

15.113. The cost (about 28%) of the Development Officer is disproportionately high and is almost equal to the commission paid to Agents. We feel that the Corporation should not incur cost of more than 10% of the first year's premium on Development Officers. (3.5.16)

15.114. "Other Expenses" which are not directly related to new business have been allocated by the Corporation between first year's expenses and renewal expenses in the proportion of first

year's premium to renewal premium. This assumption is not a scientific basis for cost analysis. (3.5.17)

15.115. The Corporation should explore all possible avenues of economy particularly in the payment of medical fees. (.3.5.18)

15.116. The rise in the expenses of the Zonal Offices is inexplicable especially so when their role in the procurement of business or policy servicing is very limited. (3.5.19)

15.117. We feel that considerable economies can be effected on major items like travelling allowance, law charges, stationery, postage, telegrams, telephone, electricity, freight charges and other miscellaneous heads. We are of the view that the Corporation should exercise proper budgetary control on these items of expenditure and effect economies so as to reduce them to the very minimum. (3.5.20)

15.118. During evidence it was pointed out to the Group that there is wasteful expenditure on unnecessary tours and conferences. We would recommend that wasteful expenditure on unnecessary tours and conferences should be prohibited. (3.5.21)

15.119. For effective mobilisation of public savings the Corporation should keep the cost of life insurance as low as possible to make life insurance attractive and popular. We, therefore, recommend that the Corporation should effect

administrative economies of the magnitude required so as to reduce the expense ratios to around 60% of the first year's premium and 10% of the renewal premium. The following recommendations made by us will substantially help the Corporation in achieving these ratios:

- (i) Decentralisation of the functions to the Branch level;
- (ii) Reduction in the cost of Development Officers to 10%;
- (iii) Abolition of Zonal Offices which account for 1.71% of the expenses;
- (iv) Service at the door by the Agents resulting in substantial economies in stationery, postage, telegram and telephone charges on account of shorter lines of communications;
- (v) Economy on travelling allowances by obviating wasteful expenses on tours and conferences; and
- (vi) Substantial economies in other important items of expenditure. (3.5.22)

15.120. The above recommendations together with the growth of life business of the dimensions envisaged by us should bring down the renewal cost ratio of the Corporation from the present high level of 19.36% to about 10% within the next few years. Cost consciousness on the part of the Corporation, its officers and staff and proper budgetary controls are a sine qua non for achieving the desired reduction in the renewal expense ratio. (3.5.23)

Section 6: INVESTMENTS AND YIELDS

15.121. The huge funds which a life insurer commands belong to the policyholders. An insurer must deal with these funds only in the spirit of a trustee for the policyholders. (3.6.1)

15.122. The interest yield which is earned on such funds constitutes an important element in the calculation of premiums charged to the policyholders. (3.6.2)

15.123. It is evident that cheaper insurance acts as a catalytic agent for a dynamic and accelerated growth of life business in an under-developed country like ours. (3.6.3.)

15.124. The Corporation is the largest single investor in the country which invested about Rs.126 crores in 1966-67 and is having total investments in India of Rs.1,139 crores. The average yield on these investments is 5.22% (3.6.5)

15.125. Apart from its investments in India, the Corporation's foreign investments including house property amounted to Rs.26.31 crores and the yield thereon (excluding house property) worked out at 4.62%. (3.6.5)

15.126. The British Life Offices follow an active investment policy and 40% of their total investments are in securities which provide a hedge against inflation. (3.6.10)

15.127. The U.S. insurance companies invest a growing share of their assets in high yielding investments. (3.6.13)

15.128. While the U.K. and U.S. insurers have been constantly reshuffling and realigning their investment portfolio to yield the highest possible yield consistent with the safety of capital, the Corporation's performance in this matter does not reflect the flexibility required to pursue an active investment policy with a view to earning the highest possible yield. (3.6.14)

15.129. As a part of its investment policy, the Corporation underwrites bonds, debentures and shares. We would recommend that underwriting should be done strictly in accordance with business principles. (3.6.15)

15.130. It is of interest to note that while the house property of the Corporation increased from Rs.22.18 crores in 1958 to Rs.34.65 crores in 1966-67, the yield thereon during these years went up from 3.89% to 5.24% (1966-67). (3.6.17)

15.131. The return on house property is obviously very inadequate especially in the context of the present high rates of interest and when the Corporation itself is charging 8% on mortgage loans and 7% on loans under "Own Your Home" Scheme. (3.6.18)

15.132. It is therefore obvious that the Corporation's investment in house property has not been

on sound business principles. (3.6.18).

15.133. We recommend that the Corporation should, therefore, examine its house property portfolio and dispose of all unremunerative properties forthwith. Other properties which do not yield at least as much as that charged on mortgage loans, i.e. 8% should also be disposed of unless these are absolutely necessary for the Corporation's own use. The Corporation had some excellent opportunities to make very attractive investments in real property development in the urban areas. The capital gains and yields thereon should have been attractive. (3.6.18)

15.134. As on 31.3.1967, the Corporation had given loans to State Governments for housing schemes amounting to Rs.83.34 crores. The yield on these investments rose from 5.50% in 1962-63 to 6.25% in 1966-67. (3.6.19)

15.135. Own Your Home Scheme is at present in operation in 118 centres in India. It appears that O.Y.H. Scheme does not seem to benefit even a majority of the middle class people, let alone poorer sector of the community. (3.6.22)

15.136. There has been very heavy expenses incurred by the borrowers for obtaining loans under the Scheme. We recommend that in respect of the towns where equitable form of mortgage is not permissible the borrowers could be asked to call on the Corporation's office in one

of the 30 cities where equitable form of mortgage is permissible to deposit the title deeds. We also recommend that Government should extend the list of cities where equitable form of mortgage is permissible. (3.6.23)

15.137. Even though the Committee on Public Undertakings stressed the importance of the Corporation catering to the weaker sections of the society through the loan schemes of the Corporation, nothing tangible has been done so far. Neither the Corporation nor the Government have given any thought to the evolving of a scheme to help the poorer sections of the community. (3.6.25)

15.138. We, therefore, recommend that the Corporation should follow a vigorous policy of investing in housing schemes and simplify its procedures for granting loans for such schemes so as to enable more and more classes of people to take the advantage of such schemes. (3.6.26)

15.139. Rural housing should receive the Corporation's attention as second priority after investments meant to increase the rural production. (3.6.28)

15.140. We are constrained to observe that the Corporation's negative approach on a vital matter like rural housing is bound to handicap it in spreading the message of life insurance to every

nook and corner of the country and come in the way of its making maximum contribution to the socio-economic transformation that is taking place in the country. We, therefore, recommend that the Corporation should act as an entrepreneur for rural housing and build cheap houses costing not more than Rs.1,000 each in rural areas. Such a scheme will provide great incentive to the rural population to take up insurance. (3.6.30).

15.141. We regret to say that the Corporation does not seem to be acutely conscious of its responsibility to act in the spirit of a trustee for the policyholders and has failed to show the ^{same} degree of concern and solicitude for the interest of the policyholders in the management of their funds, as a trustee should normally do. We believe that even within the statutory limitations, the Corporation had, since its inception, ample opportunities, consistent with the economic and investment climate in the country, ^{to} so rationalise, reshuffle and realign its investment portfolio as to secure maximum possible yield as was done by the British Life Companies. (3.6.31).

15.142. Even if we assume for the sake of argument that the Corporation had to invest huge funds in loans and deposit to/or guaranteed by the Government, we are of the opinion, that the

Corporation should have at least charged the prevailing market rates on such loans and deposits particularly when the Corporation is expected to act on business principles and serve the best interests of the policyholders. (3.6.31)

5.143. It is understandable that the Government themselves would normally look to the Corporation for investment in certain Plan schemes. However, we feel that the Corporation should not have been treated by the Government as a milch-cow for such a purpose to the detriment of the interests of the policyholders. (3.6.32)

15.144. To expect the Corporation to serve the best interests of the policyholders primarily and promote life insurance in India and at the same time deprive it of higher income, which it could have otherwise earned had it not been for statutory limitations and/or indirect compulsions, is tantamount to starving the hen that is expected to lay golden eggs. The net result of such a policy is that whilst an investor obtains an yield of 7% even on Units of Unit Trust and 6.05% on 10-year National Savings Certificates, the savings on the policyholders in the form of life funds do not earn more than 5.7% even when the investments are managed by a well-equipped investment department of the Corporation. (3.6.34)

15.145. With a woefully low return on its investments, life insurance cannot but become the most unattractive medium for savings of the community. We, therefore, recommend that the Corporation must earn a higher rate of interest on the savings to cover the higher expenses it incurs, if life insurance is to compete successfully with other media of savings. (3.6.35)

15.146. If Government feels that a particular investment is essential in the interests of the country even if it carries a lower yield, we recommend that the Government should not hesitate to give a directive to the Corporation in writing under Section 21 of the Act. (3.6.36)

15.147. We suggest that the Corporation should re-examine its foreign portfolio and improve upon its yield to take advantage of investment opportunities and higher yields which are available in a number of countries abroad. (3.6.38)

15.148. It is likely that in India, it may not be possible to achieve the same degree of hedging against inflation and consequent depreciation in currency as is possible abroad. We, however, believe that a significant extent of such hedging is still possible in our country. (3.6.40)

15.149. In the light of our above observations, we feel that the Corporation should scrutinise its investment portfolio forthwith

with a view to stepping up the yield thereon and for this purpose we recommend as under:

(1) The present restriction on investment of life funds were imposed in 1950 by Section 27A of the Insurance Act to protect the interests of life policyholders by preventing unscrupulous private insurers from frittering away hard earned savings of the people through malpractices in investments. With the nationalisation of life insurance, the application of Section 27A to the Corporation is an anachronism. It hampers the Corporation's freedom in evolving a flexible and active investment policy to secure the maximum yield for the policyholders consistent with the safety of capital and also prevents it from acting on business principles. For effective mobilisation of national savings for economic development of the country it is essential that life insurance is made cheaper by enabling the Corporation to earn higher yields on its investments. Cheaper insurance will, in turn, lead to larger and larger mobilisation of public savings. The Corporation's investments will, therefore, go on rising in arithmetical progression and consequently there should be no dearth of capital either for the Government or for the private sector. In the circumstances, we would strongly urge upon the Government to rescind the

application of Section 27A of the Insurance Act to the Corporation. This will have a tonic effect not only on the development of life insurance but also on the capital markets in the country and at the same time will increase the capacity of the Corporation to contribute substantially to the Government securities and public sector projects.

(2) The Corporation is a big investor to meet the needs of the Central Government, State Governments and the public sector at lower rates of interest than what the Corporation can earn in other fields.

We feel that the Corporation's investment policy or yields thereon should not be governed by considerations of assistance or subsidy to any Government or Government-sponsored institutions. Such subsidy must come only from General Revenues.

(3) The funds of the Corporation are in the nature of trust money and the Corporation is expected to work on business principles and further the interests of its policyholders. We would, therefore, recommend that consistent with the social objectives the Corporation should invest its funds as under, so as to earn a higher return:

- (i) 25 per cent to be invested in Government securities;

- (ii) 25 per cent in "other approved securities" including loans and deposits to/or guaranteed by Government, loans to Electricity Boards, loans to Land Mortgage Banks and Cooperative sectors provided the funds are required for specific rural projects;
- (iii) 25 per cent to be invested specifically for rural development including farm loans, provision of irrigation facilities, sinking of tube-wells, rural housing, manufacture of fertilisers, pesticides, agricultural implements, etc.;
- (iv) 25 per cent to be invested in policy loans, real estate, mortgages, housing loans, debentures, preference and ordinary shares, etc.

It is not expected that these percentages are to be achieved immediately, but so far as fresh investments every year are concerned, the Corporation should invest the new funds in such a way that these percentages will be achieved in a reasonable period of time.

(4) Unduly large balances should not be kept in current accounts and surplus funds which are not required immediately should be put in call deposits.

(5) The Corporation should publish every year in its Annual Report an exhaustive list of its investments as at the end of the year giving the names of the companies as well as the amounts invested in each class of securities.

(6) We are opposed to the idea that the Corporation's funds should be utilised for the purpose of supporting the stock exchange operatio

(7) The Corporation's objective must be to earn the highest yield on its investment subject to security of capital in the interests of the policyholders and, therefore, every investment must be made by the Corporation on business principles only. (3.6.41)

15.150. If the Corporation is to be a mighty force as a medium for mobilisation of savings, the Corporation must be placed in a position to earn a minimum yield of 7%. This will enable reduction in premiums by 25% and ensure phenomenal growth of life business in the country. (3.6.42)

Section 7: ECONOMIC PREMIUM RATES.

15.151. Life insurance in most of the countries in the world is conducted under severe competitive conditions. To cope up with this competition, Companies will have to be very vigilant in the matter of the premium rate they charge and the service they render to the insureds. (3.7.1)

15.152. In the absence of competition except from other forms of investments, it was expected of the Corporation that its premium rates should be no higher than are warranted by strict actuarial considerations. (3.7.2)

15.153. The three factors governing the calculations of life insurance premium rates are the mortality of insured lives, the rate of interest that will be earned on the life fund during

the currency of the policies and the expense of management including commission. (3.7.4)

15.154. The improvement in the mortality has a substantial impact on premium rates. The current mortality experience of the Indian assured lives is about 45% of the mortality adopted in the calculation of premium rates and for valuation. (3.7.7)

15.155. Taking L.I.C. 1961 experience as the basis for premium rates, the premium rates should be about 11% lower for age 30, term 35 under Endowment Assurance and about 19% in the case of Whole Life limited payment age 30, term 35. (3.7.7)

15.156. The gross rate of interest earned on the life fund by the Corporation over the decade has also shown an improvement. (3.7.9)

15.157. If 1% higher interest could be earned by greater freedom of manoeuvrability in the investment portfolio, let alone the pursuit of an imaginative and dynamic investment policy, the Corporation could have reduced the cost of life insurance by 15 to 20% on long term policies. (3.7.11)

15.158. The expenses of management of a life office are largely within its control. When the Corporation was formed, hopes were expressed that the overall cost will be controlled at 15% which would mean that the cost of life insurance in India would be in line with that of the Companies in U.K. and U.S.A. (3.7.12)

15.159. If the level of expenses could be reduced to around 60% of the first year's premiums from the present level of 72% and to 10% of the renewal premiums from the present level of about 19½%, it would bring about 10% reduction in premium rates. The Corporation has not been able to reduce its premium rates during the last decade in spite of favourable mortality experience and higher interest yields only because of its high level of expenses of management. (3.7.15)

15.160. In U.K. during the last decade "Whole Life Without Profit" rates have been reduced by 13 to 25% and for "Endowment Without Profit" rates by 7 to 23%. (3.7.16)

15.161. As against such reductions by British Companies, the premium rates in India have not been revised since nationalisation of life insurance in 1956. Besides, the small revision made in 1956 was only on ad hoc basis and not on a scientific basis. (3.7.17)

15.162. Even in the matter of bonus on With Profit plans, the Corporation's performance is disappointing. Bonus rates on Endowment and Whole Life policies have gone up since 1957 only by 3.20 and 4.00 per thousand respectively. (3.7.18)

15.163. Non-revision in the premium rates has resulted in an unfairness to non-profit policyholders in as much as the rates are too high. For this reason, the non-profit plans are not popular and the bulk of the policies - 85% are with-profit policies. (3.7.23)

15.164. Non-revision of rates for the various plans has created unfairness between various classes of policyholders. Policies are taken out under varying plans for varying terms and at varying ages. With the change of some of the factors affecting premium rates, there has been an inequity between the various classes of policyholders. (3.7.24)

15.165. Since the bonuses are uniform, irrespective of plans, terms and ages, it is not correct to say that the divergence in the bases adopted in the premium calculations from the actual experience is taken care of by the bonus distribution. (3.7.25)

15.166. The failure of the Corporation in not effecting any changes in the rates of premium over such a long period, coupled with meagre bonuses has been definitely reflected in its poor progress. (3.7.26)

15.167. The reason why the British Companies are able to keep the cost of life insurance low is that they are able to manage their business very

economically at 60 to 65% on first year's premium and 8% on renewal premium and earn the highest possible yield, consistent with security of capital.

(3.7.28)

15.168. On the whole, it can be said that there is substantial scope for reduction in the rates of premium and the reduction can safely be to the extent of 25% of the present premium on an average. (3.7.29)

15.169. The appointment of the Committee of Actuaries for revision of premium rates after 1½ years of the C.P.U.'s recommendation and the inordinate delay in its report are a sad reflection on a Corporation expected to conduct its affairs on business principles. (3.7.35)

15.170. We, therefore, recommend that the Corporation must revise its premium rates forthwith. (3.7.36)

Chapter IV: SINGLE CORPORATION. V/S SEVERAL CORPORATIONS.

15.171. Although Government decided on a single Corporation, the idea of having more than one Corporation has been raised from time to time. (4.4)

15.172. The deficiencies in the Corporation's working are not due to its monopolistic or monolithic nature, or its size, but are due to unimaginative development and administrative policies and lack of appreciation of the objectives

of nationalisation. (4.16)

15.173. Creation of semi-autonomous Zonal Units operating in their respective Zones will not mean competition in the true sense of the word. Competition can exist only between organisations which operate throughout the country with equal opportunities for business just as the private insurers did before nationalisation. (4.17)

15.174. We consider that the handling of business of large magnitudes is an organisational problem and has necessarily to be tackled by any efficient management. Decentralisation of powers to the Branch Offices so as to make them function as satellite insurance companies of the present Corporation is the solution which we are recommending. (cf. Chapter VI Section 2) (4.18)

15.175. It is the quality of the people manning an institution more than its structure that is responsible for the results. Whatever the structure, it is the same personnel that have to work and if the men can work successfully in a split-up organisation, we do not see why they cannot work, or achieve the same degree of success if the organisation is not split-up. (4.19)

15.176. The Corporation has during its 12 years of life passed through many upheavals, and we do not think it would serve any purpose to create another

upheaval. The Corporation has now taken a definite shape and it is advisable to make improvements in the present organisation rather than disintegrate it into many parts in the pious hope that several Corporations will function more efficiently. Further, once the process of fragmentation starts, there may be no stopping it. It may eventually lead to each State having its own Corporation, with all its political entanglements. All the fissiparous tendencies handicapping our national life would creep into the various Corporations. Tendencies towards employment of local staff only irrespective of merit and investment of funds in particular region irrespective of need or profitability, will become dominant. The idea of Regional Corporations seems to us to run counter to the efforts towards integration of India. There will be lowering of performance and servicing standards, of integrity in management, and erosion of the trusteeship concept of life insurance. The standards of the worst managed Regional Corporation will soon become the norm and will be quoted to justify the poor performance and servicing standards of other Corporations. (4.20)

15.177. We are of the opinion that what the Life Insurance Corporation needs to-day is a thorough structural and functional overhaul as recommended by us and that there should be no

meddling with the present single Corporation. In our view, dismemberment of the Corporation will ultimately lead to the destruction of the entire concept of nationalised life insurance in the country, which will be a tragedy indeed. (4.21)

Chapter V: DIRECTION AND CONTROL.

15.178. The success of any corporate body depends primarily on the kind and quality of direction and control exercised in its policies and affairs. (5.1.)

15.179. The Life Insurance Corporation Act, 1956, has adopted corporate structure of direction and control. However, there are very major differences between the Corporation and other corporate bodies. (5.3)

15.180. The capital of the Corporation of Rs.5 crores has been provided by the Central Government. There is thus only one shareholder, the President of India, in place of many active, keen and critical shareholders. The powers vesting in the Government are limited but nonetheless potent. These powers are exercised by a Joint Secretary or a Deputy Secretary acting on behalf of the shareholder. There is no doubt that he can be an effective motivator and critic, if he is keen and brilliant, and can also devote sufficient time to learn and study the intricacies of the business. On the other hand, he can be quite the opposite, raising issues on trivial matters and letting

important matters drift without any guidance or constructive criticism. There is also no continuity as one Joint or Deputy Secretary may be transferred and replaced by another at any time.

(5.3(a)(i)

15.181. Section 49 of the Act provides that the Corporation may, with the previous approval of the Central Government, make regulations not inconsistent with the Act and the Rules made thereunder for giving effect to the provisions of the Act. In view of the structural and functional changes in the Corporation recommended by us, we recommend that the Corporation should have complete powers to make regulations under Section 49 as in our opinion the Corporation should have full discretion and competence to manage its affairs in accordance with business principles.

(5.3) (a) (iii)

15.182. So far only three directions under Section 21 of the Act have been given by the Government to the Corporation. However, we are told that interference is done in a way not capable of any tangible proof as it is done on the telephone and there is some core of truth in it. (5.3.(a)(iv)

15.183. The Corporation being a statutory body is accountable to Parliament but its day-to-day administration is outside the scope of parliamentary scrutiny. (5.3) (a) (vi)

15.184. The Corporation's policyholders, who have a vital stake in the Corporation's working are not associated with the Corporation's administration; nor do they have any organisation of their own to ventilate their grievances against the Corporation. (5.3)(a)(vii)

15.185. The Act does not stipulate any qualifications or experience for a Member of the Corporation (Board). The appointments to the Board are made apparently on regional, sectional, political and other considerations. Qualifications and experience of the persons concerned come into consideration, if at all, only incidentally. (5.3) (b)(ii)

15.186. The Board of the Corporation constituted as it is under the present statute lacks the competence and technical ability to deal with problems of direction and control. (5.3)(b)(iii)

15.187. The Corporation and the various Committees including the Executive Committee meet once a month (except the Investment Committee which meets more frequently). It is obvious that the frequency of the meetings is extremely inadequate to deal with the problems of a giant Corporation. (5.3)(b)(iv)

15.188. The Chairman is selected from the administrative service, and has no knowledge of life insurance and its techniques, He is there for a short period awaiting his next assignment. He has no time, and perhaps in most cases no interest, to study the

problems with a view to find original approach or unorthodox solution or to take intuitive decisions in the case of intricate problems. During 12 years since the Corporation was established, there have been 6 Chairmen. As against this, Chairmen of companies like Metropolitan of New York or Prudential of U.K. occupy that position for a long period. Government should ensure that the Corporation has a Chairman who remains long and stakes his own career in life insurance business. (5.3. (c).

15.189. The Corporation's management is faced with a multiplicity of views and approaches on every issue, and hence the decisiveness in finding solutions to problems and their implementation is lacking. There is a lack of leadership from both the management and the Board of Directors. (5.3.) (d)

15.190. We realise that for the sake of flexibility and smoothness it may be necessary for the Chairman of the Corporation to be in close touch with his counterpart in the Government; nevertheless it will be in the interests of both the Corporation and the Government to codify the principles governing their relationship. In our view, the Government should not shirk the responsibility of issuing directions to the Corporation in cases where action on the part of the Corporation will not be in the best interests of the policyholders or where such action will be against normal business principles

under which the Corporation is to act. (5.5)(1)

15.191. We are of the opinion that for a giant Corporation of the stature of the Life Insurance Corporation it is essential to have a nucleus of five permanent full-time professional Directors (including the Chairman) with background and understanding of management techniques in general and life insurance in particular. We feel that the policyholder as such should also have a voice at the Board level. We recommend that the Board of Directors should consist of -

- | | |
|--|----|
| (1) Professional full-time Directors
(including Chairman). | -5 |
| (2) Policyholders' Associations
representatives | 2 |
| (3) Government nominees who would be
experts in the field of agriculture,
industry, finance and banking,
insurance or professionals like
lawyers, solicitors, accountants,
management experts, economists,
actuaries, etc. | 7 |

While making appointments to the Board the Government should ensure that only experts fulfilling the requisite qualifications and with a definitely rural bias are appointed to the Board. The full-time Directors will be experts in their respective fields and the nominated Directors will impart wider experience dynamism and vision to the Board. The full-time Directors should constitute the Executive Committee. (5.5.)(ii)

15.192. The full-time professional Directors will be permanent. The Government nominees and

representatives of policyholders should have a tenure of four years with eligibility for re-appointment for a maximum of two more terms. The present practice of reconstituting the Board every two years is not conducive to continuity of administration and efficiency. The type of Board that we have recommended will ensure administrative ability and continuity which are essential for a gigantic machine and provide it the much needed direction and control to enable the Corporation to conduct its affairs in accordance with business principles.

(5.5 (iii))

15.193. In our view, Chairman should be a person with a life stake in the business as is the practice in U.K. and U.S.A. where life insurance has made rapid strides and not a migratory bird of passage. This practice would be in consonance with that obtaining in similar giant successful Corporations and companies, both in India and abroad, where the Chairman ensures continuity of administrative ability and experience for long periods, often decades.

(5.5.) (iv)

15.194. In view of our recommendations made separately regarding abolition of Zonal Offices, the Zonal Advisory Board will automatically cease to exist. (5.5 (v))

15.195. Administration of public undertakings has become so varied and complex that unless there is a provision for an in-built agency to set right errors or smoothen matters at the earliest possible opportunity without waiting for Commissions or Committees to enquire, the administration cannot verily fulfil its obligations. We consider such an agency to be a sine qua non for the growth of business of the Corporation and its progress. Also, there should be democratisation of the Corporation in harmony with the spirit of times. The administration should, therefore, associate the various interests concerned. This will instil in the organisation the spirit of collective working and collective thinking and ensure cooperative management of the affairs of the Corporation so that the officers, employees, agents and policyholders have a sense of belonging and loyalty to the institution. (5.5. (vii))

15.196. In view of the above and looking to the magnitude of the activities of the Corporation which will increase tremendously under a dynamic management, we recommend that the Board of the Corporation should be assisted by a General Council with the following members:

- (1) Representatives of Class I Officers Association 1
- (2) Representatives of Development Officers Association 2
- (3) Representatives of Employees Association

(4) Representatives of Agents' Association

(5) Representatives of Policyholders' Association

The Members of the Board of Directors will be ex-officio members of the General Council.

The General Council should meet once a quarter. As in the case of Board for which we have recommended nominations with a rural bias, we would recommend that one representative of the Development Officers, three representatives of the Agents' Associations, and seven representatives of Policyholders' Associations should be from rural areas. The representatives of the Associations will be nominated by them. As regards policyholders' representatives, until a suitable machinery is established, the representatives will be chosen by the Board specifically as representatives of policyholders with defined qualifications as regards knowledge of insurance and drawn from the various regions of the country. The term of the membership of the General Council will be four years. (5.5 (viii))

15.197. The functions of the General Council will be to aid, advise and assist the Board in discharging its functions under the Act so as to secure that life insurance business is developed to the best advantage of the community and that in the discharge of functions the Corporation shall act, so far as may be, on business principles. The General Council will review the policies, programmes

and any large-scale changes affecting administrative structures of personnel of the Corporation but matters relating to day-to-day administration or individual grievances shall not come up before it. Matters like objectives in the matter of cost, expenses of management, investment policies, targets to be achieved, etc. shall, however, be placed before the General Council before decisions are taken by the Corporation.

15.198. We hope the General Council recommended by us will go a very long way towards satisfying the demand for democratisation of our public sector undertakings and will provide the benefit of collective thinking and a sense of participation by all those connected with the institution. (5.5. (ix))

15.199. In the interest of the efficient functioning of the Corporation and its services we would recommend the immediate constitution of a Services Commission with a Chairman and two Members. The Chairman and one Member may be nominated by Government and the other Member by the Corporation's Board. The functions of the Commission will be similar to those of other Service Commissions, as for example, the Union Public Service Commission, the States' Service Commissions and Railway Service Commission, etc. The main functions of the Commission will be broadly as under:

- (1) Recruitment to Class I, II and III posts in

- (2) Promotions from Class III to Class II or Class I and from Class II to Class I.
- (3) Promotions to higher posts in Class I above the rank of Assistant Divisional Manager.
- (4) Consultation in regard to disciplinary proceedings against Class II and Class I officers.

(5.5. (x)

15.200. In our opinion, there should be a permanent machinery for arbitration to ensure quick decisions on all disputes between the Corporation and its officers and employees, between the Corporation and the policyholders, and between the Corporation and the Agents. We, therefore, recommend the constitution of a Standing Tribunal charged with the responsibility of resolving all disputes referred to it by the Associations of Officers, Staff and Agents and individual policyholders, speedily. The Tribunal's decision shall be binding on all the parties concerned. The Tribunal should consist of the following:

- (1) Chairman - a retired Supreme Court Judge or a High Court Judge.
- (2) Three members - one Actuary, one Management expert and one nominee chosen from a panel of twelve names furnished by the recognised Associations.

The tenure of the Chairman and Members of the Standing Tribunal will be four years with eligibility for reappointment. Industrial peace and harmony are absolutely necessary in order to enable the Corporation to be an effective instrument for

mobilisation of public savings through life insurance. The expenditure to be incurred on the Tribunal will be more than recompensated by the improvement in the relations between the Corporation and the Officers, Staff, Agents and the policyholders which will be conducive to the efficient functioning of the organisation and subserve the interests of the nation. The Tribunal will be another in-built agency for corrective action. (5.5. (xi))

15.201. We would recommend that Government should review early the utility of the Reports and Returns submitted by the Corporation. We are of the view that unnecessary paper work should be eliminated and only such reports and returns as are absolutely necessary should be obtained by Government. (5.5. (xii))

15.202. The Corporation's failure to act on business principles is largely due to the lack of direction and control of its affairs by a dynamic and vigorous Board headed by a permanent Chairman. If the Corporation has to live up to the nation's expectations as a nationalised undertaking, the Board of Directors should be reconstituted forthwith as recommended by us. The constitution of the General Council and the Standing Tribunal will serve as "in-built agencies" for securing corrective action, whenever necessary, thereby furthering the growth of business. (5.6)

Chapter VI - ORGANISATION

Section 1: Administrative set-up

15.203. The Corporation has no office of its own in 43 districts and in 3 Union Territories. It may also be noted that the Corporation has no office in one of the States also, viz., Nagaland. (6.1.3)

15.204. The Central Office is responsible for the formulation of broad policies and procedures. (6.1.4)

15.205. The Central Office has an impressive array of Departments but the actual functioning thereof leaves much to be desired. (6.1.5)

15.206. In our view the Development Department has neglected the development of business and a stable Agency Force. The Development Department has, therefore, to be made an effective instrument for discharging the duties and functions assigned to it. (6.1.6)

15.207. The Integration Department is responsible for decentralisation of the existing business and also of ensuring uniformity of procedure in all the units. The main objectives of decentralisation was to extend service nearer home to the policy-holders, which has virtually been defeated by the tardy and unimaginative methods adopted. (6.1.7)

15.208. The Integration Department also deals with complaints received at the Central Office

These are dealt with in a routine manner. (6.1.8)

15.209. The O&M Department has not made any significant contribution to the simplification of paper work in the Corporation. Even the simplification of the loan procedure has not been done. (6.1.11)

15.210. The O&M Department has not even attempted any studies of delays in payment of claims, lapses, efficiency of the sales organisation and fixation of norms for the officers and staff of the Corporation.

It is thus clear that the very object of having an O&M Department has been defeated. An efficient and technically competent O&M Department should have made a tremendous impact on the Corporation's efficiency both in the ^{administration} / and in the field. The poor performance of the O&M Department is inevitably reflected in the poor management and also poor service to the policyholder. We would recommend that the O&M Department should immediately simplify the administrative procedures and operations so as to make them easily understandable and enable the Agents to render efficient and economic service to the policyholder at his door. (6.1.13)

15.211. In our opinion, the periodical inspections by the Inspection Department should help in streamlining the administrative apparatus thereby providing prompt and efficient service to the policyholders. But in actual practice this

is not achieved as will be evident from the inordinate delays in the grant of surrenders and loans and the payment of maturity and death claims. (6.1.14)

15.212. We would recommend close coordination between the Inspection Department and the O&M Department so as to avoid overlapping of work and achieve quick results in streamlining the administrative apparatus. (6.1.15)

15.213. It seems that the Actuarial Department does not function as effectively as it should in a dynamic and progressive life office. (6.1.16)

15.214. As already pointed out by us, in a well-managed life office of the size of the Corporation, the facts about mortality investigations should be easily available periodically and the task of reviewing the mortality investigations and revising about the premium rates completed in a period of three months. It is a sad commentary on the working of the Actuarial Department that it has failed to evolve a plan of insurance to suit the rural population in the country, revise the scales of surrender and loan values, simplify the premium tables, policy conditions and procedure regarding service to policyholders. Its only achievement, perhaps, is the conducting of periodical Actuarial Valuations. We recommend that the Actuarial Department should be alive to its responsibilities and function effectively. (6.1.16)

15.215. In our view the Personnel Department does not reflect the dynamism and imagination required to handle staff problems under the present day conditions. (6.1.17)

15.216. The Personnel Department is also responsible for the training programme of the administrative staff. Since the training programme has not produced improvements in the efficiency of the administrative staff, we would recommend that the programme is suitable revised so as to include Model Office training and thus make it really effective. (6.1.18)

15.217. The Zonal Offices are responsible for coordination and general supervision of the work of the Divisional Offices. The Divisional Offices are responsible for complete servicing of new insurance policies from the time of acceptance of proposals to settlement of claims. The Branch Offices generally deal with new business and development of organisation, viz., appointment of Agents, maintenance of business records of Agents and Development Officers and review of their work. There is no policyholders' service by the Branches except that some 33% of the Branches have been authorised to sanction policy loans. (6.1.19)

15.218. The Branch Offices, which are supposed to be the primary units, have neither uniform nor fully worthwhile role in policy servicing. (6.1.20)

15.219. If the development of business and the service to policyholders are taken into account, the present organisational set-up of the Corporation is neither economic nor conducive to quick disposal. (6.1.21)

15.220. Decentralisation of functions to the lower levels is a must if the Corporation is to survive and render proper and effective service to the policyholders. From the present attitude of the Corporation it seems the Corporation is in favour of maintenance of the status quo meaning thereby high expenses, inefficiency and poor and indifferent service to the policyholders. (6.1.22)

15.221. There is a great deal of force in the arguments and views in favour of decentralisation of powers to Branches and transfer of all policy servicing work to them so that a policyholder has not to go more than a hundred miles at the most for reaching a Branch Office. We, therefore, recommend complete decentralisation of powers to Branches. (6.1.24)

15.222. Our recommendations on the organisation of the Corporation are as under:-

(i) We consider that to spread the message of life insurance to every family and to mobilise the savings of the people through life insurance for national progress, the Agent should be made the king-pin in the organisation pattern.

(ii) The Development Officer should have 15 to 20 Agents under him. His functions will be to ensure that his Agents intensively work in the area and among the families allotted to them, and develop new business as well as do the servicing expected of them.

(iii) There should be a Branch Office at every district headquarter.

Each Branch Office must be most effectively organised to achieve the fullest development of new business and efficient service at the door of the policyholder.

Since the Branch Office is made the complete servicing and development unit, it will work almost like a satellite insurance company with some of the company's functions taken over by the Central Office, like investment of funds, valuations, calculation of premium rates, personnel and establishment, etc.

(iv) There should be a Divisional Office for about 10 to 15 Branch Offices. The functions of the Divisional Office will include coordination of the activities of the Branches under their jurisdiction and seeing that the policies laid down by the Central Office are implemented. They will also be responsible for rendering mechanised accounting service to the Branches by means of Punch Card Machines at present in use. The Divisional Offices will also be responsible for auditing and financial control

over the Branches and Development Force. The Inter-Branch transfers of officers and staff within their jurisdiction should also be done by the Divisional Offices. The Divisional Office will be responsible for making assessment of the personnel and the performance of the Branch. Thus while the Divisional Office will not in future be doing most of the routine jobs which will now be done by the Branch Office it will be entrusted with the more important and necessary functions of direction and control of the Branches within the framework of the policies and regulations laid down by the Central Office.

(v) With complete decentralisation of powers to Branches there is no need for the Zonal Offices which should be abolished.

(vi) The Central Office should simplify the policy conditions, administrative procedures and operations so that each Agent can render efficient service to the policyholder at the door.

(vii) The Central Office has to be efficient and strong, and has to work as the Chief of Staff at the Army Headquarters. The Central Office must not be involved in routine work but must be concerned with the planning and development of business to take life insurance to the farthest corners and to every household, to plan simplification of work and procedures, to reduce cost of management,

to carry out research and surveys, to mobilise its army of Agents, to equip them, and to motivate and encourage them to achieve big objectives. (6.1.25)

15.223. The recommendations made by us in regard to the organisation of the Corporation will result in substantial economies in expenditure. The abolition of the Zonal Offices might by itself result in a saving of over Rs.2 crores out of the annual budgeted expenses of Zonal Offices. This will lead to a substantial reduction in the first year's expense ratio and the renewal expense ratio since the Zonal Offices cost 1.71% of the premium income. Apart from this economy, the decentralisation of powers to the Branches and establishment of Branches in every district coupled with service at the door to the policyholders which will reduce correspondence very substantially will have a tremendous impact on development of new business thereby achieving great economies in administrative expenditure which are expected from a monopoly undertaking. (6.1.26)

Chapter VI - ORGANISATION

Section 2: PERSONNEL

15.224. The personnel of a life insurance company is often called the Plant and Machinery of Life Insurance Industry. (6.2.1)

15.225. The qualities required in the personnel are knowledge, hard work and devotion. (6.2.2.)

15.226. As on 31.3.1967, the Corporation employed a total staff of 52,131 consisting of - Class I - 3,025; Class II - 8,513; Class III - 33,592; and Class IV - 7,001 - total 52,131. (6.2.4)

15.227. The salary cost forms the largest single item of management expenses, and highlights the importance of making the fullest utilisation of the manpower if life insurance business is to be managed economically. (6.2.5)

15.228. The ideal cost for life insurance business, as managed by the Corporation will all its advantages of a monopoly should be 60% of 1st year's premium and 10% of renewal premium. (6.2.6)

15.229. The high expense ratio of the Corporation is in the main due to its failure to utilise its manpower effectively. (6.2.7)

15.230. Out of the total staff of 52,131 as many as 44,251 were recruited after 1.1.1957. We, therefore, fail to understand why the Corporation has not been able to develop better standards of service for personnel with such a large proportion of qualified and competent staff recruited since 1957. (6.2.7)

15.231. Even though the Committee on Public Undertakings recommended a review of

the Corporation's staff structure, the Corporation has not done so. (6.2.9)

15.232. As regards Class III and IV staff it has been stated that their requirement in the Branch Offices and Divisional Offices are determined on the basis of findings of studies made by the O&M Department. It is difficult for us to accept this statement of the Corporation, especially so, when according to the Corporation's own admission no norms of work have been prescribed for the Officers and Staff. (6.2.10)

15.233. The Corporation has not laid down any norms of performance standards of the administrative staff and has stated that in the absence of this no objective rating is possible. (6.2.12)

15.234. The training given to the Officers is not reflected, either in the policy servicing by the Corporation or in business procurement or for that matter in management techniques. (6.2.13.)

15.235. In our opinion, the present theoretical and practical training is not adequate. We recommend that the Corporation should set up a few Model Offices where officers and staff should be given thorough training under the supervision of capable instructors. (6.2.14)

15.236. We recommend that the promotion quota to Class I should be raised to 50% from both Class II

and Class III. While making such promotions care should be taken to ensure that the candidates selected for appointment to Class I satisfy the basic qualifications required for a Class I Officer and they should be as well qualified and as competent as direct recruits. We would also recommend that the Corporation's employees should be eligible to compete along with outsiders for posts reserved for direct recruitment, if they satisfy the basic requirements for such selection. The examinations for recruitment to the Corporation's services should be held at regular intervals. In determining the vacancies, the posts demanding technical or special qualifications should be excluded. (6.2.15)

15.237. There should be no direct recruitment to Class II, i.e., the Development Officers' grade. We recommend that all vacancies should be filled by promotion from amongst the Block Officers and Agents by means of a competitive examination and interview in which special consideration should be given to their performance in the field, i.e., procurement of business, lapse ratio and efficient service to the policyholders. (6.2.16)

15.238. We recommend that the administrative and organisational talents of the officers of the various categories should be properly harnessed for the maximum benefit of the Corporation so that

a cadre of well-trained and experienced officers is built up. (6.2.17)

15.239. The effect of frequent transfers on the business and service to policyholders can only be imagined. We recommend that frequent transfers of officers should be avoided. (6.2.18)

15.240. To provide further incentive to Office Assistants to come forward for appointment as Block Officers we would recommend an incentive remuneration equal to the difference between the remuneration accruable to the Block Agent and the Block Officer's guaranteed remuneration. Since the post of Block Officer will be interchangeable with that of Assistant, he will be able to return to office work as Assistant, at his request. We hope that Class III staff including Staff Agents will opt for appointment as Block Officers in large numbers as field work, in our opinion, will provide them with greater opportunities of earning additional remuneration. (6.2.19)

15.241. The recommendations made by us will enable the Corporation to function on business principles. Our recommendations, relating to the reorganisation of the hierarchy of the Corporation's offices including inter alia the decentralisation of powers to the Branches so as to make them function as satellite insurance companies of the parent Corporation will necessitate reallocation of duties

and functions of the officers and the other categories of staff. The strength of each Office should be determined by the O&M Department of the Corporation in the light of our recommendations and the Officers and Staff deployed effectively in the various offices. We recommend that the Corporation should ensure optimum utilisation of the available manpower so as to render economic and efficient service to the policyholders thereby making life insurance more popular and attractive to the vast millions in the country and thus become an effective instrument for mobilisation of public savings. We further recommend that until the entire strength of the Corporation's Officers and Staff is effectively harnessed there should be no fresh recruitment to any posts in the Corporation. If necessary, suitable steps should be taken to impart proper training to the existing personnel for the new duties and functions assigned to them consequent on the implementations of our recommendations. (6.2.20)

15.242. The reorganisation of the Corporation on functional basis will necessitate transfer of staff from one station to another particularly to the Branches. The Corporation will, no doubt, take into account the human aspects involved in such transfers and settle the problems on business principles. We would recommend that the Corporation should undertake construction of Staff Quarters for its officers and staff, especially at the Branch headquarters.

Till such time as adequate quarters are provided at these places, we are of the view that the Corporation may grant some suitable allowance to the staff to compensate them for the difficulties caused by these transfers. (6.2.21)

15.243. While the Corporation is fully competent to deploy its officers and staff effectively, we would recommend that the salary and promotion prospects of the staff should be assured by the Corporation. We have no doubt in our mind that the officers and staff of the Corporation will, in turn, extend their whole-hearted cooperation and loyalty to the Corporation in the implementation of our recommendations which are not only in the interests of the Corporation, its officers and staff, but also those of the policyholders and the country as a whole. (6.2.22)

Section 3: AGENCY FORCE

15.244. The task before the Corporation is that of selling an intangible item like social security through life insurance. To sell such a commodity requires high power salesmanship. (6.3.1.)

15.245. The Agency Force has necessarily to be well organised, well-trained and effectively and constructively harnessed to cover every family without wasteful competition. (6.3.4)

15.246. The Corporation has an army of 1,67,000 Agents. The Corporation has had no systematic plan to build up the profession of insurance Agents and has

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worked on the basis of casual agencies and agencies related to rich prospects. This has been the biggest deterrent to the development of the profession of Agents. (6.3.10)

461.

15.247. On a sample survey made recently in three Branches at Calcutta it was found that out of 428 Agents appointed in 1960, only five did qualifying business in each of all the seven years. (6.3.10)

15.248. Between 31% to 46% of the Agents are terminated and recruited each year. An indication of the Corporation's indifference to the quality and stability of Agency Force will be seen from the fact that it has no information available regarding termination of Agencies within first year and second year of appointment. The Corporation has also no statistics of Agents working on a full-time basis nor of the quantum of business procured by an Agent in the rural area. (6.3.11)

15.249. In our opinion, life insurance is a highly personalised service and there is not much purpose in appointing Cooperative Societies and Panchayats as Agents. (6.3.16)

15.250. In our view, the Corporation does not seem to have given proper thought to development of the Agency Force which is very vital for the

15.251. If a stable Agency Force is developed and clear cut areas marked out for each Agent in which the Agent has exclusive responsibility for selling and servicing, it should be possible to eradicate the evil of Benami Agencies completely. (6.3.18)

15.252. The Corporation must build up a profession of Insurance Agents if it has to survive and achieve the objectives of nationalisation. The difficulties of finding suitable insurance salesmen as pointed out by the Corporation are, in our view, imaginary. (6.3.21)

15.253. The vital problem of selecting and training of Agents is being handled in a casual manner, notwithstanding the insuperable difficulties encountered by the Corporation in hunting for the Agents. (6.3.23)

15.254. In sum, the Agency Force works without a systematic plan to cover all the families in the country. (6.3.24)

15.255. Most of the Agency Force is concentrated in the urban areas. In the rural areas there is hardly any Agency Force worth the name. (6.3.25 & 6.3.26)

15.256. We recommend that for effective development of business the Corporation should have a well-planned, well-trained and efficient Agency Force, each Agent working in a well-defined compact area, hereinafter called a Block, without any wasteful competition and entrusted with the responsibility of bringing on the books of the Corporation the maximum number

of families in the Block within the shortest possible time. The Agent will thus have a monopoly of business in his Block. (6.3.27)

15.257. We recommend that the duties and functions of the Agents should be procuring new business by propagating the message of insurance intensively and effectively and servicing the policyholders with maximum efficiency. Since the Agent will be in charge of a Block, he should be in a position to conduct a quick survey of the insurance potential of the families residing in his Block and prepare his plan of harnessing the potential. The service to policyholders to be rendered by him will include:

(a) completing all the proposal papers up to a stage when only underwriting decision is left with the Branch;

(b) calculation of premium only to be checked at the Branch;

(c) preparation of first premium receipt-cum-acceptance letter and Policy Pass Book ready to be signed at the Branch;

(d) admission of age;

(e) preparation of assignment endorsements fully and getting them registered at the Branch;

(f) collection of premiums at the door and issue of receipts in a Pass Book held by the policyholder;

- (g) quotation of surrender and loan values;
- (h) preparation of complete documents for surrender and loans;
- (i) preparation of documents for revival of lapsed policies, if any; and
- (j) preparation of all the claim documents ready in all details for the Branch to sanction and settle claim.

In due course, the Agent may also be entrusted with the task of underwriting on the spot and issuing an Acceptance Letter-cum-First Premium Receipt in majority of cases which can be readily accepted on standard terms. To enable the Agent to render all these services efficiently, we recommend that the procedures, tables and forms including medical forms and reports should be thoroughly simplified so that a well-trained Agent can carry out all the functions with ease. (6.3.28)

15.258. We recommend that under such a pattern of Agency organisation full-time Agents will be required. We do not, however, suggest that if an Agent is able to render all the service efficiently in his Block, he should be debarred from taking up any other employment, if such employment does not affect his efficiency and effectiveness as Agent. We are of the view that the full-time Agent, not having any other pre-occupations, should be preferred since he will be able to devote more time to his task. We have, however, an open

mind on this aspect of Agency organisation and would only suggest that it should be with reference to the individual Agent's own capacity and the needs of the individual Blocks. (6.3.29)

15.259. In order to enable the Agents to discharge their functions most efficiently, we recommend that the training should be both theoretical and practical and should include training in a Model Office for a period of 3 months during which period they should be made to go through all the procedures which they would be required to handle in actual practice when in the field. It is only such practical training which will prepare the Agent to perform his functions successfully. His training should also prepare him for the task of bringing up-to-date the existing policies of families in his Block so that it is easy for him to service them thereafter. That is, age should be admitted, nomination or assignment effected, all deposits under the policies properly adjusted or refunded, listing of the existing policies of his families and familiarising himself about all the relevant details of their policies. All these will be in addition to training him to sell and service optimum life insurance to every family in his Block. These will eliminate problems of benami agencies and rebating. (6.3.30)

15.260. The existing Agents, we recommend,

should be given the option to work as Block Agents in their respective areas, whether rural or urban. The option once exercised will be final and no change should be permitted thereafter. We can visualise that some of the big Agents will not find the Block Agency sufficiently attractive in view of the high incomes earned by them at present. To obviate hardships to such Agents we would recommend that they may exercise the option of working as Free Agents in which case they should be allowed to procure business only from any of the urban areas with the stipulation that individual policies sold by them are of, say, Rs.50,000 or more. We would recommend that the minimum amount for each individual policy to be sold by such Free Agents may be determined by the Corporation in consultation with the Life Insurance Agents' Federation. In our opinion, such a restriction regarding the size of policies sold by them is both essential and desirable so that the income prospects of the Block Agents are not unduly impaired. The terms of remuneration of the Free Agents as regards first year's commission will remain as at present. As regards renewal commission, the Free Agents will be entitled to it in full if they render service at the door of the policyholders booked by them. In case, the Free Agent is unable to provide service at the door to the policyholders he will be entitled only to $2\frac{1}{2}\%$ renewal commission and the balance of $2\frac{1}{2}\%$ will have to

be given to the Block Agent actually doing the servicing work. (6.3.31)

15.261. Further, in big cities and towns there will be some areas where the people of higher income live or where there is a concentration of big shops or business houses. Such areas will provide a Block Agent with a possibility of earning a much bigger income than what the Block Agents have in other parts of the cities or towns. We, therefore, recommend that such areas in the big towns and cities should be made open areas for all Free Agents to sell new business without any restriction/^{on}the amount of sum insured under the policy. (6.3.32).

15.262. However, to ensure that the servicing of the families in such open areas is not neglected we recommend that even in the open areas, there should be persons entrusted with the responsibility of servicing in the Block. These persons should be taken from the new cadre of Block Officer (Servicing and Development) which we have recommended. These Block Officers will, of course, be free to sell life insurance in their Block in competition with Free Agents. (6.3.32)

15.263. A Block Agent's terms of remuneration, we recommend, should comprise of a higher rate of commission on first year's premium, a rate of commission on the renewal premiums that he collects in his Block and Goodwill value of the Block Book.

The Agent's performance should be assessed on the following criteria:

- (a) the proportion of families in the Block that he brings on the books of the Corporation;
- (b) the amount of renewal premium income he has built up in his Block;
- (c) extent of arrears of premium in his Block;
- (d) a factor provide for his efficiency in service to the policyholders based on mistakes and complaints in his Block; and
- (e) a corrective factor to take into account the effect of the quality of Block he has been allotted.

On this basis he will be rated. Depending on his rating, an Agent will, in the event of his withdrawal from Agency work due to any cause except dismissal, be entitled to either the full renewal commission or a lower renewal commission for maximum period of 15 years. In the case of dismissal the Agent's renewal commission will be forfeited. Therefore, the Agent will try to work at his best efficiency so that when he retires, gets incapacitated or thinks of changing his vocation or dies, the renewal commission will be payable at the maximum rate possible. It is this which he will consider as the Goodwill Value of the Block Book. If due to his gross inefficiency or fraud he is dismissed, he loses this goodwill value. (6.3.33)

15.264. We recommend that the Blocks of families should be assessed for their respective potentials and the type of Agent who will be best

fitted for the Block. The Blocks should be graded according to the grade of Agents suitable for the Block. Similarly, on the basis of Agent's past experience about the type of clientele he handled, the amount of average annual income he made from life insurance agency, his qualifications, his aptitude and his performance at the training school, each Agent should be rated and all Agents should be graded to suit the requirements of different Blocks. We do not anticipate any difficulty or inequity if the Agents and Blocks of families are properly matched in this manner. (6.3.35)

15.265. We recommend that the life policy for the rural population should combine the following features in particular :-

- (a) Whole Life Limited Payments or Endowment Assurance.
- (b) Marriage or Educational Endowments after selected number of years.
- (c) Premium payments may be permitted at irregular intervals so that it affords a facility to the farmer to pay when he realises the proceeds of his produce.
- (d) Two/three years' Term Insurance Premium should be collected at the outset so that the policy does not lapse if two/three years' premiums fall in arrears. For reinstatement of the policy, no medical evidence but only arrears of premium with interest will be required.
- (e) Benefits available on death by snake bite or by accidents, which are more to be found among the rural population, should be larger than the normal benefit available on death as a result of any other cause.

- (f) Facilities to policyholder to deposit amounts over and above the premium instalment, such deposits to earn attractive rate of interest comparable to that available in the market. It should not be a meagre 3% allowed by the Corporation at present.

(6.3.43.)

15.266. In order to provide the driving incentive so essential for its success, the Corporation has to play the dual role of channelising the savings in the rural areas and at the same time in a phased programme harnessing those savings for building up risk proof farms by introducing Farm Loans Schemes.

(6.3.46)

15.267. The Agency Force for the rural sector, which we recommend, will be organised as under :-

(a) As in the case of urban areas, Agents will be responsible for Blocks of families and will render all the service at the door of the policyholder.

(b) Every village should have a representative. He will be one of the 20/25 Sub-Agents working under a Special Agent. The Sub-Agent (or Village Agent) cannot and need not be a full-time Agent. In villages with population less than 2,000 he may be a part-timer like the village Primary School teacher, Post Master, etc. We would recommend that the Central/State Government should permit village Post Masters and School Teachers to act as Sub-Agents. However, he may be a full-time agent if the village has population over 2,000. He will have the exclusive privilege of canvassing new business among the families in the area allotted to him.

Therefore, about 50,000 full-time Agents will be required for villages with population over 2,000. It is suggested that such a full-time Agent be also given some small villages around his village of residence to make up a block of 700 - 1,000 families. One Sub-Agent can also be posted for a group of small villages with 500 population. The rest of the villages should have one Sub-Agent per village. On this basis, about 4 lac Sub-Agents (3.5 lacs part-time and 50,000 full-time) will be required. Each Special Agent will have about 25 Sub-Agents under him.

(c) A local person of influence, good standing and substantial means, should be appointed as a Special Agent to organise the business of a cluster of villages, accounting for a population of 20 - 25,000. His remuneration as a special agent will be for appointment of Sub-Agents, for servicing them, for controlling them and for being responsible for their acts of commission and omission. He must be responsible for developing the business dynamically in these villages, to effectively service this business, and to act as a liaison between the farmer seeking the farm mortgage loan and the Corporation.

(d) The Special Agent should be given an Office Allowance of Rs.125 per mensem. Besides, he will be entitled to commission at the following rates:

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Difference between 50% on 1st year's premiums and 7½% on renewals, and the commission paid to village Sub-Agents.

Service Commission for policies sold by previous Agents.

½%

Loans Commission

: 2% on loans arranged and guaranteed by him provided loan is repaid in time plus incentive for early recovery of loan.

(e) Commission payable to Sub-Agent should be :

On First Year Premium

On a sliding scale, on fulfilment of certain performance standards and certain conditions - 25% to 35%.

On Renewal Premium

On a sliding scale, on fulfilment of certain servicing standards and volume of work - 2½% to 5%.

Service commission for policies sold by previous Agents.

1%.

(6.3.51.)

15.268. The Agency Force we have recommended will be most effective, economical and efficient in service and will reduce chances of lapses.

(6.3.54.)

Section 4 : Development Officers.

15.269. With a large army of Agents operating in the field, a supervisory cadre is imperative to supervise, control and check on the activities of the Agents in the field. (6.4.1.)

15.270. The Development Officer does not fulfil the functions for which he is appointed, but acts more as a Super-Agent for the dormant dummy Agents. (6.4.5.)

15.271. The Development Officers' contribution to business by direct Agents, numbering 4051 is nil. On the basis of Rs.7 to 8 lacs business by each Development Officer and the business of direct Agents the Corporation could reach the existing annual business of Rs.770 crores without the Agency Force. (6.4.6.)

15.272. The Corporation's replies regarding demarcation of areas of operation for Development Officers are ambiguous. (6.4.7.)

15.273. In the absence of classification of the Development Officers according to the Agency Force and business we cannot conceive that the Corporation has any control over the activities of its Development Force. (6.4.8.)

15.274. The Corporation's contradictory replies regarding the posting of Development Officers are a sad reflection on the Management. Incidentally, we found concentration of Development Officers in the cities. (6.4.11.)

15.275. Apparently, the Corporation does not consider any steps either functional or organisational, to reduce the cost of the Development Officer. Further, it is inexplicable why the Corporation did not think of increasing the average production per Development Officer earlier (6.4.13.)

15.276. We recommend that the Development Officer should also be given an exclusive area and the Block Agents working in that area should be responsible to him. The Development Officer will have his office at the central place in the area allotted to him. In this way the Development Officer will be able to concentrate his attention on his area for new business and will not dissipate his energies in running about for business aimlessly from area to area at random. His functions should be:

- (1) To develop and increase production of new business;
- (2) To recommend recruitment of new Agents;
- (3) To guide, supervise and direct the Agents;
- (4) To give on the spot training to new Agents;
- (5) To activate the existing Agents and motivate new Agents;
- (6) To supervise and audit the policyholders' service rendered by Agents in his area;
- (7) To check on policyholders whose premiums are unpaid and ensure that there is no defalcation by the Agent.
- (8) To certify copies of documents submitted as proof of age by the policyholders.
- (9) To certify that an applicant for insurance under non-medical schemes has been seen by him and is in apparent sound health; and
- (10) To work in the area allotted to him as representative of the Corporation and perform such other duties as the Corporation may call upon him to do.

(6.4.14.)

15.277. For the quality Agency Force comprising of well-trained capable Agents rendering service at the door and operating in Blocks of families as recommended by us, a Development Officer should be able to supervise about 15 active Agents or Block Officers in the urban area. 1,300 to 2,000 Development Officers will be required for the 20,000 to 30,000 Agents or Block Officers in urban areas. In rural areas there should be a Development Officer at the headquarters of each Development Block of the Panchayat Raj in the country. There will thus be about 4,800 Development Officers required for effective development of the rural areas. As the population of a Development Block will be about 70,000 to 1,00,000, i.e., 14 to 20,000 families, it should be divided into three to four sectors for development of life business and service to policyholders. Out of these sectors one will be in-charge of the Development Officer himself and the other sectors under one Special Agent each. The sector under the direct charge of the Development Officer should be carved in such a manner that he can develop and service it fully besides supervising the work of the three Special Agents working in the Development Block. (6.4.15.)

15.278. The present cadre of Development Officer should be fully geared up by further training, if necessary, for intensive development of life insurance

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both in the urban and rural areas. We estimate that the total Development Force required will be about 6,500. The remaining Development Officers could be profitably utilised by the Rural Development Wing recommended by us. (6.4.16.)

15.279. Each Development Officer will be assisted by an audit team of 2 or 3 Assistants. (6.4.17. & 6.4.18.)

Chapter VII - L.I.C. and Computers.

15.280. We find that the views of the Labour and the Government are not altogether divergent but are in the direction of convergence. Therefore, there should be no difficulty for the Government or the Corporation coming into contact with the Trade Union and discussing these problems with a view to arriving at a settlement without any loss of prestige. We, therefore, recommend that any further steps regarding the computers should be taken only after consultation with the employees. In the same spirit, the utilisation of the two computers - one which has already been installed in Bombay and the other which is to be installed at Calcutta can be discussed by the L.I.C. with the Employees' Union and some solution arrived at. But one thing must be noted. That is, the principle adopted by the Government that there must be close consultation at every stage, should be followed. If this is done, we believe there should not be any great trouble. (7.5.)

15.281. In view of the recommendations made by us already regarding decentralisation of the powers and functions of the Corporation to the Branch Offices which will, in effect, be functioning like satellite insurance companies, we do not consider that computerisation is an urgent necessity. Under our scheme of reorganisation the Divisional Offices will have to make full utilisation of the Punch Card Machinery already in use at these Offices. (7.6.)

Chapter VIII - Planning of Business

15.282. It is regrettable that the Corporation has neither drawn up five-year plan of business nor fixed any targets for new business for rural areas. The approach of the Corporation to new business targets and especially so in the rural areas is passive and unfortunate. (8.3.)

15.283. The year's targets fixed by the Corporation do not bear any direct or indirect relation to the potential for life business which the Corporation as a whole should attempt to reach. This is because past performance is the only guide and if that past performance has not been as successful as it should have been, the future targets will be underestimates. (8.5.)

15.284. It will be noted that even after more than twelve years the Corporation has no full-fledged Research Division to study the insurance potential in the country. (8.9.)

15.285. The Corporation's approach to the basic problem of ascertaining the insurance potential is not businesslike. In our opinion, research should be given the importance that it deserves. (8.11.)

15.286. We recommend the Corporation should create a very well-organised Research Department to conduct random sample studies among the families in the country and among its policyholders. (8.12.)

15.287. In fact, with its vast Agency Force the Corporation would become the research laboratory for investigation of many economic problems of the nation. The collected data could be thoroughly analysed to yield important and revealing results. (8.12.)

15.288. We recommend that the Corporation should be vested with Statutory powers to conduct its surveys regarding potential of life business in the country which will inter-alia include the size of each family, its various sources of income, its expenditure on important items, net income, investments, whether in financial or physical assets, etc.(8.13.)

15.289. We, therefore, recommend that planning of business should start with the Agent as the base and related to the potential of his Block of families. With the Agent as the base the pyramid should be built up; the other tiers consisting of Development Officer, Branch and the Corporation as a whole. (8.14.)

15.290. We recommend that planning should include :

Planning for the Block Agent, or the Special Agent (in rural areas);

Planning for the Development Officer;

Planning for the Branch Office;

Planning for the Corporation as a whole.

(8.16.)

Chapter IX - L.I.C. and Rural Development

15.291. Direct investments for rural development by the Corporation by the establishment of a separate Wing of the Corporation will enable the rural people to identify and appreciate the role of the Corporation and will enthuse them to invest their savings whether by way of life insurance premium and/or deposits with the Life Insurance Corporation. This will have a big impact on the development of the Corporation's life business in rural areas. (9.3.)

15.292. A capital programme of vast magnitude for agricultural development and rural housing will depend largely on the generation and canalisation of the savings of the rural sector itself. We consider that the Life Insurance Corporation is perhaps the only organisation suited for achieving this objective, if by its performance the Corporation is able to convince the rural population that all such savings are being harnessed for their benefit only.

We recommend that the Corporation should introduce Schemes for Farm Loans and Rural Housing so that the rural population is able to identify and appreciate the Corporation's role in rural development thereby making life insurance purposeful, attractive and popular in the villages. (9.6.)

15.293. For rural development including rural housing, we would recommend the formation of a Rural Development Wing in the Life Insurance Corporation. The Wing should be headed by an Executive Director of the Corporation - Member of the Board of Directors. The difficulties cited by the Corporation in regard to its active assistance towards rural development are, in our view, not insurmountable. The Wing should have its own field staff to survey the farms and supervise the utilisation of credit as well as providing timely technical guidance to the farmers. Further, the field staff should consist of agricultural graduates specially trained in processing credit proposals received from the agriculturists by conducting on the spot inspection of the farms. Besides, the Special Agent of the Corporation in the rural areas and the Development Officer will have local knowledge to assess the credit-worthiness of each borrower and their prospects in securing timely access to the various inputs necessary for agricultural production. The farm loans will necessarily have to be given for compact and viable holdings to eliminate risks. The security of the land,

the farmer's own deposits with the Corporation and the life insurance policies held by him should make the loan secure and at the same time enable the Corporation to earn a good return on farm loans.

To begin with, the Corporation should deal with medium term and long term loans to agriculturists for purposes of land improvements like sinking of tube-wells, clearing of jungles, land reclamation, construction of irrigation and drainage channels, fencing, etc., and purchase of agricultural machinery, namely, irrigation pump sets, power sprayers, power tillers, tractors, etc. The agricultural credit should be covered by mortgage of properties and/or hypothecation of agricultural machinery and further security in the form of life insurance policies as under the OYH Scheme of the Corporation. (9.8.)

15.294. The formation of the Rural Development Wing of the Life Insurance Corporation will usher in a new era of prosperity in the agricultural sector by increasing the productivity of agriculture and thus reducing our dependence on imports. (9.10.)

15.295. The Rural Development Wing should have its own Budget & Accounts including profit and loss account so that its operations and achievements are known widely thereby furthering the growth of life business. (9.11.)

Chapter X - General Insurance Business

15.296. Out of the premium income of about Rs.7 crores 78% pertains to public sector which business comes to the Corporation automatically under the Government's directive and involves no sales efforts and very little expenses. (10.5.)

15.297. The Corporation's subsidiary, the Oriental Fire and General Insurance Company Ltd., has been operating in the General Insurance field since the inception of the Corporation. In our opinion, there is not much point in the Corporation transacting general insurance business also, especially so, when its performance in the life insurance field is far from satisfactory. The duplication of effort in the general insurance by the Corporation and its subsidiary is apparently wasteful. We feel that the Corporation's energies are being frittered away on trying to attract a small volume of general insurance premium from the private sector, when these should have been concentrated on the far more important objective of channelising the national savings of the order of Rs.1,000 crores annually into the development of the national economy through a more efficient organisation of life insurance business. We are of the opinion that the Corporation must concentrate on the more important national task of developing life business only and recommend the transfer of the Corporation's General Insurance business to the Oriental Fire and General Insurance Company Limited. (10.6.)

Chapter XI - Foreign Business

15.298. The Corporation's life business in foreign countries has not shown any progress. (11.2.)

15.299. The Corporation has stated that taking into account the bonuses declared by it in respect of With-Profit policies the foreign business of the Corporation cannot be regarded as self-supporting in any of the foreign territories where it is operating. The subsidy by Indian business of the Corporation to the foreign business is estimated by the Corporation at about 9% of the premium income in the foreign territories, i.e., a subsidy of about Rs.50 lacs annually. (11.3.)

15.300. We are not impressed by the progress of the Corporation's new Life business in foreign countries. The subsidising of the foreign business is against the interests of the Indian policyholders. Further, it is also against our national interests as it involves a drain on the country's foreign exchange resources. We would, therefore, recommend that the Corporation should devise ways and means of making the foreign business self-supporting by (i) earning a higher rate of interest on its foreign investments; (ii) cutting down its Management cost on foreign business; and (iii) developing foreign Life Business more intensively and stepping it ^{up} /substantially. In our view, the Corporation should make the business self-supporting within the next 3 years at the most or else cease to write new foreign business as we cannot afford to subsidise it permanently. (11.5.)

Chapter XIII - Publicity and Public Relations

15.301. In our opinion, the approach of the Corporation to the question of publicity lacks imagination. In India, the usual passive methods of publicity like advertisements in newspapers and leaflets explaining various plans of life insurance have to be supplemented by other methods, particularly audio-visual methods like films and radio. The Agent who gives efficient service is the best person to publicise life insurance. His efforts have, however, to be supplemented by other types of publicity. (13.2.)

15.302. We recommend the Corporation to take the following steps :

(1) The Corporation's budget on film publicity should be increased. Films should be made to bring out the benefits provided by life insurance. Such films should be shown along with other films on topics like religious festivals, or educational films on farming, irrigation, use of fertilisers, etc. The idea should be to show how the people can improve their surroundings, better their life, and then bring in the part that life insurance plays in this. This type of publicity is aimed at creating a fertile ground to receive what the Agent has to say about life insurance when he calls on the family. Films shown in each area must take into account local customs and feelings.

(2) The Corporation should utilise fully the advertising facilities now available on the radio. This publicity would reach the rural areas.

(3) The Corporation should publicise the contribution made by it towards the improvement of the rural areas in particular. For this purpose, ^{wherever} possible, the name and symbol of the Corporation should be shown prominently on projects completed with the aid of funds supplied by the Corporation e.g., housing projects, electrification projects, etc. Such concrete instances would make the people appreciate that the savings are used for their benefit.

(4) The Corporation should publish booklets on various matters which are of great importance to the public, e.g., health, diseases and how to prevent them, career and education, farming, and so on. While these are not directly concerned with life insurance, they will generate tremendous goodwill for the Corporation and its Agents. (12.3.)

15.303. We recommend that there should be a Public Relations Officer at each Branch Office to attend to the policyholders who call at the Office with their complaints and problems. This Officer may have other functions as well, but nobody should leave the Corporation's Branch Office with a feeling that his complaints were not looked into by a responsible Officer. (12.5.)

Chapter XIII - Miscellaneous

15.304. The capital of the Corporation is Rs. 5 crores provided by Government under Section 5 of the Life Insurance Corporation Act, 1956. While Sub-section (1) of the Section 5 contd.....

of the Act stipulates ". . . .and the terms and conditions relating to the provision of such capital shall be such as may be determined by the Central Government", the Central Government have not so far prescribed any terms and conditions in regard to the provision of capital to the Corporation. This should be done early to satisfy the requirements of the Act. (13.1.)

15.305. In our view, the Corporation does not need a capital of Rs.5 crores from Government for extending security to the policyholders. The capital provided by Government is absolutely secure and is not in the nature of risk capital. The allocation of enormous amounts from out of the actuarial surplus to Government by way of dividend is, therefore, unjustified. (13.2.)

15.306. We recommend that the Government should get a dividend equal to one per cent. above the Bank Rate and the balance of the actuarial surplus should constitute a special reserve to be used by the Corporation for its pioneering activities, such as mobilisation of rural savings, Investments in the Rural areas for building up Risk Proof farms, promotion of health of policyholders, etc. (13.2.)

15.307. We recommend that Government should make adequate Agency arrangements for providing life insurance to our Armed Forces personnel who are defending the borders. We would also recommend that Government should permit Welfare Associations of the Armed Forces to function as Agents of the Corporation so that the commission on life business developed in the border areas is spent on the welfare of our Jawans.(13.3)

15.308. Since the Corporation's working vitally affects the policyholders, we recommend that the Corporation's performance should be publicised every month for the benefit of the general public. (13.4.)

15.309. Some of our recommendations will require amendments to the Life Insurance Corporation Act, 1956 and the Insurance Act, 1938. We recommend that Government should give high priority to the legislative amendments that may be required for implementing our recommendations promptly.

October 2, 1968.

Sd:
(Tenneti Viswanatham)
Chairman

Sd:
(Randhir Singh Chaudhary)
Member

Sd:
(B. V. Narayana Reddy)
Member

Sd:
(B. K. Shah
Member

Sd:
(S. S. Sharma)
Secretary, Working Group.