सत्यमेव जयते

REPORT

OF

THE COMMITTEE

TO REVIEW THE WORKING

OF

LIC

(SEPTEMBER 1980)

CORRIGENDUM

Page	Reference	*Read*	*For*
8–9	Para 3.11, line 11	", the"	". The"
27	Para 6.13, line 2	"of multiple"	"of the multiple"
48	Para 7.38, line 35	"investigating"	"investigation"
	Para 7.38, line 37	"investigation"	"investigating"
58	Para 8.10, line 15	"with a premium reduction of"	"with a reduction of by"
60	Para 8.20, line 4	"requirement for 1978-79"	"requirement 1978-79"
62	Para 8.31, first line	"cost under"	"cost of"
84	Para following para 11.21	"11.22"	"11.12"
96	Para 13.6, line 3	"Central Cooperative Banks, or the Regional Rural Bank. All these"	"District Cooperative Banks. All District Cooperative"
108	Para 15.14, line 5	"interest for"	"interest to be allowed for"
	Para 15.14, last line	"for"	"on"
112	Para 16.8 (iv), line 8	"to pay"	"paying"
118	Para 18.7, line 4	"which"	"who"
119	Para 19.2, line 17	"any of the terms"	"any term"
	Para 19.2, lines 23-24	"to"	"which must"
	Para 19.2, line 27	"they do"	"it does"
	Para 19.2, lines 35-36	"guidelines."	"guidelines laid down by the Government."
120	Para 19.5, lines 11–12	"periods for posting"	"tenure for the post"
	Para 19.5, line 13	"executives at a particular station"	"executives"
121	Para 19.11, lines 3–4	"prepare the management personnel for changes"	"prepare the management personnel to prepare for changes"
132	Para 21.20, line 12	"submitted to"	"submitted to file with"

In the appendices, the references to paragraphs of the report should read as under:—

Page	Appendix	*Read paragraph*	*For paragraph*
196	17	"6.20"	"6.21"
197	18	"6.24"	"6.25"
198	19	"6.26"	"6.27"
199–200	20	"6.29"	"6.30"
201	21	"6.29"	"6.30"
202	22	"6.29"	"6.30"
203	23	"6.30"	"6.31"
204	24	"6.32"	"6.33"
205	25	"6.32"	"6.33"
206	26	"6.37"	"6.38"
207	27	"6.42"	"6.43"
208	28	"6.42"	"6.43"
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210	30	"6.44"	"6.45"
211	31	"6.51"	"6.52"
214	32	"6.51"	"6.52"
220	33	"6.57"	"6.58"
221	34	"6.64"	"6.66"
223	35	"6.65"	"6.66"
226	36	"6.72"	"6.73"
237–238	44	"8.15"	"8.14"
241	45	"8.23"	"8.22"
242	46	"8.24"	"8.23"
256	58	"12.12"	"12.10"

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TO REVIEW THE WORKING

OF

LIC

(SEPTEMBER 1980)

भारत सरकार
वित्त मंत्रालय
जीवन बीमा निगम कार्य समीक्षा समिति
"योगक्षेम", जीवन बीमा मार्ग
पो. बो. सं. 252

GOVERNMENT OF INDIA
MINISTRY OF FINANCE
COMMITTEE TO REVIEW THE WORKING OF L.I.C.
"Yogakshema", Jeevan Bima Marg
P. B. No. 252

ERA SEZHIYAN, M.P.
Chairman

बम्बई/Bombay-400 021, the 30th September, 1980

My Dear Finance Minister,

I have the honour to present the Report of the Committee to Review the Working of the Life Insurance Corporation of India.

I am grateful to you for the consideration shown by you to the Committee and the interest evinced in its working.

I take the opportunity of thanking the officers of your Ministry for their assistance and co-operation.

With kindest regards,

Yours sincerely,

Sd/-
(ERA SEZHIYAN)

Shri R. Venkataraman,
Minister of Finance,
Government of India,
North Block,
NEW DELHI.

GOVERNMENT OF INDIA

Report

of

The Committee to Review the Working of L.I.C.

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PART I

REVIEW

CHAPTER I

INTRODUCTION

1.1 The working of the Life Insurance Corporation of India (the LIC) has been the subject of review from time to time by a number of Parliamentary and other Committees. The Estimates Committee of Parliament (1960-61) was the first to examine its working. It submitted its report (134th Report of the second Lok Sabha) in April 1961. It was followed by another Parliamentary Committee, the Committee on Public Undertakings (1964-65) which submitted its report in March 1965 (4th Report of the third Lok Sabha). The next to examine the working of the LIC was the Working Group on Life Insurance Administration constituted by the Administrative Reforms Commission in August 1967. The Group submitted its report in October 1968 which was incorporated in the report of the Commission submitted in December 1968. The last was a Committee under the Chairmanship of Shri R. R. Morarka "to investigate into the causes of the present high level of expenses of the Corporation as indicated by its renewal expense ratio and to recommend measures, administrative or otherwise to bring it down to reasonable levels so as to subserve the maximum interests of the policyholders". This Committee submitted its report in April 1969.

1.2 After a lapse of ten years since the last committee submitted its report, the present Committee was appointed by Government Resolution F. No. 98(3) Ins. II/78 dated 18-5-1979, under the Chairmanship of Shri Era Sezhiyan, Member, Rajya Sabha. The other members of the Committee are :—

(1) Prof. V. M. Dandekar, Director, Gokhale Institute of Politics and Economics, Pune and Director, Indian School of Political Economy, Lonavla ;

(2) Shri A. Rajagopalan, former Chairman of the General Insurance Corporation of India, Bombay ;

(3) Dr. S. K. Chakraborty, Professor of Financial Management, Indian Institute of Management, Calcutta ;

(4) Dr. D. P. Singh, Vice-Chancellor, Rajendra Agricultural University, Patna (Bihar) ;

(5) Shri R. M. Mehta, former Managing Director, Life Insurance Corporation of India, Bombay ;

(6) Shri S. Ramanathan, Addl. Secretary, Deptt. of Economic Affairs, Ministry of Finance, New Delhi.

Shri A. Srinivasan, Executive Director, L.I.C. of India was appointed as Secretary of the Committee.

A copy of the Government Resolution constituting the Committee is given in Appendix 1.

The headquarters of the Committee was located at Bombay. The secretarial services were provided by the LIC.

1.3 Announcing the appointment of the present Committee in the Lok Sabha/Rajya Sabha on 16th May 1979, the then Dy. Prime Minister (Finance) stated as under :

> "With the growth of life insurance, however, expectations in respect of service and benefits to the policyholders have gone up considerably, and, both in Parliament and outside, demands have been made for more economic management, better return and improvement in the service to policyholders and reorientation of the investment policy. Suggestions have also been made to the effect that the present organisational set up of the Corporation calls for a radical change for achieving the desired objectives. That apart, after the Corporation was established, there have been vast changes in the economic scene and national priorities, and increasing emphasis is now being laid on rural development, removal of unemployment and provision of essential social services. It is necessary, therefore, that the life insurance industry's structure, business operations and investment policy are geared to meet the changing requirements of the insuring public and the national economy."

1.4 The terms of reference of the Committee are as follows :—

(a) to review the progress of life insurance since nationalisation, to assess the potential for its growth, particularly in the rural areas and to suggest steps for accelerating the development of the business ;

(b) to examine the organisation of the Corporation at different levels including the set up of the field force and to suggest such changes as may lead to greater efficiency and economy in operations ;

(c) to recommend measures for improving the quality of service to policyholders ;

(d) to examine the existing pattern of investment of the Life Fund and to suggest such changes, as may be considered necessary, for improving the return on the investments consistent with the safety of the capital and the national priorities ; and

(e) to make any other recommendations which will contribute to more effective management of life insurance business.

1.5 The Committee was required to submit its report within six months. This time limit was subsequently extended till 30th September 1980.

1.6 To help in its deliberations, the Committee invited public opinion through press announcements in 78 national and regional newspapers. 810 communications were received in reply.

1.7 The Committee also issued a Special Questionnaire to Members of Parliament, State Governments, Chambers of Commerce, Consumers' Associations, Universities, past chairmen and senior officers of the LIC, Members of the Zonal Advisory Boards and Policyholders' Councils of the LIC and a few others numbering in all 1224. Seventy replies were received.

1.8 It was also decided to undertake sample surveys to ascertain the opinion of the policyholders, using random sampling techniques. 68,000 policyholders who were continuing to pay premia under their policies and 12,000 policyholders who had allowed their policies to lapse were selected for these surveys, of whom 15,200 and 1008 respectively replied to the questionnaires.

1.9 A similar sample survey was undertaken to ascertain the opinion of life insurance agents. Questionnaires were issued to 13,000 agents which elicited 2131 replies.

1.10 Copies of the questionnaires issued are given in Appendix 2.

1.11 The Committee received written memoranda from various Associations of LIC employees belonging to different categories. The Agents' Federation also submitted a memorandum. The representatives of all these Associations were invited for giving oral evidence. The Committee also had the benefit of oral evidence from officials of some of the State Governments. Besides, the Committee took evidence from the public, particularly those who had responded to the special Questionnaire. The Committee had its sittings at Ahmedabad, Bombay, Calcutta, Delhi, Kanpur and Madras. List of the persons with whom the Committee had discussions during these sittings is given in Appendix 3.

1.12 The Committee also had discussions with the Chairman, Managing Directors and other senior Officers of the Central Office, Zonal Managers and some Divisional and Branch Managers from each Zone of the LIC.

1.13 The Committee had in all twenty three meetings for public hearings and discussing the matters among themselves. The discussions that the Committee had with the officials of the LIC and the oral evidence and written memoranda that it received from the representatives of various associations and individuals were of invaluable help in the examination of the various problems.

CHAPTER II

ESTABLISHMENT OF THE LIFE INSURANCE CORPORATION OF INDIA AND ITS OBJECTIVES

2.1 The first Indian insurer to transact life Insurance business in its modern form was the Oriental Life Assurance Co. established in 1818 in Calcutta. This was followed by the Bombay Life Insurance Co. in 1823 and the Madras Equitable Life Insurance Co. in 1829. A few more came into existence during the next few decades but the progress was modest. The Bombay Mutual Life Assurance Society founded in 1870, and the Oriental Government Security Life Insurance Company which followed four years later, were the earliest among the well-known insurers. In the wake of the Swadeshi movement which gave a fillip to Indian insurance, many new companies came to be established. With the increase in the number of companies transacting life insurance business, it became necessary for Government to enact in 1912 the Indian Life Assurance Companies Act, as well as the Provident Insurance Societies Act to regulate the affairs of insurers. The Indian Insurance Companies Act which was enacted in 1928 enabled Government to collect for the first time full statistical information of both life and general insurance business transacted in India by both Indian and foreign insurers. The decade 1929 to 1938, while witnessing a growth in the business transacted and the establishment of as many as 172 new Companies also witnessed the liquidation of sixty-one of them—almost all of them even before a valuation was performed. The legislation of 1912 was repealed and substituted by the Insurance Act 1938 with comprehensive provisions for detailed control over the activities of all insurers both Indian and foreign.

2.2 The growth of life insurance business in India from 1920 to 1955 is set out in the following table:—

TABLE II—1

Growth of Life Assurance Business in India

	NEW BUSINESS		BUSINESS IN FORCE		LIFE FUND
Year	No. of Policies (in thousands)	Sum Assured (in crores of Rs.)	No. of Policies (in thousands)	Total Sum Assured (in crores of Rs.)	Life Fund as at the end of the year (in crores of Rs.)
	No.	Rs.	No.	Rs.	Rs.
1920	28	5.16	—	—	8.46
1925	43	8.15	—	—	12.57
1930	145	27.50	717	154	20.53
1935	239	43.50	1095	235	35.19
1940	206	36.11	1553	286	62.42
1945	599	136.30	2592	557	107.49
1950	498	139.50	3280	780	181.50
1955	831	260.84	4782	1220	299.70

2.3 On 19th January 1956 life insurance business in India was nationalised. In his broadcast to the Nation on the eve of nationalisation, the then Finance Minister Shri C. D. Deshmukh summed up the reasons for this momentous step as follows :—

> "In the course of their observations on the organisation of the credit system of the country in connection with the First Five Year Plan, the Planning Commission drew attention to the necessity of fitting increasingly into the scheme of development visualised for the economy as a whole the banking system—and, in fact, the whole mechanism of finance including insurance, the stock exchanges and other institutions connected with investment. For, it is only thus, they said, that the process of mobilising savings and utilising them to the best advantage becomes socially purposive. Principally with a view to ensuring the spread of banking and credit facilities to the rural areas, the Imperial Bank of India was nationalised last year. 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. With the Second Plan in the offing involving an accelerated rate of investment and development, the widening and deepening of all possible channels of public savings has become more than ever necessary. Of this process the nationalisation of insurance is a vital part."

2.4 Moving the Life Insurance (Emergency Provisions) Bill, 1956 in the Lok Sabha on 29-2-1956, the Finance Minister stated as follows :—

> "Insurance is an essential social service which a welfare State must make available to its people and the State must assume responsibility for rendering this service once it is clear beyond reasonable doubt that it cannot be provided in any other manner. So, while it is the failure of the general run of insurance companies to live up to the high traditions demanded of them that has led the Government to take this step, I would like to emphasize that nationalisation in this field is in itself justifiable. 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 and into hitherto neglected, namely, rural areas."

2.5 The Life Insurance Corporation Bill which laid down the permanent arrangement for nationalised insurance was introduced in Lok Sabha on the 19th February, 1956. It became law on the 1st July, 1956. The Life Insurance Corporation of India was established on the 1st September, 1956.

2.6 The Administrative Reforms Commission, in its Report on Public Sector Undertakings (October 1967) recommended that Government should make a comprehensive and clear statement of the objectives of each of the Public Sector Undertakings. Government accepted this recommendation but decided that the statement should be formulated by the undertaking itself with the approval of Government. In pursuance of this, the LIC formulated its objectives in June 1974 as under :—

"(i) Spread Life Insurance much more widely and in particular to the rural areas and to the socially and economically backward classes with a view to reaching all insurable persons in the country and providing them adequate financial cover against death at a reasonable cost.

(ii) Maximise mobilisation of people's savings by making insurance linked savings adequately attractive.

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

(iv) Conduct business with utmost economy and with the full realisation that the moneys belong to the policyholders.

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

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

(vii) Involve all people working in the Corporation to the best of their capability in furthering the interest of the insured public by providing efficient service with courtesy.

(viii) Promote amongst all agents and employees of the Corporation a sense of participation, pride and job satisfaction through discharge of their duties with dedication towards achievement of Corporate Objectives."

2.7 In the following Chapters, we have attempted to evaluate the performance of LIC in the light of these objectives.

CHAPTER III

ORGANISATIONAL STRUCTURE

3.1 Section 18 of the Life Insurance Corporation Act, 1956 lays down the organisational set up of the LIC. It provides for a Central Office with Zonal Offices at Bombay, Calcutta, Delhi, Kanpur and Madras and "such other places as the LIC thinks fit subject to the previous approval of the Central Government". It further provides that "there may be established as many Divisional Offices and Branches in each Zone as the Zonal Manager thinks fit".

3.2 This provision was debated at length both in the Select Committee and later in Parliament. A strong section of opinion advocated the establishment of five independent Corporations competing with each other, contending that competition would be a spur to efficiency while a monopoly would induce complacency and inefficiency, which in the absence of comparable norms would be hard to detect. The following extract from C. P. Matthen's Minute of dissent to the report of the Select Committee (30-4-1956) gives the reasons in support of this view :—

> "Hence I propose that instead of one Corporation, we must have at least seven or eight autonomous Corporations, all owned by the Government, so that the element of competition may be retained. If some constructive and objective thinking is made, I am sure that this aspect—I mean the importance of the element of competition—will be appreciated by the House. In this connection, I would like to point out that all the practical businessmen who had occasion to appear before the Select Committee, have one and all stressed the importance of retaining the element of competition in the new set-up..."

> "These autonomous Corporations must have independent actuarial valuation and absolute freedom in the day-to-day working, and if the valuation warrants, these Corporations must have the liberty to declare independent scales of bonuses. Of course, each of these Corporations will have the freedom to work in any part of India and thereby encourage the spirit of healthy competition in this Industry. I have not the least objection to the Government controlling the investments of all these Corporations."

> "No country in the world has progressed so much in the matter of production as U.S.A., even though they still believe in *laissez faire* Capitalism, in which I have no faith. They have developed the industries into various big Corporations—whether in Automobiles or in Textiles or in Soap manufacture, etc. etc. But one feature which I want to stress in connection with the U.S. Corporations is that they encourage competition of similar products even in the same Corporation. I know of a big Soap Manufacturing Corporation, where two of their Washing Soaps manufactured in two factories are allowed cut-throat competition even though the loss incurred by one factory may be the loss of the Corporation. They have found that by this encouragement of the spirit of competition, the total business is increased at comparatively less cost."

> "With my business background, at the same time without any vested interests in any industry whatsoever, I am viewing the whole Nationalisation with the object of making a greater success than what is achieved by the Private Sector. I strongly recommend to the House the revision of this monopolistic one Corporation provision."

3.3 Government, however, still adhered to the view that "to start with" a single Corporation would be preferable to several competing Corporations and the Clause was passed, virtually unamended, as Section 18 of the Act. The following extracts from Shri Deshmukh's speeches in Parliament give the reasons for this stand of Government :—

> "There are certain objections of fundamental nature which militate against the acceptance of this suggestion, especially in the initial stages. On general grounds, it seems to me that if the State has to be ultimately responsible for the business of life insurance, it should be extremely difficult in practice to work through a number of Corporations. For instance, the spirit of competition is bound to be restricted. It would be difficult to justify the existence of different rates of premia. It would also be difficult to have different investment policies. Then there could hardly be any difference in employment policy or in the standard of servicing. Therefore, in a nationalised set up competition would have a restricted field and could only be in terms either of efficiency in service or in the rate of development of new fields of business. And we believe that a competition of this nature could be achieved through the zonal organisations that are contemplated in the Bill without creating other complications that would almost inevitably ensue if there were several autonomous Corporations competing with each other throughout the country. I think, human nature being what it is, it would be extremely difficult, if not impossible,

to stamp out some of the evils of competitive business such as for instance rebating. Therefore, our conclusion is that on merits and on a priory ground one Corporation is to be preferred. In any case, 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. I think it is our experience that the process of decentralisation is easier than the process of centralisation because vested interests are often created and they make an effort at centralisation more difficult even though that particular kind of experiment could be proved to have demonstrably failed."

(Lok Sabha)

"Another suggestion that has been put forward is that to preserve the element of competition, we must have several independent Corporations each competing with others all over India. Now, I cannot see how this will work out in practice. When the State is responsible for all of them, the competition must be somewhat unreal. One cannot, for example, prescribe different rates of premia or different investment policies or different service conditions. The competition then might degenerate into a rebate war and even if this does not happen, some of the Corporations might concentrate on the urban areas, where business is more easily obtained, leaving the rural areas to the more conscientious of the Corporation. The consequences might well be that the rural areas would continue to be neglected as hitherto."

(Rajya Sabha)

3.4 The most important consideration which appears to have weighed with Government in rejecting the idea of competition, was not so much that competition would add to the expenses—many, in fact, held a contrary view—but that competition might induce the Corporations to concentrate on areas where business is easy to get and neglect the rural areas and weaker sections of the community.

3.5 It will be observed that at that time, namely, when the LIC Act was on the anvil, only two types of organisational structure were considered : a single Corporation with Zonal Offices, Divisions and Branches, and five Corporations competing for business all over India. The third alternative, namely, five Corporations with well-defined territories and with a monopoly in their own areas, was not even mentioned. It was only later that this alternative claimed serious attention.

3.6 From the extracts from his speeches given above, it is apparent that Shri Deshmukh himself did not rule out the splitting up of the Corporation into "a number of autonomous Corporations", if subsequent experience rendered such a course expedient. Later while speaking in the Lok Sabha (1958) on the Chagla Commission Report, Shri Jawaharlal Nehru, the Prime Minister, put it more categorically thus :

"Some Members have suggested that it might have been desirable or it might be desirable in the future for this huge organisation to be split up into three or four. It is a matter which may be considered. If that is more advantageous, it should be done. We should not hesitate to do it."

3.7 The Estimates Committee (Second Lok Sabha) which was the first Parliamentary Committee to examine the working of the LIC expressed serious unhappiness over the "monopolistic and monolithic" structure of the Corporation and gave thought to other alternatives. Their findings and recommendations are given below :—

"It is to some extent true that in the case of monopolistic and monolithic enterprise like the Life Insurance Corporation, no comparative standards for measuring efficiency and performance are readily available. In the absence of such competition perhaps, defects cannot also be easily located or removed. The suggestion that the Corporation should be split up into a number of independent Corporations all operating throughout the country has, however, certain obvious drawbacks. Such an arrangement would entail the setting up of parallel organisations at all levels entailing considerable avoidable expenditure."

"The suggestion which contemplates a federal structure with semi-autonomous Zonal Units, has a number of desirable features. It will not entail duplication of organisation. On the other hand, the grant of autonomy in the writing of business, payment of claims, grant of loans, servicing etc. will encourage initiative and can be expected to result in increased efficiency. Such delegation of functions is also likely to require a smaller Central organisation which need be concerned only with policy matters, overall supervision, coordination, rates of premia, higher recruitment, postings and transfers, training, inspection, etc. An element of competition between the different semi-autonomous Zonal Units could thus be introduced. The figures of new business, management expenses, overall and renewal expense ratios, profit and loss, etc. could be worked out for each Zone and published separately in the Annual Reports of these Units to enable their efficiency to be judged. The Committee recommend that the matter may be examined in the light of the observations made above."

(Para 10—134th Report, Second Lok Sabha—April 1961).

3.8 The Committee on Public Undertakings (Third Lok Sabha) went a step further and recommended "completely independent Corporations". Their views and recommendations are reproduced below :—

"The Committee have considered this matter carefully. They are convinced that the tardy growth of business, deterioration of service to the policyholders which have been brought out in Chapters IV & V are ascribable to the present size and centralised organisation of the Corporation."

"The Committee feels that if the standard of efficiency in the Corporation is to be improved, with better service to policyholders, and the Corporation is to expand its business in 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 his Zone. The Committee hope that by this process overall business will expand, rural business would significantly increase and the service to the policyholders would also improve."

"So far as investments are concerned, during the transitional period, the Central Board of the Corporation should look after this work but even after formation of five independent Corporations it would be necessary in the national interest that the investments are equitably distributed throughout the country. A practical approach to this would be that major portion of the investment of any Zonal Corporation should be earmarked for the Zone itself. The balance should be left at the disposal of a Central authority to be created for the purpose for meeting also the needs of the backward areas of the country."

(Para 196—199, Fourth Report, Third Lok Sabha, March 1965.)

Government took a good deal of time to consider their recommendations. Their reply sent in April, 1967, was as follows :—

"Government are unable to accept the recommendation that the LIC should be split up into five independent Corporations. Government have, however, decided that the LIC should be reorganised on the model of the State Bank of India with Zonal Boards constituted by Government who would have clear and well-defined powers. It will be examined in due course as to what powers are to be vested in the Zonal bodies and how these powers are to be conferred, whether by statute or by Regulations."

However, a month later Government withdrew their reply stating that the matter was under re-examination.

3.9 Then the pendulum swung to the other extreme. Both the Working Group of the A.R.C. and the Committee of Enquiry into the expenses of LIC not only recommended the retention of a single Corporation but also recommended the abolition of the Zonal Office which in their opinion was a superfluity. The extracts from their reports are given below :—

Report of the Working Group of A.R.C. (October 1968)

"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."

"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 private insurers did before nationalisation."

"We consider that the handling of business of large magnitudes is an organisational problem and has necessarily to be tackled by an 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."

"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."

"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 Corporations 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."

"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 nationalised life insurance in the country, which will be a tragedy indeed."

(Recommendations 15.172 to 15.177)

Report of A.R.C. on Life Insurance Administration (December 1968)

"The establishment of multiple Corporations will involve enormous costs and wasteful duplication of expenditure as each Corporation will have its own paraphernalia of Chairman, Board of Directors, Managing Directors, Central Office—all in the Parkinsonian style. Besides this there will be a necessity for coordinating the activities of these Corporations at the Central level. On a balance of consideration, therefore, we have come to the conclusion that the Life Insurance Corporation should continue as a single Corporation and achieve economy and efficiency by implementing our recommendations for reorganisation. It should also simultaneously introduce competitive spirit among the Branches and Divisions in efficient service to policyholders and reduction in expense ratio."

(Para 45)

Report of the Committee of Enquiry into the Expenses of LIC (April 1969)

"Our study of the pattern of expenditure in the Corporation has not led to the conclusion that the present level of expenses is the result of the unitary structure of the Corporation. Nor are we in a position to assert, either from the evidence before us, or from our estimate of possible changes in the pattern of expenditure in a different set up, that the division of the Corporation into five or more autonomous or independent Units will necessarily result in a reduction in the level of expenses. On the contrary, we fear that it will increase the expenses, particularly if the split up Corporations are allowed to operate throughout the country."

"...........Our examination of the problems and consequences of dividing the Corporation has convinced us that it would be preferable to maintain the unitary structure of the Corporation and a simultaneous effort can be made to remove the shortcomings from which the Corporation suffers today. We are not convinced that the only way to remove these defects is to divide the Corporation in fact we fear that dividing the Corporation into five or more autonomous and parallel bodies may result in increase in expenses and give rise to other serious difficulties that may affect the objective of nationalisation."

"...........The Zonal Office in its present dimension and as an administrative tier will cease to exist, and this will lead to economy, increase delegation and decentralisation of powers and increased efficiency."

"All our proposals for effecting economy, spreading insurance, increasing administrative efficiency and reorganisation may be given a fair and full trial before the Government considers other alternatives that might have been put forward for the reorganisation of the structure of the Corporation. If, after a full trial has been given to the proposals that we have made, the Government feels that the results that have flown from the implementation of our proposals have not adequately improved the level of expenses and the administrative efficiency of the Corporation, it will, of course, be open to the Government to examine whether the present difficulties of the Corporation are the inherent consequences of the unitary form of the Corporation and consequently capable of removal only by altering the unitary structure of the Corporation, and re-fashioning it as a federal apex Corporation with autonomous Corporations or completely independent and competing Corporations in the public sector subject to the general control and supervision of the Government, or whether the malady and, therefore, the remedy lies outside the nature of the structure."

(Recommendations 140—143)

3.10 The Government accepted these recommendations and decided that the unitary structure of the LIC should continue. The following decision was also conveyed to LIC in May 1971 :

"Some of the powers of the Central Office and the Zonal Offices should be delegated to lower levels. A Committee should be set up soon to go into this question in depth and be requested to submit its report urgently. The role of the Zonal Office should be drastically curtailed and steps should be taken to enable the Divisional Offices to function virtually as the Head Offices of the erstwhile insurers, barring policy making, investments and a few special functions, which may continue to be performed by the Central Office. There should be a period of transition for effecting these changes at the end of which the Zonal Offices should be abolished. Steps should also be taken to enable the Branches to render essential PHS functions."

3.11 Three other Committees followed. All of them were appointed by the LIC and were concerned solely with the implementation of Government's decision to abolish or prune drastically the Zonal Offices. The first was the "Nayudu Committee" (1972), which drew up a detailed programme for transfer of the functions of the Zonal Office to the Divisional Offices and Branch Offices but since practical difficulties were encountered in the implementation of the decision to totally abolish Zonal Offices, the LIC constituted another Committee. The "Thapar Committee" in 1975 to review the matter. On the basis of the recommendations of the latter Committee, Government revised its earlier decision to abolish the Zonal Offices and allowed them to continue but with limited functions. In 1977, the LIC appointed another Committee under the Chairmanship of Shri S. Ramanathan. which examined the functions of the Zonal Offices de novo and recommended strengthening of teh Zonal Offices to enable them to function as "executive arms of the Corporation".

3.12 Thus, though many have not found the organisational structure of the LIC satisfactory, opinion has not been unanimous as to the manner in which it should be reorganised. In the circumstances, the organisational structure has continued unchanged. As subsequent chapters will show, in spite of much growth in its business, the LIC has not been able to fulfil some of its primary objectives satisfactorily. It seems that this is at least partly due to its present organisational structure.

3.13 We shall now examine the set up of the LIC under its present organisational structure.

Present set up of the LIC

3.14 The "Members" of the Corporation are appointed by the Central Government. The Chairman and Managing Directors also are "Members". The LIC Act provides for 16 members but for some time there have been only 14 members. We understand that the question of nominating two representatives of the employees on the Board of the LIC was considered but in the absence of any decision as to the method of choosing the employees' representatives the posts have remained vacant.

3.15 In accordance with Sec. 19(1) of the LIC Act, the general superintendence and direction of affairs and business of the LIC is entrusted to an Executive Committee. According to Sec. 19(2) of the Act, the LIC has also an Investment Committee for the purpose of advising it in matters relating to investment of its funds. Section 19(3) of the Act also provides for constituting of such other Committees as the LIC may think fit for the purpose of discharging such of its functions as may be delegated to them. Originally in 1956, the LIC had constituted a Senior Services Committe, consisting of the Chairman and two other members of the Corporation with a Functional Director as Member-Secretary to advise it on matters relating to recruitment, promotion and suspension or removal of officers of the Corporation. Subsequently, by amendment of these regulations in 1959, three Committees were set up—Services and Budget Committee, Buildings Committee and Public Relations Committee. Again in 1970, these Committees were replaced by three Advisory Committees, namely, Personnel Advisory Committee, Buildings Advisory Committee and Development Advisory Committee. In 1975, another Committee known as Policyholders' Service Advisory Committee was set up.

3.16 The working of these Committees was reviewed in detail and it was decided at the LIC Board Meeting held in August 1979 that the three Advisory Committees—Personnel Advisory Committee, Development Advisory Committee and Policyholders' Service Advisory Committee be abolished. Only the Buildings Advisory Committee was retained. It was further decided at this meeting to enlarge the scope and powers of the Executive Committee.

Central Office

3.17 The Finance Minister in his speech before the Parliament on 21st May, 1956 outlined in broad terms the functions envisaged to be performed by the Central Office of the LIC. The relevant extract from his speech is as under:

> "It is a fact that our intention is to avoid over-centralisation and it is only matters like investments and other big policy matters which would be dealt with at the central office. Most of the other matters would be delegated to the zones. In fact, there would be a further delegation to the divisional offices and it is our intention that they should more or less function as head offices of insurance companies with a wide measure of autonomy."

The above statement was further amplified in his speech in the Rajya Sabha on 28-5-1956 as under:

> "The Central Office would concern itself with prospectus, premium rates, and policy conditions, actuarial principles and basis, formulation of underwriting standards, standardisation of procedures, staff regulations and conditions of service, investment policy and actual investments which could more conveniently be made from the centre, control of audit and inspection, reinsurance arrangements and national publicity and co-ordination."

3.18 The Central Office was initially set up to carry out the functions as described above. However, in actual practice most of the executive authorities were centralised at the Central Office level and in fact there was little delegation of authority to the Zonal and Divisional Offices, particularly with regard to matters of personnel administration. While the LIC Act provides such extensive powers as opening of Divisional and Branch Offices to the Zonal Managers, in actual practice, they have to refer to the Central Office proposals for opening of even a Development Centre. Delegation of powers to the Divisions and Zones were confined mainly to the area of policyholders' servicing, but even here, reference to Central Office is required in respect of various matters. For instance, in respect of underwriting of new proposals, a reference is required to be made to the Central

Office in respect of proposals for large amounts and in respect of sub-standard lives. In respect of claims settlement, early claims for large amounts are required to be referred to the Central Office for decision. In the area of investment, financial powers for sanction of mortgage loans have been delegated to the Divisional and Zonal Offices but such powers are limited.

Zonal Offices

3.19 Section 22(1) of the LIC Act 1956 states that—

> "the Corporation may entrust the superintendence and direction of the affairs and business of a zonal office to a person, whether a Member or not, who shall be known as the Zonal Manager and the Zonal Manager shall perform all such functions of the Corporation as may be delegated to him with respect to the area within the jurisdiction of the Zonal Office."

3.20 Regulation 40 of the LIC Regulations 1959 provides for delegation of powers by the Corporation in relation to the affairs and business within the territorial limits of each Zone to the respective Zonal Managers.

3.21 While initiating the motion on 19th March, 1956 in the Parliament for referring the LIC Bill to the Select Committee, the Finance Minister explained the functions to be performed by the Zonal Offices in the following terms :

> "So far as day to day business is concerned, it is our intention that the Zonal organisations should for all practical purposes be autonomous and should be allowed to run their insurance business without undue interference. We would regard the Zonal Organisations as the executive arms of the Insurance Corporation, and it will be for these zonal organisations through their divisional, branch and other subordinate offices to sell insurance within their territories, to service their policies issued and generally to ensure that insurance becomes more widely known, more popular , and thereby to mobilse even larger volumes of savings from all sections of the people in order to attain the principal objective of this measure of nationalisation."

3.22 In the earlier stages of the LIC, the Zonal Offices played a very important role in the integration of the offices of the erstwhile insurance companies located within the zone and in setting up of the new Divisional and Branch Offices. However, in due course, with the centralisation of powers at the Central Office, the functions of the Zonal Offices were very much truncated.

3.23 The existence and functions of the Zonal Offices came to be reviewed when various committees in the past examined the working of the LIC as referred to in the earlier paragraphs. Specific attention is drawn again to the recommendations of the ARC and the Morarka Committee reports. These two reports recommended abolition of the Zonal Office as one of the tiers in the organisational set up of the LIC, which was accepted by Government. According to the implementation programme proposed in the Nayudu Committee Report, the Zonal Offices, during the transition period before their complete abolition, were to look after only the functions pertaining to estate management, mortgage loan administration, legal matters, maintenance of Provident Fund accounts and the engineering department, with the Deputy Zonal Manager-in-charge and the Zonal Managers were to shift their headquarters to the Central Office, Bombay. However, on subsequent reconsideration it was felt by the LIC that the Zonal Managers should continue to function at their respective Zonal headquarters only, particularly in the context of the disturbed personnel and industrial relations then obtaining and also with a view to facilitating implementation of the programme of decentralisation of servicing functions to Branches. On a further examination of this matter by the Thapar Committee and on referring again to Government, it was decided to retain the Zonal Offices. The decision of Government was as under :

> "The earlier decision to abolish the Zonal Offices in due course may not be implemented and instead—
>
> (i) the "Peripheral" functions of the Zonal Offices may be transferred to the Divisional Offices in a phased manner; and
>
> (ii) ultimately, the Zonal Offices should deal with only the "Core" functions (as defined by the Committee) with a reduced staff."
>
> (November 1975)

3.24 The Ramanathan Committee, which was appointed by the Board in October 1977 reviewed de novo the functions of Zonal Offices and came to the conclusion that Zonal Office should continue to function as an important tier in the structural organisation of LIC. It was recommended, therefore, that the Zonal Offices should be strengthened to function as "executive arms" of LIC as envisaged in 1956. The Committee proposed that in furtherance of this objective it should be ensured that all executive functions of the "Core" areas such as development, personnel, supervision and control over the efficient functioning of the offices in the Zone should be re-transferred from the Central Office to Zonal Offices. In addition, the Zonal Office might continue to perform some of the functions in the Peripheral areas such as legal work, mortgage loan administration, estate management, building and engineering work etc. Pursuant to these recommendations, action has been initiated for transfer of functions from Central Office to Zonal Offices. It is, however, noticed that what is intended to be done is only to restore to the Zonal Offices the functions taken over from them to the Central Office in pursuance of the Nayudu Committee report.

Zonal Advisory Boards

3.25 Section 22(2) of the LIC Act lays down that the Corporation may constitute for each Zone a Board for the purpose of advising the Zonal Managers in respect of such matters as are referred to it under the regulations made by the Corporation. Regulation 42(ii) of the LIC Regulations, 1959 lays down the constitution of the Zonal Advisory Boards. It states that each Zonal Advisory Board shall consist of not less than 8 and not more than 12 persons to be nominated by the Corporation to represent various areas of each Zone, one of whom shall be the Zonal Manager, who shall be an ex-officio Member of the Board. The Zonal Advisory Board shall be competent to discuss and review all matters of policy affecting the proper development of life insurance business within the territorial limits of the Zone and make recommendations thereon. The Board should meet at least twice in a year.

3.26 The functions of the Zonal Advisory Boards as codified at the meeting of the Board of the Corporation held on 23rd August, 1965 are as under :

(a) "Consistent with the general policy of the Corporation, the Zonal Advisory Board will be consulted in all matters of policy affecting the policyholders or development of business in the Zone and decisions in respect thereof taken fully reflecting the advice tendered by the Zonal Advisory Board.

(b) The Zonal Manager shall seek the advice of the Zonal Advisory Board among others in the matter listed below :

(i) Opening and closing of offices, upgrading or down-grading and territorial adjustments of the offices in the Zone.

(ii) Purchase of plots and construction of buildings for staff quarters and/or office premises in the Zone.

(iii) Loans on mortgages under the OYH scheme and ordinary mortgage loans scheme falling in the range to be specified.

(iv) Publicity activities.

(c) The Zonal Advisory Board should also be informed of and its views sought on the following :

(i) New Business programme.

(ii) Progress of New Business in the Zone and its various Divisions and Branches.

(iii) Statistics relating to :

(a) Claims by death and maturities.

(b) Complaints.

(iv) Progress of various mortgage schemes.

(v) Inspection reports of all the offices in the Zone.

(vi) Such other matters as may from time to time be considered appropriate.

(d) In all cases referred to the Board, the Zonal Manager would as far as possible act on the advice of the Board."

In addition, advice of the Zonal Advisory Board is sought for proposals relating to the construction of Branch Office building involving an expenditure not exceeding Rs. 2.50 lakhs and also in respect of applications for mortgage loan for amounts for over Rs. 1 lakh but not exceeding Rs. 2.50 lakhs.

3.27 Though the functioning of the Zonal Advisory Boards was reviewed from time to time with a view to vesting them with additional functions and authority, in practice, in the absence of clear cut delegation of authority to the Zones, nothing worthwhile emerged. In fact from our discussions with some of the members of the Zonal Advisory Boards and other officials of the LIC we gathered the impression that these Boards are not able to perform any useful function and are, therefore, not being taken with seriousness either by the members themselves or the Zonal Managers.

Employees' and Agents' Relations Committee

3.28 Section 22(3) of the LIC Act, 1956 lays down that the Corporation shall constitute for each Zonal Office an Employees' and Agents' Relations Committee consisting of representatives of the LIC and of its employees and agents. It shall be the duty of the Committee to advise the Zonal Manager on matters which relate to the welfare of the employees and agents of the LIC or which are likely to promote and secure amity and good relations between them and the LIC. Section 43A of the LIC Regulations deals with the other procedural aspects of the constitution of the Committees and their functions. These Committees were constituted accordingly for each Zonal Office earlier. Since 31st August, 1971 these Committees have not been reconstituted, because of procedural difficulties. There was a proposal to establish Divisional Councils and General Councils in pursuance of Government advice based on ARC recommendation. However, these Councils could not be formed in view of the difficulty in the matter of representation of Class III & Class IV employees on the Councils in the absence of one recognised Union of such employees.

Divisional Offices

3.29 Section 18(4) of the LIC Act envisages the establishment of as many Divisional Offices and Branch Offices in each Zone as 'the Zonal Manager thinks fit". However, from the inception, the authority for sanctioning the opening of new Divisional Offices and even Branch Offices has been vested only in the Central Office. At the inception of the LIC 36 Divisional Offices were set up throughout the country. There were 41 Divisional Offices as on 31st March, 1980 under the charge of Divisional Managers/Sr. Divisional Managers.

3.30 The question of delegation of functions to the Divisional Offices from Zonal and Central Offices, as well as from the Divisional Offices to Branches was being considered from time to time. A significant step in this direction was taken pursuant to the recommendations of the Nayudu Committee Report. The recommendations of this Committee envisaged complete decentralisation of essential servicing functions from the Divisional Office to the Branch Offices, the former retaining only functions of control, supervision and co-ordination of the activities of the Branch Offices. The reorganisation of the Divisional Office set-up was, however, dependent upon the decision for abolition of the Zonal Offices and transfer of certain original functions from the Zonal to the Divisional Offices. It was, however, finally decided to retain Zonal Offices and hence the Divisional set-up remained the same excepting for transfer of servicing functions to Branch Offices. As such, there are certain areas where the Divisional Offices have to refer to the Central Office of the LIC for specific decisions in individual cases relating to policyholders' service such as underwriting and early claims. Further, though the process of decentralisation of servicing functions to the Branch Offices has been considerably accelerated during the last two years, elimination of duplication of functions and staff at the Divisional Office and exercise of appropriate financial control over the working of the Branches do not appear to have received adequate attention.

3.31 The present functions of the Divisional Offices are :

(i) Development of organisation, new business planning and directions in the matter of new business development,

(ii) Underwriting of new business and issue of policies,

(iii) Policyholders' servicing to the extent that it is not decentralised to the Branch Offices,

(iv) Maintenance of Accounts,

(v) Sanction of loans under various mortgage loans schemes,

(vi) Personnel matters such as promotions, postings, transfers, etc. of Class II, III and IV employees,

(vii) Exercising supervision and control over the working of Branch Offices and Sub-offices in their jurisdiction.

Policyholders' Council

3.32 It is provided under Regulation 43 of the LIC Regulations, 1959 that LIC may estalish a Policyholders' Council for each Divisional Office by nominating representatives from policyholders residing in the area served by the Divisional Office. The functions of this Council are to discuss all matters referred to them by the Divisional Manager, particularly in relation to policyholders' servicing. Accordingly, Policyholders' Councils have been set up in all the Divisional Offices. However, our earlier comments about the Zonal Advisory Boards apply equally to the Policyholders' Councils and there is a general feeling that these Councils are not performing any useful functions.

Branch Offices

3.33 There were 738 Branch Offices and 4 Sub-offices as on 31st March, 1980. In its early years the LIC had opened besides full fledged Branch Offices small offices which were called Sub-offices which had only a limited staff and attended to the functions of development of business and new business underwriting but did not attend to any policyholders service including collection of premiums under existing policies. Such sub-offices were opened at places where the need for opening an office was felt for more intensive development of business but opening of a full fledged Branch was not considered viable. However, with the concept of decentralisation of servicing functions to offices as close as possible to the policyholders the distinction that was sought to be made between the functions performed by sub-offices and Branch Offices was given up. The only difference between a sub-office and a Branch Office was that the Officer-in-Charge of a sub-office was in the cadre of Assistant Branch Manager (Development). All sub-offices started performing all the functions of a Branch Office and most of them were upgraded as Branches in due course.

3.34 The LIC had also developed the concept of a Development Centre within a Branch area with an Assistant Branch Manager (Development) in charge. These were centres which had potential for more intensive new business development and where two or more Development Officers were already stationed. It should be noted that at these Development Centres no office is actually set up but only an Assistant Branch Manager (Development) is posted to be in charge of the Development Centre who serves as a nucleus for development activities in the Development Centre area so that in course of time a Branch Office can be opened at the Centre. The LIC had 100 Development Centres as on 31st March, 1980.

3.35 In the early stages the branches were primarily concerned with procurement of new business by ensuring proper supervision over the work of Agents and Development Officers. Servicing of policies to a limited scale, such as, collection of premia, issue of default notices etc. was being attended to in addition. With the growth of new business and increase in the number of policies to be serviced, the question of rendering essential after-sales service to the policyholders at branch level received greater attention. Initially non-medical underwriting was entrusted to the branches up to certain levels, followed by decentralisation of loan settlement work up to certain financial limits and work relating to age admission. These steps were taken in 1961 and 1962. There was continuous review of this activity and LIC took decisions for decentralisation of the additional servicing functions from the Divisional Office to Branch Offices from time to time.

3.36 The whole concept of making the Branch Offices function as complete servicing units in addition to their development functions received special impetus when the A.R.C. made its recommendations in its report on 'Life Insurance Administration' in December 1968, as referred to earlier in this report. It was on the basis of decisions taken on this report and the guidelines provided in the Nayudu Committee report that further steps were initiated by the LIC to decentralise to the Branch Offices various policyholders' servicing functions under the following phases :

Phase I : (i) Non-medical Underwriting (ii) Non-medical revival (iii) Grant of first loan to policyholders (iv) Adjustment of premium collection under salary savings scheme policies.

Phase II : (i) Age admission (ii) Registration of nomination (iii) Registration of assignment (iv) Settlement of commission to agents.

Phase III : (i) Sanction of subsequent loan to policyholders (ii) Maintenance of Agents' accounts (iii) Surrender value quotations (iv) Assistance to claimants (v) Alterations (simple) under Policies (vi) Complete Premium/Deposit Accounting.

3.37 The decentralisation programme envisaged certain special steps to be taken for ensuring its success. These related to posting of the required staff strength at the Branch Office, training of the existing and newly recruited branch staff, training of the Branch supervisory and managerial staff in particular, securing of adequate space for the Branch Office premises and establishment of adequate controls. It would, however, appear that problems relating to staff and space could not be satisfactorily resolved with the result that the decentralisation programme did not make sufficient headway in the early stages.

3.38 It was decided in April 1976, that pending a complete review of decentralisation work and availability of feed back information regarding adequacy of controls exercised over the functions already decentralised, it would not be advisable to proceed with decentralisation of further functions to the Branch Offices. The matter was again reviewed in August 1978 and it was decided to go ahead with the programme of complete decentralisation as it was felt that unless this programme was accomplished on a priority basis, it would not be possible to ensure satisfactory after sales service to the policyholders, about which increasing complaints were being received. The Divisional Offices were asked to initiate urgent steps for completing the first three phases of decentralisation programme before 31st March, 1980 and then consider transfer of additional functions in other areas, such as claim settlement, alterations, transfer of policy records, etc. to the Branch Offices.

3.39 The programme of decentralisation originally drawn up did not cover the Branch Offices in large cities which were having more than one Branch Office. Since inception, such City Branch Offices were entrusted with only limited functions of development and new business processing and all work relating to premium collections and policyholders' servicing were being handled by the Centralised Cash Collection Centre (CCCC) and Divisional Office. All policy records in respect of such City Branch Offices were being maintained at the Divisional Office level. Though in the early years the CCCCs were functioning quite efficiently, with the growth of business increasing problems were being experienced in the servicing of the policies in the large cities where CCCCs were functioning. It was, therefore, decided to consider decentralisation of some servicing functions to the City Branch Offices also though in a phased manner. A start has been made in this direction in most of the Divisions excluding Bombay, where the Branch Offices have been entrusted with the servicing of new policies issued after a specified date while CCCC continues to attend to premium collections and the Divisional Office to the servicing of policies issued before that date. Decentralisation of servicing of all the existing policies to the City Branch Office is also under consideration in some of the Divisions. The question of decentralisation of servicing functions to City Branch Offices in Bombay is also reported to be under active consideration.

3.40 Though considerable progress appears to have been made in decentralisation of policyholders' service functions from Divisional Offices to the Branch Offices, some important lacunae still remain. As stated in the previous paragraphs, only a beginning has been made for decentralisation of functions to the City Branch Offices and as a very high proportion of the total business of the LIC is concentrated in the large cities, such policies are still being serviced by the Divisional Offices only. Secondly, even where the service functions have been decentralised from Divisions to the Branches, the problem of avoiding duplication of functions and records between Branch Offices and Divisional Offices on the one hand and of ensuring essential financial and statistical controls on the working of the Branch Offices on the other, have not received adequate attention. The result has been that in many areas, the financial controls over the working of the Branch Offices have been relaxed, opening up possibilities for serious irregularities. At the same time, considerable duplication of work both at the Branch Offices and the Divisional Office, still continues with the consequent increase in the avoidable work-load and the total requirement of staff. Another aspect which would appear to have not received adequate attention is the need for ensuring that the Officers placed in charge of Branch Offices have necessary experience and training for discharging their increasing administrative responsibilities. All these aspects would require close consideration.

3.41 *Offices Outside India.*—Some Indian insurers prior to nationalisation of insurance business in India were doing life insurance business in some foreign countries. On nationalisation, all such foreign business of Indian insurers vested in the LIC. With the local developments in the various countries, the LIC had to close its operations at most of the places. The LIC now transacts new business only in Fiji, Mauritius and in the U.K. through Branch Offices located in these countries. In the light of the various constraints in the operations of the LIC in foreign countries, the LIC and the GIC have worked out a scheme of participation in Malaysia as well as in Kenya with local compainies floated with a majority holding of LIC and GIC and a minority holding of local parties. In Malaysia the participation of LIC is through the "United Oriental Assurance Sendirian Berhad" and in Kenya through the "Kenindia Insurance Company Limited". The Committee could not examine in detail the operations of the LIC in foreign countries. The Committee would, however, suggest that the LIC and the Government should examine whether the LIC's direct operations in the U.K., Mauritius and Fiji are economically viable.

CHAPTER IV

MARKETING ORGANISATION

4.1 Though life insurance has been rightly described as a basic need, it is nevertheless an intangible need. A sales organisation is, therefore, essential to bring home to the people the need to provide for the family against untimely death in the face of competing demands of tangible and immediate needs. Life insurance also provides a convenient medium for long term savings. Here too, it has to face competition from other media of savings. Thus, the need for a well-equipped and well trained sales organisation is apparent. That "life insurance has to be sold and is not bought" is borne out by experience the world over. The "Equitable life" of U.K. for instance, the oldest life insurance company in the world and whose policy benefits are exceptionally attractive, is able to transact only a modest volume of business because it has no agents, while other well run companies which have a marketing organisation are able to transact business many times that of the "Equitable Life"

Life Insurance Agents

4.2 The LIC's marketing organisation consists of Agents and Development Officers who are primarily responsible for the procurement of business supervised by Assistant Branch Managers (Dev.) and Branch Managers. The life insurance agent has been traditionally recognised as the corner stone of the sales organisation. In the pre-nationalisation period, barring some notable exceptions, insurance companies were not selective in their recruitment of agents, their main consideration being prospects of immediate new business. Their criteria for continuance of agency appointments were also quite lax. A majority of these agents were mere spotters of business. When the LIC was set up, it recognised the need for a sound agency organisation in order to develop its business on sound and healthy lines. The policy in regard to selection of agents was therefore, revised. Certain minimum educational qualifications, inter alia, were insisted upon and for continuance of the agency, the agent was required to secure annually policies on six different lives, the aggregate amount depending upon the place where the agent was working. In centres with a population of less than one lakh the agent was required to secure a business of Rs. 20,000 and elsewhere a business of Rs. 40,000. Certain relaxations were permissible in regard to new business if the perfromance in the preceding year was satisfactory. The conditions for appointment of agents and the business required for continuance have been further tightened by the Agents' Regulations (1972). The educational qualification now required is matriculation, if the agent is to be appointed in a place with a population of 1 lakh and above, and 8th standard elsewhere. The qualifying business for continuance of the agency in terms of number of lives and sum assured has also been raised substantially. Further, the agency appointment now stipulates that the appointment will be terminated at the end of the agency year if the agent fails to bring in the business required in that year. It was expected that these standards would contribute to some extent in improving the quality of recruitment and stabilisation of the agency organisation. A review of the agency organisation of the LIC as described in the following paragraphs does not, however, confirm this expectation.

4.3 In Appendix 4 are given statistics of the number of agents on the rolls of the LIC since 1957. This statement also gives the percentage of agents who were active and also shows the average performance per active agent in terms of number of policies and sum assured. Relevant statistics for some of the years are reproduced below :

TABLE IV—1

Agents Statistics giving proportion of active agents and average performance per active agent

Year	Total number of Agents on rolls	Active Agents on roll	% of Active Agents to total Agents.	Average performance per active agent: No. of Policies	Average performance per active agent: Sum Assured
1957	2,07,373	89,000	42.9	9	31,067
1960	1,39,821	1,01,600	72.7	12	47,900
1961	1,55,890	1,25,033	80.2	12	47,900
1965-66	1,70,580	1,48,026	86.8	11	53,315
1970-71	1,48,214	1,36,578	92.1	12	88,997
1975-76	1,55,153	1,44,385	93.1	14	1,45,722
1976-77	1,42,048	1,30,621	92.0	15	1,60,413
1977-78	1,28,993	1,17,702	91.2	16	1,70,326
1978-79	1,17,205	1,07,966	92.1	16	1,90,565
1979-80	1,19,001	1,09,180	91.7	19	2,50,164

It will be seen that during the fiirst four years since the inception of the LIC, the services of a large number of agents were terminated and that the total number of agents came down from 2,07,373 in 1957 to 1,55,890 in 1961. The percentage of active agents went up from 42.9 in 1957 to 80.2 in 1961. During the next first five years there was some increase in the number of agents on the rolls and also a slight increase in the percentage of active agents. However, since 1966 there has been, except for the two years 1971-72 and 1972-73, steady decrease in the number of agents as well as in the number of active agents.

This was more than offset by the steady increase in the average performance of active agents which has gone up from 12 policies and Rs. 47,900 sum assured in 1961 to 19 policies and Rs. 2,50,164 sum assured in 1979-80.

4.4 The statement in Appendix 5 gives for the years 1961 to 1978-79 an analysis of the number of agents at the beginning of each year, the number recruited during the year, the number ceasing to be agents on account of termination or other causes and the net number of agents at the end of the year. This brings out that the number of agents who ceased to work as agents either by way of terminations or other causes almost equals the number of agents recruited during the year. In fact during the last 3 years the terminations have been larger than the recruitment. Statistics for certain relevant years are reproduced below :—

TABLE IV—2

Strength of Agency Force

Year	No. of Agents at the beginning of the year	Number recruited during the year	No. who ceased to be Agents during the year		No. of Agents at the end of the year
			due to termination	due to other causes	
1961	1,39,821	59,656	42,929	658	1,55,890
1965-66	1,70,381	45,851	44,979	673	1,70,580
1969-70	1,54,151	28,283	35,007	478	1,46,949
1970-71	1,46,949	29,599	27,842	492	1,48,214
1975-76	1,61,013	42,403	47,493	770	1,55,153
1976-77	1,55,153	37,360	49,491	974	1,42,048
1977-78	1,42,048	31,478	43,548	985	1,28,993
1978-79	1,28,993	30,650	41,854	583	1,17,206[1]

It will also be seen from Appendix 6 that the proportion of agents who survive for a period of 5 years from the date of appointment is only about 25 per cent and by the 10th year such proportion is hardly 10 per cent.

4.5 The need for creation of a sound agency organisation has been stressed by earlier Committees. The Estimates Committee 1960-61 observed that in order to attract young and energetic men to the insurance profession, the LIC should consider restrictions on the number of agents in urban areas and encourage appointment of whole time professional agents. The Committee on Public Undertakings, 1964-65 recommended that the LIC should endeavour to develop a stable agency force built on a nucleus of whole time professional agents by exercising care in their proper selection and also by imparting them suitable training. The Working Group of the A.R.C. also stressed the need for creation of a stable agency force adding that it must build up a profession of insurance agents if it is to achieve the objectives of nationalisation. The Morarka Committee also felt that the present agency force of the LIC should be forged into a cadre of real agents.

4.6 The views of the LIC explaining the practical difficulties in recruiting good agents, are stated in their reply to the Working Group of the A.R.C. as under :

> "In the social valuation of the middle class in this country, sufficient prestige does not attach to salesmanship as an occupation and considerable difficulty is experienced in attracting young men of requisite aptitude, calibre and qualifications to the profession of insurance salesmanship. The problem has grown more difficult today than in the past as under the impact of national development plans a number of new employment opportunities have opened up to young men. A large majority of recruits to the agency force, therefore, take up an insurance agency only as a subsidiary occupation and in some cases only as a temporary expedient to occupy their time while they are looking for a more acceptable occupation."

> "Further, insurance salesmanship is a fairly difficult profession and it is only by actual trial that a young man can find out if he is likely to succeed therein. In the circumstances, not many young men are willing to take the risk of taking it up as a full-time occupation and out of those who take it up as a full-time or part-time job, only a small proportion make a success of it. The experience of the LIC has been that a large proportion of full-time agents on its books started as part-time agents. It is to be expected that even if a scheme of financing full-time agents by providing full training and paying a regular stipend during the initial period is started, only a small fraction of such financed agents would prove successful."

Agents Clubs

4.7 We shall now review the steps taken by the LIC to build up a cadre of professional Agents. One of the steps taken, which the LIC expects will give the agent a status in society is the formation of Agents' Clubs. These Clubs which were started in 1971, are constituted at four levels, namely, Branch, Division, Zone and the All India levels. Eligibility for membership is on the basis of performance covering a period of 4 years and the criteria relate to number of lives, sum assured, first year commission, renewal commission, business in-force, etc. The membership of the Clubs confers on the agent certain fringe benefits like telephone facilities, office allowance, advance against purchase of fast vehicles. It also confers certain privileges such as attestation of copies of age proof and signature/thumb impression on claim forms and furnishing of moral hazard reports on proponents up to certain limits. The total club membership has gone up from 2,543 in the year 1971-72 to 6,175 in the year 1979-80. Statement in Appendix 7 gives Division-wise statistics indicating also the growth of membership of these Clubs.

Career Agents

4.8 Another important step taken by the LIC in building up a professional agency cadre was the introduction in 1972 of Career Agents' Scheme in the urban areas. The scheme is meant to attract educated young men to take up life insurance agency as a full time career. Applications for Career Agency are entertained from persons who are

(i) in the age group 22—30

(ii) graduates or matriculates with 60 per cent marks and with some college or work experience ; and

(iii) residents for a minimum period of 3 years at the place of appointment.

The person selected is given special training during which period he is not required to canvass life insurance business. He is placed under the direct charge of a Branch Manager or Assistant Branch Manager (Dev.) who is specially selected having regard to his aptitude for training. He is paid a stipend during the training period. Certain premium income objectives are prescribed to be achieved. The trainee Career agent is expected to complete certain businees quota during the first three years. The scheme also provides for grant of interest free loan to him for purchasing a fast conveyance with a view to enabling him to reach a higher level of business production.

4.9 Table below gives some statistics of Career Agents :

TABLE IV—3

Career Agents' Statistics

Year	No. of Career Agents Branches /Units	No. of Career Agents	Total New Business secured by Career Agents Brs./Units: No. of Pols.	Total New Business secured by Career Agents Brs./Units: Sum Assured (Rs. in '000)	Average production per active Career Agent: No. of Pols.	Average production per active Career Agent: Sum Assured Rs.
1972-73	14	234	5186	4,38,00	22	1,87,300
1973-74	34	482	11817	10,43,00	25	2,21,910
1974-75	38	680	16274	15,83,00	24	2,32,820
1975-76	38	931	21032	20,84,00	23	2,23,850
1976-77	38	1005	25605	25,43,00	25	2,35,040
1977-78	38	1125	28484	31,15,00	25	2,76,870
1978-79	38	1253	32998	39,65,00	26	3,16,460
1979-80	38	1411	43576	52,80,00	31	3,74,200

It will be seen that from 1972-73 to 1979-80 the number of Career Agents Branches/Units has gone up from 14 to 38 and the number of Career Agents has gone up from 234 to 1,411. The total amount of new business introduced by Career Agents has gone up from Rs. 4.38 crores under 5,186 policies in 1972-73 to Rs. 52.80 crores under 43,576 policies in 1979-80. The average production of a Career Agent is now 31 policies assuring a sum of Rs. 3.74 lakhs compared to the average production of 19 policies assuring a sum of Rs. 2.50 lakhs in case of the entire agency organisation (this includes ordinary agents and Career Agents). The LIC has also made a cost benefit analysis of the working of the Career Agents' Scheme. In 1978-79 the additional costs incurred on Career Agents in the form of stipend paid to the agents, special allowance paid to the Branch Managers/Assistant Branch Managers (Development) and recruitment expenses incurred worked out to 13.44% of the first years' premium income secured through Career Agents' Units. It, therefore, appears that the average costs incurred on Career Agents are appreciably lower than those on agents who are working under Development Officers.

4.10 Table below gives the percentage of Career Agents terminated by the end of successive years

TABLE IV—4

Percentage of Career Agents terminated by the end of each successive year

Year of Recruitment	First year following the year of recruitment	2nd year	3rd year	4th year	5th year	6th year
1972-73	59	61	67	70	74	77
1973-74	58	72	75	78	83	
1974-75	76	80	83	85		
1975-76	76	82	85			
1976-77	75	82				
1977-78	74					

While the percentage of Career Agents who were terminated during the first year following the year of recruitment was 59 in 1972-73, this percentage has gone up to 74 in 1977-78. The turn over is very high, which compares unfavourably even with that of the ordinary agents, although the scheme of Career Agents provides more attractive terms. The reasons for the termination of these agencies are as under :

Reasons	% of Cessation of Career agents
Terminated for poor performance	48.90
Left for another job	26.20
Left because of not having aptitude	12.30
Left on account of personal difficulties	10.30
Left on account of prosecuting further studies	2.30
	100.00

The large percentage of terminations on account of (a) poor performance and (b) lack of aptitude might indicate the inadequacy and ineffectiveness of the process of selection.

4.11 In 1979, the LIC formulated a modified scheme for appointment of Career Agents in rural areas with a view to intensifying its efforts to cover the rural population. It is too early to assess the extent of success of this scheme.

Agents Training

4.12 Another step taken for professionalising the agency force is the imparting of training to agents. In fact, under the Agents' Regulations, 1972 it has been made obligatory on the part of every agent to undergo training and pass a test for confirmation in his appointment as an agent. Prior to the framing of Agents' Regulations training was optional. The LIC has prepared good training literature and the techniques of training are modern and well thought out. In addition to class-room training the instructor gives practical training to the agents in the field. Joint calls with the trainee agents are made by instructors on prospects to give practical demonstration of selling techniques. In addition to agents' training scheme, basic literature on selling life insurance is also published by the LIC which enables the development officials to impart a sort of pre-recruitment orientation to prospective agents. Table below gives statistics of new and absorbed agents trained during the past years :

TABLE IV—5

Statistics of number of Agents trained during each year

Year	No. of New Agents trained	No. of Absorbed Agents trained	Total no. of Agents trained
1959	—	2,100	2,100
1962-63	—	7,884	7,884
1967-68	—	4,422	4,422
1972-73	6,293	2,678	8,971
1973-74	18,999	2,556	21,555
1974-75	22,910	5,271	28,181
1975-76	19,932	7,266	27,198
1976-77	16,719	8,799	25,518
1977-78	13,188	6,714	19,902
1978-79	10,987	6,301	17,288

Benami Agencies

4.13 One of the factors which come in the way of building up a professional agency force is often reported to be the existence of benami agents. A benami agency is one where the canvassing and procurement of business is done by somebody other than the person who holds the appointment as agent. The need for eliminating benami agents has been stressed in the reports of the past Committees. The Estimates Committee (1960-61) urged the LIC to take effective steps to eliminate benami agents. The Committee on Public Undertaking (1964-65) and the Working Group of the A.R.C. were equally concerned and suggested similar steps. The Morarka Committee referred to the existence of benami agents and felt that their recommendation about agents having to pass an examination, might prove an effective deterrent to benami agencies.

4.14 The Benami Agents can be classified under following groups :—

(a) Benami agency run by a development officer or some other employee of the LIC who is precluded from holding an insurance agency by terms of his service contract but circumvents the ban by procuring business in the name of a benami. Though as and when such cases come to light the LIC takes action to terminate the agency, even so, it appears from the evidence before the Committee that a large number of such benami agencies continue to exist;

(b) Agency taken out in the name of his relative by an employee of an institution where, under his employment conditions, he is not permitted to act as an insurance agent. Such agencies are most common in project towns; and

(c) Another type of benami agency is one where an agent who is himself doing good business, wants an additional agency in the family for distributing his commission earning in order to reduce tax liability.

4.15 No reliable estimate is obviously possible of the extent of this practice. However, as was pointed out by the Morarka Committee the high proportion of female agents to the total namely 23% could be considered to be an obvious indication of the extent of benami agents. Though, of course not all female agents are benami agents, the very high percentage of female agents is certainly an indication of the magnitude of the problem.

Casual Agents

4.16 There is another category of agents who can be termed as 'casual agents'. Development Officers and even Branch Officials are known to offer agencies to members of a family, from whom they expect a large volume of business as an inducement for business. The Development Officers or the Branch Officials, do all the work involved in the selling and servicing of the business the agent being merely the recipient of the commission. Such agents are not generally interested in the agency nor are they competent to perform the functions of an agent. Likewise some spotters of ready business are also offered agencies by the Development Officers or Branch Officials who turn out to be only casual agents. It may be added that there are a number of regular agents who are 'part-time' agents, but who regularly devote a part of their time to the insurance agency work. Such part-time agents are quite often very effective agents and should not be confused with the "casual agents".

4.17 The fact that the existence of casual and benami agents impedes the growth of professional agents cannot be ignored. This aspect requires serious consideration.

Development Officers

4.18 Prior to nationalisation, except for a few companies which operated through Chief Agents or Special Agents, insurance companies had a pattern of organisation in which the Branch Offices supervised the work of agents through one or more tiers of salaried officers, variously designated as Organisers, Inspectors, Superintendent of Agencies etc. The code of conduct framed by the Executive Committee of the Life Insurance Council prohibited more than one intermediary between the Agent and the Branch Office. In practice, this was circumvented to a very large extent. Since there was rigid cost control on the operation of Branch Offices and even more so on the inspectors, there was a high turnover of the field officials at all levels many of them switching from one company to another. When Life Insurance business was nationalised, and the LIC was set up all field officials of the erstwhile insurers, other than those who were selected for appointment as Class I Officers, were appointed as Inspectors. These inspectors were termed as Class II Officers and entrusted with the responsibility of supervising the work of agents. The duties, terms and conditions of service and fixation of salaries of Inspectors taken over from the Companies were set out in an Order issued by the Central Government in 1957 under Section 11(2) of the LIC Act. The Order is usually referred to as the "Blue Order". These Inspectors were later designated as Field Officers and subsequently as Development Officers. The duties of a Development Officer were defined in the Blue Order as under :

(i) develop and increase the production of new life insurance business in a planned way as far as may be practicable in the area allotted to him or in which he is allowed to work through the agents placed under his supervision by the Corporation;

(ii) guide, supervise and direct the activities of all such agents;

(iii) recruit and train new agents so as to develop a stable agency force;

(iv) act generally in such a way as to activise existing agents and motivate new agents;

(v) render all such services to policyholders as conduce to better policy servicing; and

(vi) work in the area allotted to him as a representative of the Corporation in that area and perform as such representative such other duties as the Corporation may call upon him to do.

4.19 The salaries of these Inspectors were fixed with reference to what they were drawing in the Companies and their performance since 1st September, 1957. A scheme of annual appraisal was instituted and depending upon the cost ratio and growth of new business, the Inspector was eligible for normal grade increment as well as to incentive bonus, multiple increments or a higher temporary salary. The scheme of appraisal also contained provisions for stoppage of increment and other actions for unsatisfactory work. The appraisal rules were modified from time to time. The duties spelt out in the Blue Order referred not only to the role of the Development Officers in the matter of procurement of new business but also laid emphasis on their contribution towards the creation of a stable agency force by proper recruitment, training and motivation of agents. However, it appears that in practice over the years greater emphasis came to be laid on the Development Officers' role with regard to production of new business to the neglect of all his other important functions.

4.20 In the early years the LIC opened several Branches especially to cover rural areas. A high growth rate in new business was also aimed at, and addition to the number of Development Officers in a Branch was found to be an easy method to yield short term results. Both these factors led to a substantial addition to the cadre of Development Officers. Development Officers were recruited from successful agents and also from the open market. Some of the Development Officers were also drawn from administrative staff who had field experience and good contacts. The number of Development Officers went up from 5,300 on 1st September, 1956 to 7,051 as on 31st December, 1961 and to 8,720 as on 31st March, 1965. In the early stages, the LIC was satisfied with matriculation as the minimum qualification for a Development Officer. The age limits were prescribed between 25 and 45 years. The educational qualifications were raised later; in cities with a population of one lakh and over the person to be recruited was required to be a graduate, in other towns intermediate and in the rural areas matriculate. However, it has been brought to the notice of the Committee that in the early years proper care and attention was not bestowed on the selection of suitable persons to work as Development Officers, since gain by way of immediate results was the prime consideration. The net result was that a large number of Development Officers without proper aptitude towards life insurance selling came to be added to the permanent rolls of the LIC.

4.21 Soon after the appointed day, the Development Officers formed local associations which federated later to form an all India body called "National Federation of Insurance Field Workers of India". Right from the beginning, the Federation agitated for security of service and automatic normal grade increments as were available to other employees. In March 1964, when an agreement was entered into with the Federation on the revision of scales of pay and allowances, it was agreed that "a regular annual increment in the time scale of pay would be feasible" and "that it would progressively result in greater efficiency in developing business". Procedures for this purpose were to be worked out. In 1965, it was agreed that normal grade increments would be in effect automatic as for other employees. Two Efficiency Bars were simultaneously introduced and certain guidelines with regard to quality of work were prescribed for permitting a Development Officer to cross the Efficiency Bar. It was intended that poor performance should be dealt with by taking disciplinary action following the procedure laid down in the Staff Regulations.

4.22 In the next few years, great difficulty was encountered in proceeding against inefficient Development Officers under the normal disciplinary procedure. The Morarka Committee in its Report, submitted in 1969 recommended cost control on Development Officers and suggested a limit of 15% as the cost ratio of a Development Officer that is, the ratio of the total expenditure incurred on a development officer to the first years' premium income secured through his organisation. Negotiations were, therefore, held to work out schemes of incentives and disincentives. As no agreement could be reached, certain norms of minimum performance and a new scheme of incentives for Development Officers was implemented unilaterally by the LIC with effect from 1st April, 1969. These norms were later withdrawn after agitation by the Development Officers and fresh talks were held in the year 1970. Agreements were entered into in 1970 and 1971 which affirmed the security of service of this class. Minimum norms of performance were prescribed and those who failed to come to these norms for three consecutive years were to be transferred to the administrative side. The temporary increments scheme which was discontinued in 1968 was also reintroduced with effect from 1st January, 1971. A scheme of incentive conveyance allowance providing for payment of additional conveyance allowance for production above certain specified levels was also introduced at about the same time in addition to the normal incentive bonus.

4.23 Arising out of the Valuation Report as on 31st March, 1971, the need for measures to reduce costs and improve operational efficiency became evident. In January 1972, while communicating the various steps proposed to be taken in that context the Chairman, *inter alia,* informed the Government as under :

> "I have decided to treat the Development Officers' cadre as a closed cadre and to stop all fresh recruitment to that cadre. Vacancies in the cadre, particularly in the rural areas, will be filled up by transfers of suitable employees from administrative side. At the same time, we shall be reducing the uneconomic units amongst the Development Officers' cadre by reverting them to appropriate posts in Class III on the administrative side. We shall thus be creating a smaller but far more efficient Development Officers' Organisation."

4.24 The Agreements of 1970 and 1971 referred to above had a short time beneficial effect on the attitude and work of Development Officers. However, as the minimum norms prescribed under these agreements were low, the number of Development Officers with high cost ratios increased and no remedial action was found practicable. This went against the assurance given by the Chairman that uneconomic units amongst the Development Officers will be reduced.

4.25 Appendix 8 gives the number of Development Officers, their performance and cost over the years. It may be seen from these statements that the average production per Development Officer has increased from Rs. 6.5 lakhs in 1958 to Rs. 23.8 lakhs in 1978-79. The average number of policies has shown only a marginal increase over the years which indicates that the increase in sum assured can be explained as a consequence of the general inflationary trend. It may also be seen that the overall cost ratio of Development Officers has shown an increasing trend. It reached 30.2% in 1976-77 from 17.0% in 1958. Though in 1977-78 it came down to 25.6% and in 1978-79 to 22.2% it still remains at a much higher level than what obtained in the early years of the LIC. These statistics clearly bring into relief the wide disparity in results and magnitude of the problem of uneconomic units of Development Officers.

4.26 In the light of these developments, it was found necessary to have a regulatory mechanism to control the cost of individual Development Officers. This was done by the 1976 Scheme of Work Norms introduced by the LIC with the approval of the Central Government which, while providing for an upward revision in the pay scales, also stipulated that the cost ratio of a Development Officer should not exceed 20% and that successive failure for three years would result in termination. It may be noted that the provision of 20% cost ratio limit was more liberal than the 15% limit recommended by the Morarka Committee.

4.27 The Federation raised objections to the 1976 scheme on various counts and urged its withdrawal, their main argument being that these norms reduced the Development Officers to the status of contractual labour without security of service and that the LIC has unilaterally gone back on the agreements entered into with their Federation. The Federation launched an agitation in February/March 1978 which culminated in a strike from 8th March to 27th March 1978. Some members of the Parliament raised the matter in the Parliament and the Finance Minister gave an assurance on 22nd March, 1978 that Government was prepared to discuss '*de novo*' the question relating to Work Norms.

4.28 In pursuance of the assurance given by the Finance Minister, *de novo* discussions were held between the representatives of the LIC, the Federation and the Government. However, no agreed solution could be found and the LIC with approval of the Government ultimately introduced a revised scheme on the lines indicated in the Tripartite discussions. This revised scheme of cost norms came into force with effect from 1st April, 1979. The revised scheme has relaxed the cost from 20 per cent to between 22 per cent and 25 per cent depending on the area of operation of the Development Officer and reduced the rigours of disincentives for those working at higher cost. The Federation has not accepted the new work norms and it appears it has resorted to various forms of agitations to press its demands. The LIC on the other hand, is proceeding with the implementation of the new work norms.

Direct Agents Branches

4.29 One of the important consequences of the decision of LIC to stop recruitment of new Development Officers was the creation of more branch units consisting of direct agents. At the inception of the LIC some direct agents' branches were created at a few large metropolitan centres, which consisted of some whole-time professional agents of some of the erstwhile insurers who preferred to work directly without the help of any Development Officer. In respect of all other branch offices, the normal practice was that as and when a Development Officer's appointment came to an end by way of promotion or termination, the agents working under him were 'allotted' to the other Development Officers working in the branch. However, with the decision of restricting the cadre strength of Development Officers, the LIC decided that on termination of the appointment of a Development Officer, all his agents who were doing certain minimum quantum of business and who, in the opinion of the Branch Manager, could be relied upon to work independently without the assistance of a Development Officer, would be treated as direct. With the growing number of such "direct" agents, a number of Direct Agents' units were created in charge of officers of the cadre of ABM(D). Also in due course more Direct Agents' Branches were added. Appendix 9 gives statistics regarding growth of direct agents over the last twenty years and the business secured through such agents. It has to be noted that in 1978-79 though the number of direct agents constituted only 13% of the total number of agents as much as 20% of the total business was secured through direct agents.

Report of the Working Group Re : Professionalisation of Agency Force

4.30 Though the LIC earlier decided to treat the Development Officers' cadre as a closed one, subsequently certain selective appointments in that cadre were being made. The Ministry of Finance felt that such recruitment was contrary to the direction indicated in the Chairman's letter to the Government and that the LIC should work with a smaller Development Officers' organisation and greater emphasis should be laid on creation of a stable and efficient agency force. At the instance of Shri R. D. Thapar, Additional Secretary, Ministry of Finance and Member of the Corporation, the LIC's Board decided in 1975 to set up a Working Group to study the pattern of Development Organisation, and make recommendations, *inter alia,* regarding the steps to be taken for professionalisation of the agency force and the criteria to be laid down for making agents to function as direct agents. The Working Group submitted its report in October, 1975. The Board of the LIC constituted a subcommittee to go into the recommendations made by the Working Group. A summary of the main conclusions and recommendations of the Working Group is given in Appendix 10. The Working Group has recommended a number of steps for professionalisation of the agency organisation, including limitation of the tiers between the agent and the Branch Office into one by combining the tiers of Development Officers and Assistant Branch Managers (Development) into a single cadre of agency supervisors with the main function of recruitment, training and building up of a professional agency organisation. The LIC has not yet taken a decision on this report.

CHAPTER V

DEVELOPMENT PLANNING

5.1 The LIC has from the beginning recognised that planning is essential for achieving its objectives. Accordingly, it is envisaged, in the Development Department Manual of the Divisional Office that every Division will set up, in its Development Department, a planning and statistical section. One of the basic functions visualised for this section is "collection and compilation of data for assessing the business potential of cities, towns, villages in the Division". The data is required to be compiled Taluka-wise, and wherever possible separately for urban and rural centres. That section is to examine, from time to time, whether the spread and strength of the LIC's organisation and its business output are sufficient having regard to the economic development of different areas. The planning section is also required to determine where new offices are to be opened, number of new agents to be recruited and the areas from which they are to be drawn and the places where new Development Officers are to be posted. The Department is also to regularly conduct market surveys of potential "buyers of insurance and their needs for various plans of assurance offered by the Corporation". It is further envisaged that the LIC at the Central Office level would be drawing up long-term development plans from time to time and the Divisional Office would, under the guidance of the Zonal Office, lay down for itself targets in terms of new business, man-power requirements, etc.

5.2 At the Branch level also the need for planning is recognised as is evident from the fact that a comprehensive manual that was prepared for Branch Managers contains a separate section on development planning, according to which the Branch Manager is required to collect statistical data relating to his area and to carry out market studies to assess the potentialities for business in the various centres of the Branch area. Apart from the detailed guidance given in the matter of planning in the Branch Manager's manual, a plan book was also designed for the Branch Managers and supplied to each Branch Manager every year in the past. The plan book was intended to help the Branch Manager in preparing detailed plans in the areas of man-power development, territorial coverage and new business targets. Every Branch Manager was expected to complete his plan book at the beginning of the year after discussions with the Development Officers.

5.3 As in the case of Branch Managers, a development plan book was also designed for the use of Development Officers setting out statistical targets in respect of new business completion of the existing agency organisation of the Development Officers and the plan for recruitment of new agents at various centres where the existing representation was considered inadequate.

5.4 However, from the information obtained by us it appears that only a few Divisional Offices have complied with the relevant provisions of the Development Department Manual. The Development Departments of most of the Divisional Offices concentrate mainly on controlling and co-ordinating the work of the Branch Offices and the Development Officers in the matter of procurement of new business and providing motivation through conferences, competitions and other methods for increased production of new business.

5.5 Though in the early years efforts were made by some of the Branch Managers to complete these plan books and to make periodical review of the actual progress of the field organisation in terms of the plan, the maintenance of these books went into disuse in course of time. The printing and supply of such plan books to the Branch Managers and Development Officers was itself given up. Here also, though a few of the Branch Managers do maintain some basic records about the spread of the organisation in the Branch area, its economic development and other factors bearing on the potentiality for business, systematic planning as envisaged is by and large not being done. Basically the Branch Managers's task is restricted to supervising the work of Development Officers and Agents and providing motivation to them through conferences, competitions, etc.

5.6 Later, in 1960, following a detailed discussion at an All India Divisional Managers' Conference, a decision was taken to attempt sector-wise organisation, in the rural areas. It was proposed to create an appropriate number of well-defined agency blocks depending upon population size as well as the extent of economic development of the area. While ensuring that in every such block an active agent was working, representation by more than one active agent was to be avoided. Allocation of the rural blocks to the Development Officers on an exclusive basis was also agreed upon. In the urban areas also some attempt was to be made in dividing big towns and cities in different sectors and to have one Branch only in each such sector. The sector-wise organisation was to start with a detailed market study of the potentialities of each sector with a view to determining the number of agents and Development Officers to be assigned for each such sector. These decisions were not, however, actively followed up and except for earmarking some of the rural areas as exclusive areas for Development

Officers, no other organised efforts appear to have been made for developing sector-wise organisation as visualised.

5.7 The main stress in the matter of development planning by the LIC has been fixing annually targets of new business in terms of new sum assured on the basis of performance of the previous year. In the early years the general method for determining the annual business targets at various levels was as follows:—

(i) The Branch Manager was to determine the new business target for the Branch Office in consultation with the Development Officers under him taking into account the experience of the past, the future prospects and the economic trends in the area. In fixing the target the Branch Manager was also expected to determine the increase in business to be expected from the existing organisation of Development Officers and Agents and submit specific proposals of recruitment of new Development Officers with a view to achieving his business target. (ii) The Divisional Manager was to fix the Divisional new business target in consultation with the Branch Managers. (iii) The new business target for the Zone as a whole was to be decided by the Zonal Manager on the basis of target proposals submitted by the Divisional Managers. (iv) The targets proposed by the Zonal Managers for the Zones were to be processed at the Central Office and the final new business target for the LIC as a whole determined after consultation with the Zonal Managers/Divisional Managers. (v) After determining the target for the LIC as a whole, the same was to be communicated down the line for implementation. Where modifications had been effected on the proposals submitted by Zonal Managers/Divisional Managers, revised allocation of new business targets was to be worked out in the light of the final targets for the LIC as a whole and the operating offices informed of the same. Thus, though the procedure envisaged planning from the bottom moving upwards, yet in actual practice, the Central Office very often used to fix the new business target for the LIC as a whole and advise the Zones/Divisions to frame their new business targets in consonance with the same. In effect, therefore, planning in terms of fixing up of new business targets was done from the top. Also quite often high targets were fixed mainly for motivational purpose while in the annual budgetary proposals at the Central Office level, much lower targets were indicated.

5.8 While finalising the targets of new business, decisions were also taken relating to opening of new offices and sanctioning of appointment of new Development Officers. The basis for opening of a new office, particularly of a development Centre or a Branch Office, was the progress of the organisation in the area and the assessed potentiality for new business in terms of sum assured.

5.9 The LIC came to realise in mid-sixties that fixing targets in terms of sum assured only was not quite in keeping with its objective of extending insurance to all sections of people. From this point of view, alongwith the targets for new sum assured, targets were also fixed in terms of the number of new policies. Similarly, as a part of its financial budgets, the targets were also related to the new premium income alongwith the number of policies and sum assured. We understand that though the LIC continues to fix targets in terms of new sum assured, number of policies and first year premium income at all levels, the main emphasis is in terms of new business sum assured only. No effort is being made to assess the number of lives covered by insurance.

5.10 The need to correlate planning with the study of the potentiality of the area was raised by the Working Group of the Administrative Reforms Commission in 1968. It may be of some interest to quote in extenso the question raised by the Working Group and the answer furnished by the LIC :

"*Question No. 6*—

Has the LIC any Research Division to ascertain the insurance potential in the various parts of the country where the Corporation is doing business ? If not, does the Corporation consider it desirable to start such a Division?"

Answer furnished by LIC

"The Corporation 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 for life insurance in different areas."

"In this connection, it may be useful to add a few observations on the problem of estimation of the life insurance."

"It is sometimes suggested that sample surveys may be carried out to ascertain the potential for life insurance in different areas. It is important to bear in mind the difficulties and limitations of this approach. A survey can disclose the patterns of income and savings of households in an area; it can also give an indication of the quantum of savings at present invested in life insurance and in other savings media. However, the potential for the life insurance means the maximum quantum of savings which can be directed into life insurance, given the most effective sales efforts. The difficulty of arriving at an estimate of this can easily be imagined. It would be unrealistic to assume that the entire saving of a household or even the entire portion thereof which is utilised to build up financial assets would be directed into life insurance. This is particularly so in the rural sector where the 1962 NCAER Survey showed that the proportion of new investments in physical assets was 40 per cent and that life insurance premiums represented only 10 per cent of the total new investment in financial assets. To assess the potential for life insurance by means of a sample survey, it will thus be necessary to guess whether and to what extent the proportion of new financial assets represented by life insurance premiums could be increased. This exercise would involve such a large measure of speculation as to render the estimate of little practical value."

"Even if an estimate of the ultimate potential for life insurance in an area can be arrived at, this may by itself prove of limited usefulness in planning the stages by which such potential could be tapped. An estimate of the untapped potential may at best provide 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."

"At present, the pace of 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."

5.11 The Committee of enquiry into the expenses of LIC (Morarka Committee) also made a reference to the procedure followed by the LIC in the matter of fixing of new business targets. The Committee observed as under :—

> "The Corporation has also stated that the targets are fixed on an *ad hoc* basis, taking into consideration the actual achievement in the previous year and the need to increase business progressively. The prevailing economic conditions and the likely extent and effect of the efforts of the development personnel are also taken into account. A view is often expressed emphasising the need for a scientific estimate of the business potential of each area, and it is contended that realistic targets could not be fixed without such an estimate. It is true that the potential in the country is very vast and it is not likely to be exhausted for many years to come. But it has to be admitted that the potential varies from area to area, and even year to year because the potential that has to be estimated depends not only on the need for life cover but also the "savings" of the different strata of the population and the current and relative ability of life insurance to compete with other avenues of investment which attract "savings". It is therefore, clear that realistic targets can be fixed only if a scientific estimate of potential is related to available calibre of man power and the techniques adopted or visualised for development of new business. We, therefore, recommend that the Corporation should devise methods for fixing business targets on a scientific basis, and, if necessary, formulate these methods with the assistance and cooperation of agencies like institutions of research."

5.12 The comments of the LIC to the recommendations made by the Morarka Committee on the question of devising methods for fixing business targets on a scientific basis were as under :—

> "To assess the number of household in an area which could be brought within the scope of insurance, it becomes necessary to estimate not only whether they make adequate savings, but also whether, given optimum sales efforts, such savings could be directed into life insurance. Especially in rural areas where awareness of the nature and benefits of life insurance and other media of savings is very imperfect and a major part of savings are used to build up physical assets, a survey carried out to elicit reliable information as to whether savings could be directed into life insurance will have to take the form of an experiment in selling. The help of institutions of research will be of limited value as their investigators will not have the necessary background and skill for this purpose. It is doubtful whether such a survey on a sufficiently large scale will be feasible and if it is, its results are bound to involve a large measure of error. Also, since the potential will have to be assessed for each representative area, the cost of the survey will be prohibitive in relation to its utility. In the circumstances, relevant information required for effective planning will have to be obtained through case studies of limited scope made through development officials of the Corporation."

> "Instructions for collecting the basic information bearing on the business potential in each Development Officers' sector already exist. The planning aspect of the Development Officer's work has, however, not received sufficient emphasis in the past. In view of the introduction of the new scheme of Work Norms and greater emphasis on development of a stable agency organisation in the Development Officer's sector, greater attention will be devoted to this work."

5.13 The reply of the Government with regard to the above recommendation was as under :—

> "Recommendation accepted in principle. Government, however, appreciated the point that problems faced by the LIC for fixing targets and realising them are different from those faced by manufacturing organisations. In the latter, production can be planned with a fair degree of accuracy."

5.14 The LIC on its part, made some attempts to correlate planning for new business growth with economic and demographic factors as mentioned below :—

(i) In 1971 at the instance of the LIC a sample survey was undertaken by the Operations Research Group, Baroda for assessing the consumer preferences for different forms of savings. The study covering the areas of Greater Bombay, an urban metropolitan area and the district of Thanjavur, a mainly rural area commenced in 1973 and the findings were presented in 1974.

(ii) In 1976 a socio-economic survey of rural households in two selected districts of Udaipur in Rajasthan and Gwalior in Madhya Pradesh was organised by the LIC in pursuance of its plans for intensification of the development of rural business. These reports were received in 1976. The findings were helpful in formulating the scheme of appointment of career agents in rural areas.

(iii) In 1976 the National Council of Applied Economic Research, Delhi was requested to undertake a study of attitudes of people towards life insurance and the extent of coverage of life insurance in the various sections as a part of its All India Household Sample Survey of Incomes and Savings. The NCAER submitted its report in 1979.

5.15 In 1975-76 as a part of its Corporate Planning exercise, an attempt was made by the LIC to determine new business targets not only in terms of sum assured and premium income but also of new lives to be insured and also of business to be written in rural areas. This exercise was again reviewed in 1978-79 and it was decided to adopt an approach for working out a model where the external economic factors like (i) disposable personal income, (ii) ratio of non-agricultural net domestic product to total, (iii) bank rate, (iv) G.N.P. per capita, (v) Consumer Price Index etc., are taken into account. Proceeding on this basis a corporate model has been designed giving projections for a period of 10 years from 1978-79 to 1987-88 in terms of new business sum assured, first year premium, renewal premium and number of policies. This is being further studied by the LIC.

5.16 From the foregoing the following conclusions emerge :—

(i) Though the LIC realised the need for planning based on market survey and statistics relating to the economic potential of the area and its manuals provided for the same, in practice these were not implemented. Instead the easier method of fixing *ad hoc* targets of new business in terms of sum assured, was adopted.

(ii) While a large number of agents were recruited year after year, almost an equal number had to be terminated as they failed to complete the minimum business guarantee. These were merely spotters with no sustained interest in the agency work. Consequently growth of a stable and professional agency force was inhabited.

(iii) In the earlier years a large number of development officers were recruited without any regard for their aptitude. The performance of most of them was poor, the remuneration paid to them exeeded in some cases even the premium income brought by them.

(iv) The stress on new business sum assured has led to an organisational culture where success was measured solely by new business sum assured, and other aspects of organisational functioning were virtually ignored.

(v) Since volume of new business was the major yardstick for measuring the progress, the entire organisation gears itself to fulfil the target set before it during the closing period of the accounting year. Heavy new business in the last month of the accounting year has been in evidence even during the years before nationalisation and the LIC is no exception. There was heavy concentration of business in December when the accounting year ended in December and now, when the accounting year ends in March, the concentration has shifted to March. This has resulted in (a) delays in the adjustment of amounts received towards premium (b) delays in the issuing of policies (c) non-issue of premium notices, particularly in the case of Quarterly and Half-yearly mode of premium and the consequential lapsation, revivals, etc., etc.

5.17 The above indicates the need for re-orienting the development planning to (a) the building up of an extensive, stable and effective agency organisation covering all potential areas through proper selection and training (b) fixation of targets for the growth of the business in force in terms of number of lives, sum assured and premium income and not only in terms of new business (c) securing an even spread of business during all the months of the accounting year. These aspects are discussed later in the report.

CHAPTER VI

BUSINESS PERFORMANCE

6.1 In this Chapter we propose to review the progress of the LIC's business performance since its inception. One of the major problems faced by the Committee in assessing the performance of the LIC is the lack of statistics on certain important aspects. Certain basic statistics published by the LIC in respect of its business performance are those required to be submitted to the Controller of Insurance under the Insurance Act. They are (i) Statement in Form DD giving in respect of new life insurance business, the number of policies, sum assured, single premium and renewal premium and in respect of business in force, the number of policies, sum insured with bonuses and premium income. Separate statistics are to be given for ordinary policies, annuity contracts, group insurance policies and group annuity contracts (ii) Statement in Form DDD giving additions and deductions from the policies during the year. Starting with the policies in force at the beginning of the year, particulars are given of new policies issued, old policies revived and additions by way of change or increase and allotment of bonuses and of the policies discontinued during the year by way of death, by maturity, by surrender, by forfeiture or lapse and by change or decrease. Statements are also given of Forfeitures, Paid-ups, Surrenders and Revivals analysed according to year of issue of the policy.

6.2 In addition to these statistics the LIC's annual report contains a split up of new business into rural and urban business; the number of persons insuring for the first time; analysis of new business according to plans of insurance, etc. However, no statistics are available of the number of lives insured. Since many of the policyholders have more than one policy, the number of policies in force does not give an accurate idea of the number of lives covered. Similarly, though LIC gives a break up of its now business into rural and urban business, no such break up is available in respect of the business in force. Again, no statistics whatsoever are available of income or occupational groups.

6.3 Therefore, for such information the Committee had to rely on the sample survey conducted at the instance of the LIC by the National Council of Applied Economic Research (NCAER). The Committee would like to point out that in the NCAER sample survey only 5,602 households were contacted out of which 5,125 responded. The percentage of insured households was only 11%. In view of the small size of the sample, the projections made in the survey have necessarily to be taken with some caution. For instance some of their findings are at variance with other statistics obtained from the LIC's records. A sample survey of the Policyholders was also arranged by the Committee itself. As many as 68,000 questionnaires were issued to policyholders selected on a stratified random sample basis. Of these about 15,200 responded. But, though the number is much larger than that covered by the NCAER survey, the large extent of non-response to the Committee's questionnaire is likely to introduce a certain extent of bias which might distort the picture. However, in spite of their respective limitations, the findings of these surveys have been useful in indicating broadly certain features of the business performance of the LIC.

6.4 In judging LIC's business performance, it will be useful to distinguish two of its main aspects (a) Extension of life insurance coverage to different sections of the population and (b) Mobilisation of savings. After a brief review of LIC's overall progress, we shall examine these two aspects.

Brief Review of Overall Progress

6.5 Appendix 11 gives the progress of new business in India in terms of number of policies, sum assured, and First Year premium income from inception till 1979-80. Appendix 12 gives the progress of the business in force in India also in terms of number of policies, sum assured including bonuses and total premium income as well as the life fund. In absolute terms the progress is impressive. From a new business of Rs. 278 crores under about 8 lakh policies in 1957, the LIC had recorded a volume of new business of Rs. 2,733 crores under about 21 lakh policies in 1979-80. The business in force has similarly grown from a level of Rs. 1,374 crores under about 54 lakh policies to Rs. 19,114 crores under about 220 lakh policies as on 31st March, 1980. The figures given above relate to individual assurances and are exclusive of business under Group Insurance Schemes.

6.6 Appendix 13 gives figures of progress of business under Group Insurance Schemes both of New Business and business in force in terms of number of schemes, number of lives covered and sum assured. The business under these schemes has also shown remarkable growth particularly during the last 10 years and now provide a total cover of over Rs. 6,137 crores to about 58 lakh lives.

6.7 The growth of Life Fund has been equally impressive. From Rs. 409 crores in 1957, the Life Fund has grown to Rs. 5,818 crores as on 31st March, 1980. The annual accretion to the Life Fund which represents the LIC's annual mobilisation of long term savings now exceeds Rs. 700 crores. The LIC has thus emerged as a giant financial institution playing an important role in the economic life of the country.

Extension of Life Insurance Coverage

6.8 The primary objective of the LIC is "to spread life insurance much more widely and in particular to the rural areas and to the socially and economically backward classes with a view to reaching all insurable persons in the country." We should therefore consider the LIC's progress in extending life insurance coverage to different sections of the population.

6.9 Appendix 14 gives particulars of the number of policies in force both under individual assurances and under Group Schemes at the end of each year from 1957 to 1979-80. Because of the existence of multiple policies on a single life, the number of policies under individual assurances will be more than the number of lives covered. There may also be some overlap between lives covered under individual assurances and under Group Insurance Schemes. We shall discuss these aspects in detail later. At this stage we will consider the LIC's progress in extending life insurance to more and more people.

6.10 From Appendix 15 it will be seen that as far as individual assurances are concerned, while till 1962-63 there was a steady increase in the extent of addition each year to the number of policies in force which increased from 5.56 lakhs in 1958 to 9.26 lakhs in 1962-63, it slowed down in subsequent years till 1970-71. During 1971-72, 1972-73 and 1973-74 there was a sharp rise in the addition to the number of policies in force, but the rate of growth has again declined and during the last three years it fell to the lowest level of the whole period of 21 years. However, in 1979-80 there has again been another sharp rise in the addition to the number of policies in force, which has recorded the highest increase in the last six years. This uneven growth in the number of policies in force under individual assurances during the last 10 years is compensated to some extent by the steady increase in the number of lives covered through group insurance. Till 1970 group insurance schemes accounted for a very small part of the LIC's total business. From 1971, however, there has been a steady growth in the number of lives covered under these schemes. The sharp increase in the number of lives covered during the year 1975-76 and the fall next year was attributable to three very large schemes covering the three wings of the armed forces which were introduced in 1975-76 and were discontinued next year. Except for this, there has been a steady increase in the number of lives covered through group insurance schemes.

6.11 On 31st March, 1980 the number of policies in force under individual assurances was 220 lakhs and number of lives covered under Group Insurance Scheme 58 lakhs. But as stated earlier, the number of lives covered under individual assurances would be lower than the number of policies because of the existence of multiple policies on a single life. No records are available as to the extent of such multiple policies. However, the LIC publishes statistics giving the number of policies and the sum assured in respect of persons insuring for the first time that is of new policyholders who have no other policy in force on their lives. Appendix 16 gives details of these statistics for the years 1961 to 1979-80. It will be observed that during the years 1961 to 1966-67 the percentage of policies taken out by persons insuring for the first time to the total number of policies issued was about 70 per cent. From 1967-68 onwards, there was a downward trend and the percentage dropped to 63.1 per cent in 1979-80. Assuming that this proportion has remained steady at about 66⅔ per cent over the whole period, the total number of lives covered can be taken as roughly ⅔ of the total number of policies in force as at date, provided the lapse rate in respect of these two groups of policies are identical. On this assumption, it should mean that every insured person would, on the average be having 1.5 policies. However, on a priori consideration it can be assumed that lapse rates amongst persons insuring for the first time would be higher than in respect of those who are holding more than one policy on their lives. This would mean that the average number of policies per insured person would be somewhat higher than 1.5 and that, therefore, the actual number of lives covered would be smaller than ⅔ of the total number of policies in force.

6.12 The sample survey conducted by the NCAER gives the average number of policies per insured person as 1.2 for the year 1975-76 but this obviously is an understatement. The sample survey conducted by the Committee in 1979 places the average at 2.27 but since the response rate in the case of policyholders holding more than one policy was likely to have been higher, it seems reasonable to assume that the average of 1.8 policies per insured person is nearer the mark. On this basis the number of lives covered under individual assurances may be taken at 1.22 crores as at 31st March, 1980. The NCAER estimate of number of insured earners was 1.24 crores in 1975-76.

6.13 As regards group insurance, although the problem of the multiple policies on the same life does not exist, there may be some overlap between group insurance scheme and individual assurances. There are no statistics bearing on this question, but considering the type of schemes under Group Insurance business, the overlap between Individual Assurances and Group Schemes is not likely to be substantial. Hence we may take the total number of lives covered to be the total of the number of lives covered under individual assurances and the number covered through group insurance schemes. On this basis the total number of lives covered by the LIC under both individual and group insurance schemes can be taken as 1.80 crores as at 31st March, 1980.

6.14 In trying to assess the performance of the LIC in extending the coverage to all insurable persons in the country, it is necessary to estimate the number of "insurable" persons in the country. Population projections by age and sex are available for the year 1976. Assuming that life insurance is needed by persons in the age group of 20 to 60 and also more prominently by male population, it is seen that 13.63 crores could represent the insurable male population. Policies in force under individual assurances as on 31st March, 1976 were 1.96 crores and on the basis of 1.8 policies per individual, the number of lives insured would be approximately 1.09 crores. As on the basis of the survey conducted by the Committee, the number of female lives insured is approximately 5% of the total, the total number of insured male lives can be taken as 1.04 crores. The number of male lives insured under individual insurance policies will, therefore, represent 7.9% of the insurable population of male lives. Adding to this, the number of lives covered under group insurance schemes, the total number of male lives insured as at 31st March, 1976 would come to 1.50 crores. This would give a percentage of 11.2% of the total insurable male population. As pointed out in the earlier para, there is likely to be some overlap between lives covered through group insurance and through individual assurances. Also, the individual insurance policies would include policies on lives of children below age of 20 under Children's Assurance Plan and also some lives above age 60. Discounting for these factors, the percentage of total insurable male population covered through life insurance in not likely to be more than about 10%.

6.15 Another indication of the extent of life insurance coverage among the "earning" population is given in the NCAER Survey Report (1976). The relevant table is as under :

TABLE VI—1

Percentage of insured earners to total earners in various income ranges

(Source: NCAER Survey)

Income Range	Total Earners (in '000)	Insured Earners (in '000)	% of Insured Earners to Total Earners
Rs.			
1— 3600	91,725	374	0.4
3601— 7500	57,814	5,018	8.7
7501—15000	19,974	4,107	20.6
15001—30000	6,541	2,301	35.2
30001 & above	1,255	629	50.1
TOTAL	1,77,309	12,429	7.0

6.16 In the above NCAER Table, it will be seen that the percentage of insured earners to the total earners is quite high in the income range of over Rs. 30,000 while it is very low in the income range upto Rs. 3,600 as also in the income range of Rs. 3,600 to Rs. 7,500. The proportion of insured persons to the total earners in all the income groups together is as low as 7%. It may be noted that the NCAER survey covers only persons insured under individual assurances and does not take into account the life insurance coverage through Group Insurance Schemes. Therefore, in considering the proportion of insured earners to the total earners, a correction has to be made for the coverage through Group Insurance. As on 31st March, 1976 about 46 lakh lives were insured under Group Schemes and if this is added, the proportion of insured earners to the total earners come to about 9.6%, which is close to the estimate of 10% arrived at by us.

6.17 The above observations bring out clearly that LIC has still a long way to go in extending life coverage to all the insurable persons in the country.

Life Insurance Coverage in various Occupational Classes

6.18 The NCAER's survey also gives the distribution of insured earners by activity status of chief earner. The information is reporoduced below.

TABLE VI—2

Distribution of insured earners by activity status

(Source : NCAER Survey)

Activity status of Chief Earner	Earners Total ('000)	Insured Earners Total ('000)	Insured Earners as per cent of Total Earners
Salary	21,547	7,522	35.1
Self-employed non-farming	16,937	2,739	16.2
Others	1,619	63	3.9
Self-employed farming	82,142	1,914	2.3
Wage	55,154	191	0.3
All Classes	1,77,309	12,429	7.0

The above table brings out that 35.1% of salaried earners were insured and that next to the salaried class is the self-employed non-farming class where 16.2% of the earners were insured. Among the other classes, the extent of life insurance coverage is clearly negligible. It may be added that these statistics do not include coverage by group insurance and it is likely that a significant proportion of the total earners in the salaried group who are not covered by individual life insurance would be covered through group insurance so that the total proportion of insured earners among salaried class would be even higher than 35% indicated by this survey. Looked at differently, out of the total of 1.24 crores insured earners, 75.2 lakhs which is more than 60% were salaried persons. This is about the individual assurances. The persons covered under group insurance, are almost all salary earners.

6.19 The survey conducted by the Committee gives the distribution of the insured according to activity status. The relevant statistics are :

TABLE VI—3

Distribution of Policyholders according to activity status Sample Survey of in force Polcyholders

Activity Status	Percentage
Government Service	34.98
Public Sector	15.90
Private Service	17.38
Business	17.00
Agriculturist	7.52
Self-employed	5.79
Student	1.43
	100.00

It will be seen that the salary earners, included under the three heads of Government Service, Public Sector and Private Service account for more than 2/3rd of the total.

Life Insurance Coverage in Rural Areas

6.20 The LIC publishes statistics of its business separately for urban and for rural areas. For the purpose of these statistics the LIC has adopted the definition of urban and rural areas as given in the census and the statistics are compiled on the basis of the address given by the proposer in the proposal form. The urban areas are defined in the 1971 census as—

(a) All places with a Municipality, Corporation, Cantonment or a notified town area;

(b) All other places satisfying the following criteria

(i) Minimum population of 5,000.

(ii) At least 75% of the male work force in non-agricultural pursuits.

(iii) Intensity of population of 400 per sq. km.

The rest are rural areas. Appendix 17 gives distribution of new business between the urban and rural areas since 1961. It will be observed that the percentage of rural business had stabilised during the 10 years 1968-69 to 1977-78 at about 30% in respect of number of policies and at about 25% in respect of sum assured. Subsequently, there has been certain decline. No statistics are available in regard to the business in force in rural and urban areas but since lapse rates are higher in rural areas than in urban areas—this is brought out by the substantially higher lapse rates experienced by Divisions with a large rural sector as compared with the lapse experience of the mainly urban Divisions—the proportion of business in force in rural areas would be substantially less than 25%.

6.21 The NCAER's survey gives the proportion of rural and urban business in force in terms of number of policies, sum assured and premium income. The table below gives the relevant statistics for the year 1975-76:

TABLE VI—4

Proportion of rural and urban business

(Source : NCAER Survey)

	No. of Policies		Sum Assured		Annual Premium	
	(in lacs)	%	(Rs. Crores)	%	(Rs. Crores)	%
Rural	51	32	2,618	24	134	24
Urban	109	68	8,400	75	424	76
All India	160	100	11,018	100	558	100

6.22 As pointed out in the earlier paragraphs, it is mainly the salaried class which is reached by the LIC today. This appears to be true not only in respect of its urban business but also in respect of its rural business. This is brought out strikingly by a study made by the Committee of the new business underwritten in the month of January 1980 in ten selected Divisions. The distribution of business between salaried and non-salaried classes was as under :

TABLE VI—5

Distribution of business between salaried and non-salaried classes in rural and urban areas

	Salaried V. Non-salaried		
	Salaried	Non-salaried	Total
No. of New Policies:			
Rural	55.18%	44.82%	100%
Urban	63.59%	36.41%	100%
New Business Sum Assured:			
Rural	43.90%	56.10%	100%
Urban	48.64%	51.36%	100%

Thus, even in rural areas as much as 55.18% of the new business in terms of policies and 43.90% of new business in terms of Sum Assured was from the salaried class.

6.23 The predominance of the salaried class among the insured is also reflected in the progress of the Salary Savings Scheme. The number of new policies and sum assured under the SSS policies are given in the following table :

TABLE VI—6

Progress of new business under Salary Savings Scheme

Year	New Business: Individual Insce. No. of Pols. (in lakhs)	Individual Insce. Sum Assured (in crores)	SSS Policies No. of Pols. (in lakhs)	SSS Policies Sum Assured (in crores)	% of Col. (4) to Col. (2)	% of Col. (5) to Col. (3)
1	2	3	4	5	6	7
		Rs.		Rs.		
69-70	13.97	979.74	3.76	177.33	26.91	17.29
70-71	16.12	1215.63	4.86	252.06	30.15	20.73
71-72	18.96	1498.05	5.84	331.68	30.80	22.14
72-73	20.18	1726.01	6.12	357.37	30.33	20.70
73-74	20.47	1912.87	6.39	407.11	31.22	21.28
74-75	17.96	1760.89	5.39	358.53	30.01	20.36
75-76	20.09	2104.00	5.91	394.61	29.42	18.76
76-77	20.53	2095.40	5.85	373.88	28.49	17.84
77-78	18.54	2004.86	5.67	423.73	30.58	21.14
78-79	17.55	2057.40	5.51	444.37	31.40	21.60
79-80	20.95	2733.11	6.44	585.50	30.70	21.30

The above table shows that on an average about 30% of new policies and about 20% of sum assured is under the SSS. Statistics are also available of the number of policies in force under SSS business as at 31st March, 1979. The total number of SSS policies in force on 31st March, 1979 was 65.54 lacs compared to the total number of policies in force of 211.73 lacs. It will, thus, be seen that about 31% of the total number of policies in force was under SSS. The above statistics clearly indicate that the LIC's efforts in extending coverage of life insurance has been concentrated on the salary earning class and on the higher income groups and the non-salaried classes and the lower income groups both in the urban and rural areas have been largely neglected.

Mobilisation of Savings

6.24 We shall now examine the performance of the LIC in mobilisation of people's savings. The traditional yardstick for this purpose is the growth of sum assured and the premium income. Appendix 11 gives details of the new sum assured and first year premium income for each of the years 1957 to 1978-79. The volume of new business in terms of sum assured has been continuously rising except for some fall in individual assurances during the last 5 years. However, there is a substantial increase in the new sum assured during the year 1979-80. In judging these figures, the impact of inflation has to be taken into consideration. Appendix 18 gives the figures of new sum assured and first year premium both at current prices and adjusted according to the consumer price index (base year 1960-61). It will be seen that during the last 10 years, 1968-69 to 1978-79, the new sums assured adjusted according to the consumer price index has been increasing only at the rate of about 2% per annum while the first premium income similarly adjusted has grown at the rate of about 4.6% per annum. The higher growth rate of premium income is due to the preference in recent years for Anticipated Endowment type of policies, which have a higher premium per thousand sum assured.

6.25 The figures of business in force, total premium and life fund for a period of 10 years both actual and adjusted for changes in consumer price index are given below :

TABLE VI—8

Statistics of Sum Assured in force and life fund adjusted for changes in consumer price index

Year ending at 31st March	No. of Pols. (in '000)	Actual			Adjusted for changes in consumer price index		
		Sum Assured (in crores)	Total Premium (in crores)	Life Fund (in crores)	Sum Assured (in crores)	Total Premium (in crores)	Life Fund (in crores)
		Rs.	Rs.	Rs.	Rs.	Rs.	Rs.
1970	13939	6226	255.19	1611.04	3517	144.18	938.44
1971	14693	6952	285.26	1825.05	3738	153.37	981.21
1972	15711	8082	329.40	2066.55	4209	171.56	1076.33
1973	16792	9204	379.36	2358.69	4446	183.26	1139.46
1974	17943	10725	440.76	2704.42	4290	176.30	1081.77
1975	18745	11728	492.87	3033.75	5913	155.48	957.03
1976	19606	13248	549.29	3440.97	4233	175.49	1099.35
1977	20275	14371	606.34	3952.88	4774	201.44	1313.25
1978	20708	15698	657.82	4500.70	4845	203.03	1419.97
1979	21173	16743	720.81	5116.32	5043	217.11	1579.11

These figures would indicate that while the business in force, Total Premium Income and Life Fund have been growing steadily, the real rate of growth at constant prices is substantially lower.

6.26 In considering the performance of the LIC in mobilisation of savings it would be useful to compare the LIC's performance with that of other savings media and also to consider savings through the LIC as a percentage of the total savings of the household sector. The Reserve Bank of India Report on currency and finance gives detailed statistics of the savings of household sector and Appendix 19 gives a summary of this for the financial years 1970-71 to 1976-77. The relevant statistics relating to Life Insurance are as under :

TABLE VI—9

Proportion of household savings going into life insurance

[Source : RBI Report on currency and finance, Vol. II (1978-79—Statement 9)]

Year ending 31st March	Total Savings (in crores (of rupees)	Life Insurance (in crores (of rupees)	% of life insurance to total savings
1971	1948.1	214.0	11.0
1972	2347.6	241.5	10.3
1973	3004.2	292.1	9.7
1974	3631.5	345.7	9.5
1975	3402.1	329.4	9.7
1976	4753.7	407.2	8.6
1977	6905.1	511.9	7.4

It would be seen that the percentage of household savings going into life insurance has fallen from 11.0% in 1970-71 to 7.4% in 1976-77. During this period savings going into bank deposits have increased from 39.8% to 56.8%. The share of Provident Fund has also fallen from 21.4% to 17% and that of U.T.I. from 0.8% to 0.3%. This phenomenon is evidently attributable to the low rate of return on life insurance compared to bank deposits..

6.27 From the discussions the Committee had with a number of life insurance agents and development officers it appears that one of the important contributory factors to the growth of life insurance business, particularly in terms of sum assured and premium income has been the relief granted in income-tax and other direct taxes for life insurance policies. No statistics are however available as regards the proportion of income-tax payers among the insured population or the proportion of persons availing of tax relief for life insurance premium among the total number of income-tax payers. The distribution of total cover (Sum Assured) according to various income ranges as disclosed by the sample survey of our Committee is as under :

TABLE VI—10

Distribution of total cover (sum assured) according to various income ranges

(Source : Sample Survey of the Committee)

Income Range	Percentage of total sum assured
upto 3000	5.76
3001— 5000	6.03
5001—10000	22.23
10001—15000	17.33
15001—20000	21.29
20001—30000	16.47
30001 and over	10.89
	100.00

If it is assumed that all persons in the income group above Rs. 15,000 pay income-tax, the percentage of total sum assured and correspondingly of the total premium income on which income-tax relief would be available would be about 49%.

Divisionwise Business Performance

6.28 In the previous paragraphs we have considered the progress of LIC in extending life insurance and in mobilisation of savings according to income and occupational classifications, as also sector-wise that is rural and urban. We shall now consider the distribution regionwise.

6.29 Appendix 20 gives the number of new policies, sum assured and first year premium income at quinquennial intervals from 1959 to 1978-79 for all the Divisions of the LIC. The average growth rate in number of new policies, sum assured and first year premium income in respect of five zones of the LIC for the same years are given in Appendix 21. It will be observed from these statements that even among the Zones there is substantial variation in the growth rate of all the three indices. The variations among the Divisions, is very wide. These wide variations cannot be attributed entirely to the potentiality of the area, but would appear to be due in part to the weaknesses of the development organisation in these areas. This feature is seen more clearly from Appendix 22 where the per capita insurance in force in each of the Division as at 31st March, 1979 is given. Though the high per capita insurance of Bombay and Delhi can readily be explained as reflective of the high per capita income of these centres, the low per capita insurance of Chandigarh and Jullundur Divisions covering Punjab and Haryana States as compared to that of a number of Divisions in the South Zone cannot obviously be due to the potentiality of the area. Similarly, the low per capita insurance of Lucknow Division as compared to other Divisions in the Central Zone cannot similarly be explained.

These statistics point to the need for more planned efforts for correcting the weaknesses of the development organisation.

Planwise Distribution of Business

6.30 Appendix 23 gives planwise distribution of business for the year 1979-80. For statistical purposes, the various plans of assurances may be grouped under four major heads, namely, Whole Life, Endowment, Anticipated Endowment and other miscellaneous plans. Under the Whole Life type of plan, the amount of assurance is payable on death and the policy continues till the date of death. However, the Convertible Whole Life Plan which is included in this group, provides an option to the Life Assured to convert the policy into an Endowment policy at the end of five years from the inception of the policy. This plan is particularly suitable to a young person just starting his career, who wants maximum protection to start with but would like to have a saving linked insurance to provide also for his retirement at a later date. The Endowment Plans provide a combination of life insurance cover and savings and thus, provide cover against risk of death during the serving life time and also a retirement benefit at the end of the Endowment period. The Endowment group of plan also includes Children's Deferred Plan which is an Endowment Assurance provided on the life of children upto the age of 15 (the risk under which commences at a selected age). Joint Life and Multi-purpose are also Endowment Plans where certain additional benefits are provided besides the basic endowment cover. The third group is that of Anticipated Endowment Plan which is a basic Endowment Assurance plan with a provision that a part of the sum assured is payable in instalments during the currency of the policy while the life assurance cover is continued for the full sum assured throughout the term of the policy.

6.31 Apart from the different types of plans, the two basic categories of life assurance policies sold by the LIC are the "With" and the "Without" Profit policies. Under a "Without Profit" policy, the premium amount is substantially lower than under the "With Profit" policies but the policies are not entitled to any bonuses distributed out of the surpluses disclosed as a result of the actuarial valuation. Under the "With Profit" plans, the policyholder pays a somewhat higher premium, which includes a certain bonus loading but the policies are entitled to bonuses declared as a result of distribution of surpluses disclosed at the Actuarial Valuations. As generally under both the "With Profit" and "Without Profit" plans, premiums are calculated on a conservative estimate of the future experience in respect of the three basic factors of mortality, interest and expenses, the "With Profit" policies generally get a better return on the savings part than the "Without Profit" policies.

6.32 The Appendices 24 & 25 give the distribution of new business under the four broad groups of plans and also under With Profit and Without Profit plans for each of the last ten years. The following broad features emerge :

(i) It will be seen that most of the business is written under "With Profit" plans, the "With Profit" accounting for only about 1.6% of the total. Even of this 1.6% about half were under Pure Endowment Plan where no With Profit policies are issued. It has been represented to us that the very low proportion of business written under without profit plans is due to the fact that without profit premiums were unduly high. That they were high is borne out by the recent revision in the LIC's premium rates as the reduction in without profit premium rates is substantially higher than under with profit plans.

(ii) The percentage of business written under the Whole Life type of plan has come down from aobut 10% in 1962-63 to less than 4% in 1978-79.

(iii) Percentage of business written under Endowment type of plans excluding Anticipated Endowment plan and Money Back Policy has decreased from aobut 75% in 1962-63 to about 40% in the year 1978-79.

(iv) The percentage of business under Anticipated Endowment Plan has been steadily increasing from a business of less than 10% in 1962-63 to over 53% in 1978-79.

(v) Practically all the new plans introduced by the LIC during the last 10 years do not appear to have found any response from the public and only a negligible amount of business has been sold under these new plans. The only exception is Money Back Policy which is only a variant of Anticipated Endowment Policy referred to in the previous para.

6.33 As regards the Anticipated Endowment Policy, the Committee were informed that its popularity was attributable to three factors. Firstly, a policyholder would prefer a type of endowment policy where a part of the sum assured is returned in instalments earlier than the normal maturity date as he could invest the money to yield a higher return than is available under the normal Endowment Assurance Policy. He also continues to enjoy the life insurance protection for the full amount for the full term of the policy. The second advantage particularly for those in the higher income brackets, is that income-tax relief continues to be available for the full term of the policy even though part of the sum assured is received earlier. From the agent's point of view, the policy is particularly attractive, as for the same sum assured the premium is substantially higher than in the case of the ordinary endowment plan while the rate of commission is the same. All these factors have made these policies more popular than others. The Committee, however, noted that from the LIC's point of view these plans had certain defects. The most important is that though 40% of the sum assured is returned to the policyholder before maturity, the policyholders continue to receive bonuses on the full sum assured. As under current conditions a major part of the surplus arises out of the difference between the rate of interest assumed in the premium and that earned on the life fund and as the Anticipated Endowment policy will not be contributing to the interest surplus to the same extent as the ordinary Endowment Policy, it would appear that to an extent bonuses under Anticipated Endowment Policy are being subsidised by other policies.

6.34 Another defect is the likely adverse impact of the growing popularity of these policies on the growth of the life fund. With large volume of business being written under these plans, the rate of growth of the life fund is bound to suffer as 40% of the sum assured under these policies is returned to the policyholder well before the date of maturity. Thus, on a long term basis these policies do not serve the purpose of mobilisation of savings to the same extent as the ordinary endowment policies.

6.35 The Committee noted that these features of the Anticipated Endowment Plan were mentioned in the Report of the Committee of Actuaries to review LIC's premium rates and the LIC has already taken some corrective action. It has discontinued the Anticipated Endowment Plan, and increased the premium under the Money Back Plan. Under the Money Back Plan which provides benefits similar to Anticipated Endownment the commission payable to the agent is on a somewhat reduced scale and no loans are available. However, the Money Back policies are still open to the same objections as the Anticipated Endowment policies referred to in the earlier paragraph.

6.36 As regards lack of response to the various new plans introduced by the LIC during the last 10 years and the LIC's recent decision of discontinuing some of these plans, the Committee feels that adequate market study had not been undertaken by the LIC before considering introduction of the new plans through its field organisation.

Year-end Concentration of Business

6.37 One peculiar feature of life insurance business in India is the concentration of new business in the closing month of the financial year. Appendix 26 gives the percentage of new business completed during the months of December and March in each of the years since 1960. Till 1961 the LIC's financial year was the same as the calendar year. It was changed to 1st April to 31st March from 1962-63. It will be seen that in 1960 and 1961 as much as 45% of the new business of the year was completed in the last month. After the change of the financial year, for a few years there was an even distribution between the months of March and December, but the business during these two months still constituted nearly 45% of the total. Subsequently, there has been a shift from December to March and in recent years as much as 30% of the new business is being completed in March. It has to be noted that the lower percentages of March completion for the years 1976-77 and 1977-78 have been accompanied by a fall in the new business itself. For the year 1979-80 when the LIC recorded one of the highest percentage increases of recent years, the business done in the month of March was as high as 32 per cent of the total.

6.38 The concentration of new business in one particular month creates severe administrative problems. Handling such a large volume of new business in a short time throws the whole administrative machinery in the Branch and Divisional Offices out of gear. Underwriting standards also tend to suffer. Apart from this, the heavy year-end concentration of business means that in later years claims by maturity will also be concentrated in this month. This will affect the time taken for their settlement.

6.39 The LIC has been greatly concerned with this problem and had taken a number of steps from time to time to promote a more even distribution of business. Some of the steps taken are mentioned below :

(i) Previously, the agency year of the agents was the same as the financial year. The LIC changed this practice and made the agency year begin from the date of the agent's appointment. Thus, now the agency year is more evenly spread over the financial year.

(ii) Previously the Development Officer's appraisal was made on the basis of the calendar year. In 1962, when the financial year of the LIC was changed from April to March, the then existing Development Officers were given the option to have their appraisals done either on the basis of calendar year or the financial year as would be favourable to them. At the same time, so far as newly appointed Development Officers were concerned, the year of appraisal was changed to a period of 12 months from the date of their confirmation.

(iii) Most of the Branch and Divisional Offices hold competitions for agents and development Officers during what are considered as lean months.

6.40 However, in spite of these efforts the problem continues to be intractable. It has been suggested that one of the factors contributing to this phenomenon is that a very large number of persons take out policies in this month to avail themselves of income-tax relief. It should, however, be noted that when the financial year of the LIC was ending in December, the proportion of business written in the month of March was very low. It is, therefore, by no means certain that this factor contributes materially to concentration of new business in March.

6.41 It seems more likely that the heavy year-end concentration of new business is due to the organisational culture of the LIC which gives primary importance to the fulfilment of new business targets to which a reference has been made in an earlier chapter. Any improvement in the present position leading to a more even spread of business over the year will require radical change in both the nature of the LIC's field organisation and its organisational culture.

Lapsation

6.42 Perhaps the most disturbing feature of Indian life insurance business is the high proportion of lapses, that is, the policy terminating by discontinuance of premium. The traditional indices for measuring lapsation are—(i) Overall net lapse ratio, *i.e.*, percentage of lapses to the mean business in force, (ii) percentage of net lapses to new business according to duration. Appendix 27 gives the overall net lapse ratio for the last 10 years and Appendix 28 gives for the same period the percentage of net lapses to new business according to duration.

6.43 The overall net lapse ratio shows an improvement as it has come down from 7.4% in 1966-67 to 4.6% in 1978-79. It has come down further to 3.8% in 1979-80. There is also some improvement with regard to the proportion of net lapses during the first three years to new business of each year. This percentage has come down from 36.2% in 1965-66 to 30.6% in 1977-78.

6.44 As could be seen from Appendix 29 which gives rates of lapses according to duration of some of the leading Indian Insurance Companies before nationalisation heavy lapses have been a traditional feature of Indian life insurance business. Though the LIC's experience in the matter of lapsation is slightly better than that of the leading Indian Insurers before nationalisation, the fact remains that a very high proportion of the new business written every year goes off the books by way of lapses. The figures in these tables give the ratios of lapses within the first three policy years, that is, before the policy acquires a paid-up value. If we take into consideration all lapses including paid-ups and surrenders as wastages, the proportion will be substantially higher. Appendix 30 gives statistics in respect of three quinquenniums business in force at the beginning of the quinquennium, new business written during the quinquennium, policies going off the books by way of claims both by death and maturity, and lapses, paid-ups and surrenders and the amount of business remaining in force at the end of each quinquennium. It will be seen that during the quinquennium 1964—69 the total sum assured going off by lapses, surrenders, paid-ups, etc. Rs. 1,680 crores against a new business of Rs. 3,893 crores, amounting to nearly 43 per cent of the new business. During the quinquennium 1969—74 the figure was about 31%. In the next quinquennium 1974—79 a total business of Rs. 3,890 crores went off the books by way of lapses, paid-ups and surrenders against a new business of Rs. 10,022 crores representing nearly 39% of the total new business. It will, thus, be seen that there is a colossal wastage of efforts and cost on account of lapsation and if steps can be taken to reduce lapses there will be not only a far more rapid growth of business in force and premium income, but it will also have very favourble inpact on (i) the expenses of management, (ii) the return to the policyholders by way of increased bonus and (iii) the image of the LIC in the eyes of the Public.

6.45 The high level of lapses has been a matter of serious concern to the LIC. It has carried out some surveys to ascertain the causes of lapsation with a view to taking corrective measures. The first sample survey was carried out by the LIC itself in 1966. The next in 1973 was entrusted to the Operations Research Group, Baroda. It conducted a survey of lapsed policies in Bombay (sample size 510) and Thanjavur (sample size 200). Lapses were also covered in the survey of NCAER.

6.46 The present Committee undertook a sample survey which covered approximately 12,000 lapsed policies, that is, 2% of the total policies lapsed on the basis of systematic stratified sampling techniques. The response received was only 9%. The following table gives the result of the survey conducted by the Committee :

TABLE VI—11

Analysis of Reasons for Lapses

(*i*) *Policyholders' difficulties:*		
(*a*) Finance	30.9%	
(*b*) Domestic	4.2%	17.9%
(*c*) Inadequate Income		53.0%
(*ii*) *Fault of Agents:*		
Pressure for over insurance		5.6%
(*iii*) *Fault of LIC;*		
(*a*) Notices not received	13.8%	
(*b*) Unsatisfactory service as reported by policyholders	9.4%	23.2%
(*iv*) *Other Reasons:*		
(*a*) Notices overlooked	12.9%	
(*b*) Diversion of savings	5.3%	18.2%

6.47 It will be seen that a major reason given for lapsation is financial difficulty which is itself an indication of overselling or forced sale by the agent. The other major reason is administrative lapses on the part of the LIC. However, before drawing any conclusion from this survey it must be borne in mind that the size of this sample is rather small and, therefore, not quite reliable. Considering the very low rate of response, the extent of a bias in the response is also likely to be significant. If the reason for lapsing policies is overselling of insurance by agents, such policyholders are less likely to respond. Similarly, if there are "programmed" lapses there is not likely to be any response from the policyholders. By "programmed" lapses it is meant that the policy was sold with the specific intention of making it lapsed after payment of the very first instalment of premium.

6.48 The extent of such "programmed" lapses is indicated by the very high level of lapses after payment of the first instalment of premium. The following Table gives these ratios for the 10 years 1967-68 to 1976-77. It will be seen that between 14% and 20% of the number of policies and between 13% and 19% of the sum assured lapses after payment of first instalment of premium. These ratios have gone up from 14.15% and 13.03% in 1972-73 to 20.37% and 17.80% in 1976-77. It appears that these statistics are not being compiled regularly by the LIC and we have not been able to obtain the relevant figures for the last three years.

TABLE VI—12

Percentage of New Business lapsing after payment of First Premium

Year	No. of Policies	Sum Assured
1967-68	18.06	15.41
1968-69	17.88	15.24
1969-70	13.92	13.33
1970-71	15.68	13.86
1971-72	14.33	13.15
1972-73	14.15	13.03
1973-74	14.11	13.14
1974-75	16.62	15.42
1975-76	17.36	19.19
1976-77	20.37	17.80

6.49 From the reports received by us during the course of our public hearings as well as through memoranda submitted to us, the following appear to be some of the reasons leading to such "programmed" lapses :

(i) Requirement of completion of a specific number of lives by the agent in the agency year for ensuring continuation of the agency. It has been represented to us that in many marginal cases the development officers and even some Branch Managers encourage the agent to put in business under a plan and term where the instalment premium is the lowest with the intention of lapsing after payment of the first instalment of premium. It was reported to us that in one Division a large number of policies were taken out under Pure Endowment Plan with quarterly premium, and when the policies were sent to the addresses given they were returned undelivered because the policyholders were not traceable.

(ii) Agents whose business is short of the amount required to entitle them for bonus commission are encouraged to resort to "programmed" lapses with a view to enabling them to receive bonus commission.

(iii) The Branch and Divisional Offices organise a number of competitions for agents and development officers on the basis of business completed. This encourages spurious business.

(iv) The emphasis laid by LIC on targets of sum assured at various levels and particularly the publicity given to the top agents and development officers on the basis of sum assured completed (crore-pathies) also contribute to writing of this type of business.

6.50 Apart from "programmed" lapses, poor service both by the agent and the office also contributes materially to lapsation. Reference has been made earlier to the concentration of new business in the last month of the year, resulting in serious delay in issue of policies. In most Divisions there is serious delay in issue of premium notices in respect of policies completed on quarterly premium basis in the last month of the year and in a majority of such cases no effort is made by the agent to ensure payment of premium by the policyholder. This leads to heavy lapses. Another important reason is the unsatisfactory working of the Data Processing System leading to omissions in the issue of premium notices in many cases. Further, rural areas lack adequate facilities for collection of premium and there is seldom any contact between the agent and the policyholder. Because of this, lapses in rural areas are even higher.

6.51 Appendix 31 gives Divisionwise figures of lapses after payment of first instalment of premium for all Divisions of the Corporation for three years. Appendix 32 gives Divisionwise figures of net lapses according to duration for all Divisions for the last seven years. It will be seen that lapse experience of Divisions vary very widely, that some Divisions in the Eastern Zone, particularly Cuttack, Muzaffarpur and Patna show first intalment lapses as high as 20 per cent, 29 per cent and 30 per cent while corresponding figures of metropolitan Divisions like Bombay, Calcutta and Delhi are 6.7 per cent, 8.9 per cent and 10.9 per cent. Similarly, in examining the duration-wise lapses the three Divisions in the Eastern Zone to which reference has been made earlier, have been experiencing lapse ratios as high as 50 per cent.

6.52 Some senior officers of the LIC have contended that due to the very nature of insurance business, particularly in a developing country like India, a certain level of lapses is inevitable and any drastic measures seeking to reduce lapses might affect adversely the growth of business itself. They point out that the experience of the LIC over the years has not disclosed any correlation between the rate of increase in new business and the lapse rate and that high level of lapsation has been a traditional feature of insurance business in India and finally that the LIC has been able to show a substantial improvement over the position obtaining before nationalisation which should be considered satisfactory.

6.53 It is true that over the last 20 years there has been a significant improvement in the level of lapses. It is, however, still high. In considering the problem of lapsation, the financial consequences thereof to the LIC and to the policyholders have to be borne in mind. The Chief Actuary of the LIC in his report on the Actuarial Valuation in 1971 had estimated the extent of loss caused by such lapsation at about Rs. 3.5 crores during the inter-valuation period. It is obvious that where the policy lapses after payment of only the first instalment of premium, it causes a financial loss to the LIC. Policies which lapse after payment of full first year's premium but before the policy acquired surrender value may not cause direct financial loss to the LIC but certainly causes serious loss to the policyholder. Policies which lapse after acquiring surrender value and which are either surrendered or converted into paid-up policies also cause considerable loss to the policyholder. Policies which lapse and are maintained as paid-up policies cause some strain to the LIC as the cost of maintenance of these policies is not fully compensated by the reduction in the benefit available to the policyholder.

6.54 The LIC has attempted from time to time to reduce lapses by organising follow up action by agents and development officers and by taking into consideration the lapse experience of development officers while considering their promotion. These steps have not borne fruit because they have been hindered by the inability of the Data Processing Machinery of the LIC to supply the required statistics of lapses according to agents and development officers in time for ensuring effective action. If lapses are to be tackled effectively, it will be necessary to change the method of remunerating the agents and development officers. It will also be necessary to change radically the Data Processing System of the LIC. This matter is considered in detail in a later part of our Report.

Group Insurance

6.55 Group Insurance provides life insurance coverage to a group of persons under one single contract. It involves group selection of risk instead of individual selection and in most cases no evidence of individual insurability is required. As a result, through group insurance it is possible to provide insurance coverage to large numbers who would not be eligible for inurance for reasons of health under individual insurance plans. Group insurance also avoids the cost of individual selling and individual policy administration and thus, reduces the cost of insurance substantially.

6.56 Originally, Group Insurance was being sold only to employees under a single employer or a group of associated employers and the insurance on each employee was to last so long as he was in service. Group policies are also issued to provide for pension payments to employees on their retirement from service. However, in due course, the concept of

Group Insurance was extended to groups other than employer-employee type of groups. Though endowment or whole life types of assurances can also be included under a group insurance policy, group insurance policies generally provide only term insurance covers on annual basis with the facility of automatic renewal.

6.57 Group Insurance Business has been in vogue in Western countries like U.K. and U.S.A. from the early years of the century and the growth of group insurance business in these countries has been very great. Appendix 33 shows the group insurance business in force in U.K. and U.S.A. in the years 1973 to 1976.

6.58 In India, before nationalisation, practically no group insurance business was being done except a small amount of business done by two British Insurers, "Norwich" and "Gresham". They issued a few group insurance policies providing retirement and death benefits to senior executives of some large firms. On nationalisation when the LIC took over the group business of these two companies, the business in force amounted to Rs. 5 crores sum assured and Rs. 21 lakhs annuity per annum. In 1960-61 the LIC took some steps to popularise group scheme. These included :

(i) Introduction of premium rates for One Year Renewal Term Assurance Plan; and

(ii) Introduction of Group Gratuity-*cum*-Life Assurance Scheme. This scheme was designed to fund the gratuity liability of employers and simultaneously provide additional life insurance cover for the employees.

However, no organised efforts for development of group insurance business were made and the growth during the sixties was modest. The business in force at the end of 1969-70 was only Rs. 77 crores. Four large schemes covering employees of Gujarat, Maharashtra and Karnataka State Road Transport Corporations and the Tamil Nadu Co-operative Housing Society, each covering more than 10,000 members were introduced during this period.

6.59 In 1970-71, it was decided to adopt a more active approach in the selling of group scheme business. The steps taken consisted of (1) setting up of a Group Scheme Department in the Central Office for intensive development of Group Schemes business and for co-ordinating sales and service efforts of various offices; (2) setting up of Regional Centres and posting of marketing officials at strategic places for development and administration of this business; (3) involvement of Branch officials and some professional agents in the selling of group schemes and training of these Branch officials and agents in group insurance business; (4) revision of premium rates under various plans and introduction of special rates including profit sharing schemes for larger groups; (5) simplification of underwriting procedures; and (6) introduction of schemes for voluntary groups like members of professional associations, co-operatives, etc.

6.60 As a result of these efforts the growth of the group insurance business in the seventies was quite impressive. The business in force which stood at Rs. 77 crores sum assured and Rs. 3.12 crores annuities per annum on 31-3-1970 rose to Rs. 5801 crores sum assured and Rs. 13.23 crores annuities per annum by 31st March, 1979. The number of Group Assurance Schemes rose to 6504 covering 55.90 lakhs lives and the number of Super-annuation Schemes rose to 559 covering 34,491 members. A statement showing the growth of this class of business is given in Appendix 13.

6.61 The enactment of the Payment of Gratuity Act, 1972 by which gratuity was made compulsory in all establishments employing more than 10 employees, helped the LIC to persuade many employers to introduce its Group Gratuity-*cum*-Life Assurance Schemes. The subsequent enactment of Finance Act, 1975 by which it was made obligatory for every company to set up a fund if income-tax concessions were to be availed of in respect of provision for gratuity, also gave a powerful impetus to the Gratuity Scheme business.

6.62 The introduction of the employees' Deposit-linked Insurance Schemes by Central Government in 1976 has been indirectly helpful to the LIC in the development of its Group Term Insurance Scheme Under the Government Schemes, all employees covered under the Employees' Provident Fund Act are granted insurance cover equal to the average balance in their P.F. account over the previous three years provided that this average is not less than Rs. 1,000. The maximum insurance cover is Rs. 10,000. For this benefit the employers are required to contribute 0.6% of their wage bill. An employer can opt out of this scheme if he has taken out with the LIC a group scheme under which the benefits are not less than those available under the Government Scheme. Since LIC generally grants the maximum cover of Rs. 10,000 to all employees covered by its scheme, many employees have opted for the LIC scheme.

6.63 A notable feature of the Group Insurance business of the LIC in the seventies is the introduction of some very large schemes covering more than one lakh members mainly in the Government Sector. The first such scheme covering 2.35 lakhs Primary and Junior High School teachers in Uttar Pradesh was initiated in 1973. Subsequently, a number of similar 'Jumbo' schemes covering Defence Services, Higher Secondary School teachers, Government employees and Police Personnel in U.P. and Government employees in the States of Haryana, Orissa, Tamil Nadu and West Bengal, employees of aided educational institutions in Orissa, aided School Teachers and employees of Local Bodies in Tamil Nadu and employees of Steel Authority of India were introduced in the years 1974 to 1978. However, for various reasons, some of these Schemes, namely, the scheme for the three Defence Services, the Scheme for Tamil Nadu Government employees, Schemes covering U.P. Government employees have since been discontinued. In all such large schemes it is possible for the employer to administer the scheme himself instead of taking recourse to the

LIC. This is particularly true of State Governments who are empowered to run their own schemes for the benefits of their employees subject to the approval of the Central Government. However, the selling effort of the LIC to introduce such schemes has helped in popularising the idea of group insurance coverage and thus, helped in extending the benefits of group insurance cover to a larger section of salaried personnel.

6.64 Many large schemes were introduced in the seventies covering the employees of several Public Sector Corporations and large Private Sector Companies. A list of such schemes in operation with 10,000 lives or more is given in Appendix 34.

6.65 The LIC has made a beginning in extending group insurance coverage to weaker sections of the society though the progress here is rather limited. Examples of such coverage are Milk Producers in Mehsana District in Gujarat, Handloom Weavers in Tamil Nadu, Beedi Workers in Maharashtra, Cashew Workers in Kerala and Coal Miners in a Singareni Collieries in Andhra Pradesh. All except the first two are Employer-Employee groups. A list of group schemes covering groups of persons other than employer-employee groups is given in Appendix 35.

6.66 In understanding the nature of group insurance business being transacted by the LIC and assessing the potential for further development, a brief description of the various types of Group Schemes being offered by the LIC may be useful. The following are the major types of schemes.

Group Term Insurance Scheme

6.67 Under these schemes, the LIC offers a flat insurance cover for all the members covered, though the cover may vary according to the class and the cadre of members. The policy offers a pure life insurance cover without any savings element and, therefore, the rate of premium is very low. The scheme is mostly offered to employer-employee groups providing life insurance cover to employees during their period of service and the premium is generally paid by the employer only. However, there are some schemes in which the employees also contribute to the premium. Groups other than employer-employee groups are also covered, for example, borrowers under a Housing Loan Scheme of Co-operative Housing Finance Societies, associations of self-employed people like weavers, farmers supplying milk to Co-operative Milk Producers' Societies, etc. One additional benefit which is often made available under schemes covering a large number of members is a profit participation scheme under which a share of the "profits" varying according to the size of the group and extending to 90 per cent for very large groups is returned to the policyholder on the basis of actual experience. The Group Schemes offered by the LIC as a replacement of the Employees' Deposit Linked Insurance Scheme of the Central Government referred to in Para 6.63 is also under this plan.

Group Savings-cum-*Term Insurance Scheme*

6.68 The scheme is meant mainly for employer-employee types of group. Under these schemes, certain fixed monthly contributions are collected from the employees. A part of this contribution is used to provide death benefit on a fixed scale under One Year Renewable Term Assurance Plan and the balance is accumulated with interest to the credit of the employee. Thus, under this scheme benefits are available both on death during service and when the employee leaves service or retires. Accumulation of the contribution with interest is done under what is described as a Deposit Administration Plan and the contributions under this plan are at present being accumulated at 6 per cent per annum. The benefits of this scheme are comparable to the endowment assurance policy issued to individuals but the return to the policyholder is substantially higher under this scheme than under an individual endowment assurance policy.

6.69 Fifteen schemes have so far been introduced under the Group Savings-*cum*-Term Insurance Plan covering the employees of U.P. State Government and Police, and other U.P. State sector bodies like Electricity Boards, Teaching Staff of schools, and colleges, Road Transport Corporations and also the W. B. Govt. Staff and Police and the Employees of Madhya Pradesh State Electricity Board. Out of this, Thirteen schemes covering a total number of 9.61 lakhs of members assuring a death benefit of Rs. 1,138 crores are in force as on 31-3-1980. Two schemes, *viz.*, U.P. Government Employees Scheme and U.P. State Police Scheme have been discontinued during 1979-80.

Group Gratuity-cum-*Life Assurance Scheme*

6.70 These schemes are designed to enable employers to fund the statutory gratuity liability to their employees and also provide additional life insurance cover to the employees. The premium is paid by the employer only. The retirement gratuity liability of the employer towards an employee is funded on the Pure Endowment Plan and the death benefit is arranged under One Year Group Term Assurance Plan. A drawback of this scheme is that on the employee leaving service before retirement, the amount payable under the LIC scheme is only the Surrender Value of the pure endowment part of the contract allocated to the particular employee. It is usually less than the actual amount of gratuity liability due to the withdrawing employee and, therefore, the employer has to supplement the payment with a further amount in order to discharge his liability. Moreover, considering the relatively lower yield of the LIC on its investible funds and the provision made by the LIC for its own administrative expenses, the interest available under the policy is somewhat lower than what could be achieved by private funding. We understand that the LIC is examining methods of removing these defects.

Deposit-linked Insurance Scheme for Bank Deposits

6.71 These schemes were designed to provide life insurance cover to the depositors of a bank where the depositor is between the ages of 18 and 40. The amount of life insurance cover is twice the amount of deposit and where he is between the ages of 41 and 49 it is equal to the amount of deposit. All depositors who have regular income and whose age is between 18 and 49 are eligible for participation in this scheme An insured savings bank account can be opened with a minimum deposit of Rs. 1,000 in case of urban branches and Rs. 500 in case of rural branches. The maximum insurance cover is Rs. 10,000 for account holders upto 40 years and Rs. 5,000 for account holders aged between 41 and 49 years. The benefits are arranged under the One Year Renewable Term Assurance Plan. It would appear that the scheme has not proved very popular as not many depositors were prepared to keep such a large balance in their savings accounts when they can get a much higher rate of interest on fixed deposits.

Unit-linked Insurance Plan

6.72 The Unit-linked insurance plan is administered by the Unit Trust of India in association with the LIC. Any individual within the age limits of 18 to 45 is eligible for admission to the Plan. A member agrees to contribute a uniform amount every year for a period of 10 years, the minimum and maximum contribution being Rs. 300 and Rs. 1,200. He is then covered for the amount of the outstanding contributions at the time of death. Thus, the maximum sum assured under this plan is Rs. 12,000. The benefits are arranged under a decreasing term assurance plan by level premiums payable over a period of 7 years from commencement. A statement showing the progress of business under this plan is given in Appendix 36.

Group Superannuation Scheme

6.73 These schemes are designed to provide pensions to employees on retirement. The premiums are paid by the employer but they are often in lieu of benefits foregone by the employees such as bonus or increments. There are, however, few schemes in which the contributions are paid by the employer in addition to the normal employee benefits. The benefits are usually arranged under the Deferred Annuity Plan.

6.74 Pension Schemes can be classified under two types : (i) The money purchase sucheme in which the contributions payable in respect of each employee are pre-determined as a percentage of the salary and the benefits depend on these contributions, and (ii) Benefit Purchase Scheme in which the benefits payable to each employeer are pre-determined usually in relation to the terminal salary and the contributions are paid accordingly. In India, generally, the Money Purchase Type of Schemes is more common. At present pension funds are not permitted to grant pension themselves and are required to purchase annuities from the LIC for payment of pension on retirement of an employee. Practically, all the employers who want to introduce pension schemes for any section of the employees have, therefore, to approach the LIC. However, as the benefits available under the scheme are far from attractive, the growth of business under the scheme has been very limited. A number of representations were received by the Committee for substantial improvement in the benefits being granted under these schemes or alternatively to recommend to the Government to permit private pension funds to grant pensions directly to their members without resort to the LIC. This aspect is considered in detail in a later section of this report.

6.75 In the light of the above review, the following broad conclusions emerge :

(a) *Individual Assurance* :

(i) While the growth of new business, business in force, total premium income and life fund of LIC in terms of absolute figures is impressive, the real rate of growth in terms of constant prices is significantly lower.

(ii) The primary objective of the LIC is to spread life insurance much more widely, in particular to the rural areas and the economically backward classes with a view to reaching all insurable persons in the country. No statistics have been built up by the LIC indicating the number of lives covered under individual assurances. However, working out a reasonable estimate of the number of lives covered on the basis of the sample survey conducted by the Committee as also the NCAER report, it is observed that the percentage of insurable male population covered through life insurance is about 10 per cent. The gap to be bridged is, therefore, wide.

(iii) It is observed that the LIC has so far been concentrating on the salaried classes only who account for almost two-third of the total number of policyholders. This brings out the need for initiating suitable measures for covering the large sector of non-salaried classes also.

(iv) The proportion of new business coming from rural areas has stabilised at about 30 per cent in respect of number of policies and about 25% in respect of sum assured during the last 10 years. In fact, there is a certain decline in the percentage of number of policies in the rural areas during the last 3 years. Even amongst the policyholders of the rural areas the proportion of salaried classes is predominant.

(v) The percentage of savings through life insurance represents hardly 7.4 per cent of the total household savings as revealed by the RBI Survey Report in 1976-77. In fact this percentage was 11 per cent in 1970-71 and has declined since. The savings through bank deposits show an increasing trend.

(vi) The LIC has introduced various new plans during the last 10 years but the response has been rather poor indicating that adequate market study was not made before deciding upon introduction of new plans.

(vii) Concentration of new business, particularly in the closing month of the year, causes great strain to the administrative machinery and also affects underwriting standards. This indicates the need for more effective remedial action.

(viii) Although the overall lapse ratio and net lapse ratio according to duration of new business in each year have been coming down the phenomenon of lapsation is one of the disturbing features of the functioning of the LIC requiring detailed consideration.

(b) *Group Insurance Scheme* :

(i) The LIC has recorded an impressive growth in the development of its group insurance business during the last 10 years.

(ii) The growth has been concentrated mainly in employer-employee type of groups.

(iii) Though some beginning has been made in extending group insurance coverage to the weaker sections of the society, the progress so far is very limited, particularly in the rural areas and among unorganised section of workers' in the urban areas.

(iv) There is very little progress under the Group Savings-*cum*-Term Insurance Scheme in spite of the fact that this scheme offers to the salaried classes far more attractive benefits both on death and survival than those available under individual endowment assurances policies.

(v) The growth of group pension business has been very tardy and a re-examination of the basis on which pension schemes are arranged in this country is necessary.

CHAPTER VII

SERVICES TO POLICYHOLDERS

7.1 Life Insurance being a long term contract, a number of services are required to be performed by the insurer during the term of the contract. They mainly relate to arrangements for periodical collection and accounting of premiums and for payment of the claim when it occurs. The conditions and privileges attached to the policy provide for other services as well. These include revival of lapsed policies, sanction of loans within surrender value, registration of assignments and nominations. The LIC is thus essentially a service organisation and satisfactory service to the policyholder during the entire period of the policy contract is, therefore, essential for building up confidence of the public in the LIC.

7.2 During the last 24 years of the LIC's existence the number of policies in force have gone up considerably and service to policyholders has suffered. Adverse comments in the press about the poor quality of service to policyholders have become common. Letters from dissatisfied policyholders giving instances of unsatisfactory service also appear regularly in the press. In the public hearings that the Committee held, an overwhelming majority of the persons who appeared before the Committee expressed similar views.

7.3 As stated earlier, the Committee had organised an opinion survey to ascertain the views of the general body of policyholders on this subject. The Table below gives an analysis of the opinions expressed by the policyholders regarding the quality of service under various heads such as sanction of loans, change of nomination, settlement of maturity claims, etc.

TABLE VII—1

Classification of opinions from Policyholders regarding quality of service

Area of service	Prompt	Slight Delay	Inordinate Delay
	%	%	%
(*i*) Sanction of loans	49.4	25.9	24.7
(*ii*) Change of nominat on	49.1	27.3	23.6
(*iii*) Settlement of maturity claims . . .	46.5	24.0	29.5
(*iv*) Settlement of Anticipated Endowment Claims	45.5	25.0	29.5
(*v*) Change of Address .	44.0	29.4	26.6
(*vi*) Change of mode of payment	43.4	27.4	29.2
(*vii*) Revival of Policies .	43.3	25.6	31.1
(*viii*) Alterations . .	40.0	25.2	34.8
(*ix*) Transfer of Records .	36.7	26.5	36.8

It will be seen that in respect of most of the areas of servicing between 40 to 50 per cent of the policyholders described the service as "prompt", about 25 per cent complained about "slight delay" and between 24 per cent and 30 per cent complained of "inordinate delay".

7.4 More important areas of service to policyholders are :

(i) Underwriting of proposals and issue of policies ;

(ii) Issue of premium notices and default intimations ;

(iii) Collection and accounting of premium ;

(iv) Grant of policy loans ;

(v) Other services such as Registration of assignments and nominations; attending to requests for alteration in policy contracts, transfer of policy records; and

(vi) Settlement of maturity and death claims.

7.5 The LIC has been conscious of the need for providing efficient service to its policyholders and from time to time performance standards were set up for measuring efficiency of service in various areas like claims settlement and deposit clearance. Competitions are held and prizes awarded for outstanding performance in these areas. Recently, as a part of its Corporate planning exercise, the LIC has attempted to quantify certain operational goals in respect of various aspects of service to the policyholders. These operational goals are set out in Appendix 37. These operational goals have been set up after taking into account past experience, existing organisational set up and the types of machines in use. We understand that in the course of regular inspection of the offices, the actual performance of the offices in various areas covered by the operational goals is examined and the working of the offices is being rated on the basis of its achievement of these goals or the extent of shortfall. It would, however, appear from a study of the inspection reports that most offices have not been able to achieve the operational goals and in many offices the actual performance is far below the goals.

7.6 We will now examine the actual performance of the LIC in the various areas referred to above.

Underwriting of proposals and issue of Policies

7.7 Normally very few complaints are received of delays in acceptance of or completion of proposals. But the picture changes immediately thereafter. On completion of a proposal, the policy document is required to be issued to the life assured as evidence of the contract. These policy documents are usually prepared on adrema machines. According to the operational norms fixed by the LIC, policies are expected to be prepared and despatched to policyholders within a period of 20 days during "lean months" and within 40 days during "peak months". However, in most of the offices the time lag is much greater. A sample study of the time lag in issuance of the policies based on Audit and Inspection Reports reveals the following position.

TABLE VII—2

Time taken for issuing policies in respect of new business pertaining to lean months

Sr. No.	Name of Division	Date of Audit & Inspection	Time taken to issue Policies
1.	Madras	16-6-79 to 7-7-79	47 days
2.	Bangalore	3-7-79 to 12-7-79	36 ,,
3.	Calcutta	4-6-79 to 4-7-79	75 ,,
4.	Patna	12-6-79 to 4-7-79	59 ,,
5.	Agra	12-2-79 to 2-3-79	53 ,,
6.	Bombay	21-5-79 to 16-6-79	48 ,,
7.	Ahmedabad	12-5-79 to 24-5-79	7 ,,
8.	Jullundur	3-5-79 to 19-5-79	18 ,,

All these inspections were carried out in the lean months and it would appear that except for Ahmedabad and Jullundur Divisions where policies were issued within the specified time limits, in respect of all the other Divisions including Bombay, the time lags were substantially higher. In Calcutta and Patna the time lags were as high as 75 and 59 days against the limit of 20 days specified in the operational goal

7.8 Delays in respect of the proposals completed in the peak month of March are substantially higher. The following Table gives the information regarding such delays in respect of a few Divisions.

TABLE VII—3

Time taken for issuing Policies in respect of new business pertaining to peak month of March 1979

Sr. No	Name of Division	Date of issue of last Policy pertaining to new business of March 1979
1.	Jullundur	17-7-79
2.	Chandigarh	8-8-79
3.	Lucknow	30-6-79
4.	Raipur	10-7-79
5.	Cuttack	7-8-79
6.	Calcutta	Nov. 79
7.	Madras	31-7-79
8.	Hyderabad	30-6-79
9.	Surat	25-6-79
10.	Nasik	31-5-79

7.9 Delays in issue of policies have serious adverse consequences on other aspects of service as well. They lead to delays in the preparation of basic records relating to the policy, namely, adrema plate and the premium master card. This in turn leads to delays in preparation and issue of premium notices particularly in respect of policies with quarterly mode of premium payment, which may contribute to lapsation of policies. This is, therefore, an important area calling for urgent remedial action.

Issue of Premium notices and default intimations

7.10 Though issue of premium notices is not a contractual obligation, regular issue of such notices reminding the policyholder to remit the premium before the due date is an essential service which all insurers are expected to perform. The survey conducted by the Committee gives an analysis of the experience of the policyholders in regard to the receipt of premium notices, premium receipts and default intimations.

TABLE VII—4

Analysis of the experience of Policyholders regarding issue of premium notices/receipts/default intimations

	Monthly Remittance	Quarterly	Half-Yearly	Yearly	Bank Authorisation	All Modes
Regularly						
	%	%	%	%	%	%
Premium Notice	59.7	71.4	72.6	72.2	76.3	71.8
Premium Receipt	77.6	85.3	85.1	84.1	78.5	84.3
Default Notice	38.7	42.2	41.6	38.8	46.8	41.1
Not regularly						
Premium Notice	19.7	24.1	23.5	23.3	16.6	23.3
Premium Receipt	12.7	13.0	13.4	14.4	17.2	13.7
Default Notice	14.6	14.6	15.6	15.4	12.5	15.1
Not received at all						
Premium Notice	20.6	4.5	3.9	1.5	7.1	4.9
Premium Receipt	9.7	1.7	1.5	1.6	4.3	2.0
Default Notice	46.7	43.2	42.8	45.9	40.7	43.8

It will be seen that about 5 per cent of the policyholders have stated that they are not receiving premium notices at all, while 23 per cent of the policyholders have stated that they are not receiving them regularly. As regards default notices, as many as 44 per cent of the policyholders say that they are not receiving any default notices while 15 per cent of policyholders complain that they are not receiving default notices regularly.

7.11 The procedure for issue of premium notices is that each month the Adrema Department of the Divisional Office prepares the premium notices and receipts for the premium due in the following month. While these are printed on the adrema machines, the Demand Invoices are prepared on Unit Record machines. The procedure requires that the adrema printed notices and receipts are compared and tallied with the demand invoices prepared on the Unit Record Machines before being issued. Any discrepancy between the two is required to be checked from the policy ledgers so that cases of non-preparation and non-issue of notices because of defects in the Adrema or Unit Record files can be eliminated. It is, however, observed that such reconciliation is not being done in most Divisional Offices. Even where such reconciliation is being done there are discrepancies between the two sets of files varying from 0.1 per cent to as much as 5 per cent. This means that updating of the various machine files is not being done regularly. The main cause is that the machines in use are such that records of each policy are required to be maintained in several files such as policy ledger, adrema plates, premium master cards, etc. and as changes affecting policies have to be recorded in all the files, omissions and mistakes occur affecting the accuracy of the records and consequently quality of subsequent service. The non-preparation of premium receipt may lead to a situation where a policyholder who in spite of non-receipt of premium notices remits the premium would not be able to get a receipt and the amount would be placed in deposit creating dis-satisfaction and confusion.

7.12 As regards default notices, according to the procedures laid down by the LIC, the Branch Office is required to issue a default notice to the policyholder on the expiry of three months from the due date of the unpaid premium and when a premium remains unpaid for six months from its due date, a final lapse intimation is required to be sent. From the response to the survey referred to earlier it would appear that this is not being done in a number of Branch Offices. This also is one of the contributing factors for heavy lapsation of policies. This is another important area where remedial action is called for.

Collection and Accounting of Premiums

7.13 Apart from the question of regular issue of premium notices, it is also essential to consider the arrangements made by the LIC for collection of premiums. Usually the policyholder is expected to remit the premium to the Branch Office which is servicing his policy. The LIC has also opened collection accounts with banks at all important centres where it does not have a Branch of its own and a policyholder residing at such centres can deposit the premiums with the nearest bank where the LIC has a collection account. At smaller centres where there are no banks operating, the LIC normally makes arrangements with the local post office to collect premiums on behalf of the LIC. Further, in respect of policies covered by the LIC's Salary Savings Scheme, the premiums are deducted from salaries by the employer and remitted directly to the Branch or Divisional Office of the LIC. From the details furnished regarding percentage of premium collections through different sources during the year 1978-79 for various Divisions it is observed that collections through post offices form a very negligible proportion of the total collections, maximum being 1.68 per cent (Cuttack Division). The collections through banks range between 1 per cent (Jamshedpur and Calcutta Divisions) and 22 per cent (Rajkot Division). The major sources of premium collections are the LIC Branch Offices and Centralised Cash Collection Centres, besides the remittances of deductions received directly from the employers under Salary Savings Scheme Policies.

7.14 During our discussions with representatives of various State Governments as well as other members of the public during the course of public hearings, it was represented to us that arrangements for premium collections in the rural areas were not at all satisfactory. It was also represented by some of the officials of the LIC that arrangements for collections through banks were not working very satisfactorily in some of the areas, as the banks were often very irregular in sending intimations of collections. In many cases wrong policy numbers were given or full particulars of remittances were not given leading to unidentified deposits and unnecessary correspondence. From the Audit and Inspection Reports we noted that reconciliation of bank accounts is in heavy arrears in many Divisions. It has, therefore, been represented that if the LIC were to extend its activities widely in rural areas and if lapsation in rural areas is to be reduced, collection facilities in these areas must be improved by opening larger number of LIC's own offices in such areas. We shall deal with this matter in detail in a later section.

7.15 When any payment is received from the policyholder the amount may have to be placed in deposit if the relevant premium receipt is not available with the Branch, the amount remitted is towards revival or falls short of the premium required to be paid or full particulars of the remittances are not given. As observed earlier, in a number of cases where collections are remitted through banks, the banks commit mistakes in giving particulars of the policies and the amount may have to be placed in deposit. The placing of any amount paid by the policyholder in deposit and non-adjustment thereof is one of the causes of complaints from the policyholders and this situation may also lead to lapsation of policies. Though LIC has been taking various steps for reducing the amounts going into deposits through relaxation of its rules for adjustment of remittances towards premia and also for reducing the volume of outstanding deposits through an active follow-up, the problem continues to be intractable.

7.16 The following Table shows the total amount of deposits outstanding at the end of each of the years from 1972-73 to 1978-79.

TABLE VII—5

Statement of Outstanding Deposits

Year ending	Outstanding deposits (Rs. in crores)	% of total deposits to total premium income
1972-73	36.58	9.39
1973-74	31.15	6.85
1974-75	29.29	5.75
1975-76	26.15	4.45
1976-77	24.73	3.79
1977-78	24.66	3.48
1978-79	28.50	3.68
1979-80	28.35	3.26

It will be seen that though during the previous six years there has been consistent progress in bringing down the amount of outstanding deposits, the progress has been halted and reversed during the year 1978-79. However, during 1979-80, the position shows some improvement. It is also to be noted that the statutory Auditors have been pointing out year after year that schedules relating to premium deposits in support of general ledger balances were not available at some of the Divisional Offices.

7.17 Another important factor to be noted in this connection is that every year the LIC "writes back" large amounts which have remained in deposits for over five years. The amounts so "written back" (Net), in each of the last six years has been as under :

TABLE VII—6

Statement of amount of deposits written back

Financial Year	Amount of deposits written back (Net)
	Rs.
1974-75	1,53,87,365
1975-76	85,51,024
1976-77	99,67,585
1977-78	91,24,617
1978-79	85,97,112
1979-80	1,08,69,632

Settlement of Policy Loans

7.18 From the results of the sample survey conducted by the Committee referred to earlier, it was noted that about 50 per cent of the policyholders expressed satisfaction with the service given in the area of sanction of policy loans, about 25 per cent complained of slight delay while another 25 per cent complained of inordinate delay. The LIC has been reviewing, from time to time, the procedure for sanction of loans. The present procedure is far more simple than what was obtaining in the early years of the LIC. Further, the work relating to sanctioning of loans has also been decentralised to the Branch Offices, and practically all the mofussil Branch Offices are attending to this work at present. At the mofussil Branch Offices the policyholder is usually able to obtain personal service on the spot and generally the work of grant of loans at such Branch Offices is fairly expeditious. Delay, however, occurs when loans are being handled at the Divisional Office which is the case in respect of non-servicing city Branch Offices located at the Divisional headquarters and also in respect of policies covered by the LIC's Salary Savings Scheme. It is in respect of the policies covered by the Salary Savings Scheme that maximum delays occur in settlement of policy loans and the largest number of complaints also relate to such policies. The problems arising in servicing of policies under Salary Savings Scheme are dealt with separately later.

7.19 In 1977, the Ministry of Finance had suggested to the LIC to examine as to whether it is necessary to modify the terms and conditions on which loans are granted by the LIC under its policy. Consequent upon this suggestion, the LIC conducted two sample surveys of selected Divisions. The broad conclusions were as under :

(i) The proportion of policies under which loans have been taken amount to about 20% in respect of ordinary policies and 27.5% in respect of SSS policies. Under paid-up policies in which loans have been taken amount to about 23% of the total policies in case of ordinary policies and about 15% in respect of SSS policies.

(ii) Under ordinary policies, loans up to Rs. 150 amounted to 0.95% of the total number of loans, loans up to Rs. 250 amounted to 6.02% and percentage of policies with loans of Rs. 251 to Rs. 3000 amount to about 80%. However, in respect of policies under SSS, loans up to Rs. 150 amounted to 4.1% and loans up to Rs. 250 amounted to nearly 25%.

(iii) A number of policyholders were taking loans on more than one occasion and the total number of policyholders with in-force policies under ordinary scheme to whom loans were granted more than twice amounted to 4.1%. The corresponding figure in respect of policies under SSS was 11.1%. In respect of paid-up policies under ordinary scheme 3.1% had availed of loans more than twice. Corresponding figure in respect of policies under SSS was 7.5%.

7.20 Improvement of the LIC's performance in the area of settlement of loans will require action in the following areas :

(i) Completing the programme of decentralisation of policy servicing functions to Branch Offices, including settlement of second and subsequent loans.

(ii) Extending the decentralisation programme to all the city Branch Offices.

(iii) Reorganisation of the work of record keeping and administration of SSS business.

7.21 However, apart from the question of expediting settlement of loans, there is another aspect of the problem which also requires consideration. In respect of SSS policies particularly, a large number of applications are being received for policy loans of very small amount. Since granting of loans entails fairly high costs, it is a matter for consideration whether the minimum amount of loan which is at present Rs. 150 be increased to Rs. 250. It is also to be considered whether any restriction can be placed on the frequency with which the policyholder can avail of a loan under his policy.

7.22 The rate of interest on policy loans was 6% up to 31st July, 1970 which was increased to 7½% from 1st August, 1970 and then to 9% from 1st August, 1974. Considering the cost of administration involved in sanctioning and servicing of policy loans and the prevailing high rates of interest on bank loans, it may be necessary to consider whether an increase in the rate of interest can be considered to ensure that the net rate of interest obtained by the LIC on its policy loans after meeting its administrative cost for servicing such loans is not lower than what is obtained on the investments of life funds generally. These aspects are considered in detail in a later Section.

Settlement of Claims

7.23 Settlement of claims whether by Death or Maturity is perhaps, the most important service to policyholders. From the inception and particularly during the last 10 years this area has received special attention at all levels. The performance of the Divisional Office where all work relating to claims settlement is being done is being continuously watched and evaluated. Special recognition and awards are granted to Divisional Offices for good performance in this area. The procedure for settlement of claims has been greatly simplified. These efforts have borne fruit. The generally accepted index of efficiency regarding settlement of claims is the proportion of outstanding claims at the end of the year to the claims intimated during the year. The figures from 1969-70 to 1978-79 are given in Appendix 38. The following Table gives a summary of the percentage of claims outstanding to the claims intimated during each of these years.

TABLE VII—7

Percentage of Claims Outstanding to the Claims Intimated during the years 1969-70 to 1978-79

	By No. of Policies	By Amount
1969-70	35	30
1970-71	27	24
1971-72	19	19
1972-73	19	20
1973-74	24	25
1974-75	22	22
1975-76	16	18
1976-77	11	14
1977-78	13	15
1978-79	15	15

It will be seen that as compared to the position that was obtaining a decade ago, there has been substantial improvement. The LIC's performance in this area compares well with that of some of the leading companies in India before nationalisation and also some of the leading U.S. Insurance Companies. The following Tables give similar figures for the erstwhile Indian Insurance Companies and for some of the U.S. Insurance Companies.

TABLE VII—8

Percentage of outstanding claims to claims intimated (by amount) for the year 1954

Name of Company	Percentage
	%
Oriental	36.48
Bombay Mutual	42.47
Bombay Life	49.87
Empire of India	53.27
Hindustan Co-op.	54.31
New India	59.41
National	74.70

TABLE VII—9

Ratio of unsettled claims of U.S. Insurance Companies for the year 1976

Name of Company	Percentage
	%
Prudential	20.10
Equitable	18.01
Metropolitan	16.01

It will be seen that the LIC's performance compares quite favourably not only with the performance of some of the leading Indian Insurance Companies before nationalisation but also with that of the leading U.S. Insurance Companies. However, as is seen from the report and accounts for 1979-80, the percentage of outstanding claims to claims intimated is 17%, thus showing an upward trend again. There are also many specific areas where there is not only scope but also need for improvement. In the survey of the opinion of policyholders conducted by the Committee, nearly 30% of the policyholders responding had stated that there were inordinate delays in settlement of maturity claims as well as settlement of claims under Anticipated Endowment policies. An analysis of complaints received by the LIC also shows that a very large proportion of complaints relate to delays in settlement of claims. It is, therefore, necessary to examine in detail the various aspects of the claims settlement work and to identify the areas where corrective action is necessary.

7.24 There are two categories of claims, namely, (1) maturity claims and (2) death claims. The former includes periodical payments under the Anticipated Endowment type of policies. So far as other maturity claims are concerned, the policy contract requires payment of the sum assured on the date of maturity.

The LIC has laid down as its operational goal that all maturity claims under policies which have been kept in full force till the date of maturity should be settled on the maturity date itself or at least within one month of the date of maturity. In respect of maturity claims under policies which had been made paid-up, the settlement should be done within three months. The distinction that has been made between these two categories is due to the fact that under paid-up policies contact with the policyholder is often lost. To achieve its goal the LIC's procedure requires that intimations are sent to the policyholders two months in advance of the date of maturity so that the policy document with completed discharge voucher is received from the policyholder well before the date of maturity, thus enabling payment to be made on the date of maturity. The percentages according to different time limits within which intimations are issued to the policyholders in the various Zones and for the Corporation as a whole during the year 1978-79 are shown in the table below:

TABLE VII—10

Time lags in issuing Maturity Intimations

	60 days or more before the date of maturity	31 to 60 days before the date of maturity	Upto 30 days before the date of maturity	After the date of maturity
	%	%	%	%
Northern Zone	21	37	25	17
Central Zone	17	34	27	22
Eastern Zone	10	11	29	50
Southern Zone	19	33	24	24
Western Zone	7	38	42	13
Corporation	13	32	32	23

It will be seen that for the Corporation as a whole 23% of the intimations were issued after the date of maturity and that in the Eastern Zone the percentage was as high as 50%.

7.25 An analysis of maturity claims settled during the financial year 1978-79 according to the time taken for settlement is given in the following Table, both Zone-wise and for the LIC as a whole :

TABLE VII—11

Time-lags in settling Maturity Claims

	On or before the date of maturity	Within one month of the date of maturity	After one month
	%	%	%
Northern Zone	37	32	31
Central Zone	32	32	36
Eastern Zone	18	32	50
Southern Zone	44	28	28
Western Zone	30	43	27
Corporation	33	35	32

It will be seen that percentage of claims settled after one month from the date of maturity, which is the maximum time limit according to the norms of the LIC, was as high as 32% for the LIC as a whole and again the Eastern Zones performance was the poorest. This can be linked directly to delay in the issue of claim intimations. The percentage of claims settled on or before the date of maturity has deteriorated from 43% in 1976-77 to 41% in 1977-78 and 33% in 1978-79.

7.26 Apart from the delay in the issue of maturity intimations, a number of instances are being reported of omissions of policy numbers in the maturity lists prepared by the Machine Departments. Such omissions come to notice only when the policyholder on his own takes up with the concerned LIC Office about non-receipt of maturity intimation under his policy. Information regarding the average percentage of omissions to the number of Maturity Claims payable in respect of some of the Divisional Offices as has been compiled is given hereunder :

TABLE VII—12

Percentage of Omissions in issuing Maturity Intimations

Division	% of Omissions
Northern Zone:	
1. Jullundur	1.68
2. Chandigarh	8.90
3. New Delhi	2.49
Central Zone:	
1. Indore	3.62
2. Jabalpur	10.49
3. Kanpur	18.13
Eastern Zone:	
1. Jamshedpur	10.11
2. Jalpaiguri	32.03
3. Muzaffarpur	46.52
Southern Zone:	
1. Thanjavur	3.34
2. Hyderabad	8.03
3. Madras	18.00
Western Zone:	
1. Nagpur	1.36
2. Bombay	3.22
3. Ahmedabad	6.31

It will be seen that the percentage of omissions in respect of offices in the Eastern Zone is very high. In respect of offices in the Central Zone also, the percentage is significant. It should be noted that the figures given above are only of omissions brought to the notice of the concerned offices by the policyholders and the actual position is likely to be much worse. This highlights the vital need for improving the working of the entire data processing system.

7.27 Appendix 39 gives causewise and durationwise statistics of maturity claims outstanding as on 31st March, 1979. Notwithstanding the operational goal laid down that all maturity claims should be settled within one month in respect of in-force policies and three months in respect of paid up policies, nearly 50% of outstanding claims have been pending for more than three months but up to two years and 6% for periods ranging over two years. There were also 224 claims outstanding for more than five years. Though existing procedures envisage continuous follow up of all the outstanding claims including personal contact with the claimants by field officials, the figures reveal that the follow up action has not been effective.

7.28 It appears that the main reasons for delay in settlement of maturity claims are as follows :—

(i) Requirements awaited : Under this head are included all cases where the basic requirements for settlement of maturity claims, such as policy document, discharge form, age proof, etc., are not forthcoming in spite of writing to the policyholder.

(ii) Claimants not traceable : This generally happens in respect of paid up policies. Where the policies were made paid-up long ago, it often happens that the policyholder has changed his residence without intimating the change of address and his present whereabouts are not known.

(iii) Exchange Control : A few cases involving Exchange Control problems remain pending till clearance is obtained from the Exchange Control authorities.

7.29 With a view to expediting claims settlement, the LIC sends full particulars of outstanding claims to the field staff with instructions to contact the claimants and help them complete the requirements necessary for settlement of claims. However, the success of this scheme depends upon the co-operation from the field staff. Appendix 40 gives the position of number of "claim particular sheets" (CPS) issued during the year 1978-79, number disposed of and the number outstanding as at 31st March, 1979. The statement gives an idea of the extent to which the LIC has been trying to involve its field personnel in the settlement of claim. It also shows that much remains to be done to make this procedure effective.

Death Claims

7.30 Prompt settlement of death claims is even more important than other services required to be performed by the LIC. Claims which arise on account of death of the policyholder within two years from the date of risk or date of revival are classified as early claims and the rest are treated as ordinary claims. The procedure followed for settlement of claims differs in some respect as between "early claims" and "ordinary claims".

7.31 The LIC has set the following operational goals for settlement of death claims :—

(i) As regards death claims other than early claims, all such claims should be settled within a maximum period of three months from the date of reporting of the claim.

(ii) In the case of early claims, where an investigation is considered necessary, the final decision should be taken within a maximum period of six months.

(iii) In respect of claims which remain outstanding for one reason or the other, beyond the period specified in the previous paragraphs, all efforts must be made to see that such claims do not remain outstanding for more than one year unless legal issues including matters connected with Exchange Control Regulations are involved.

7.32 With a view to achieving the above objectives, all offices of the LIC have been instructed to ensure that requirements are completed by the claimants as quickly as possible and where necessary by personal contact and help from the field staff. Wherever an investigation is considered necessary which is infrequent, it should be the responsibility of the concerned office to see that the investigation is completed expeditiously.

7.33 The procedure relating to the settlement of claims is being reviewed from time to time with a view to ensuring that claimants are not put to unnecessary inconvenience. Such reviews are also intended to bring about further simplifications and relaxations in the procedure and help in expeditious settlement of claims. Some of the steps taken towards liberalisation of the conditions governing settlement of claims are stated below :—

(i) Normally under all life insurance policies age has to be proved before a claim is settled. However, the LIC has decided that in cases where the claimants are unable to produce proof of age of the life assured, for genuine reasons, the age proof is dispensed with provided the amount payable does not exceed Rs. 10,000 and the office is satisfied that *prima facie* there was no understatement of age.

(ii) With a view to mitigating the hardships to the heirs of the policyholders who die intestate, the LIC considers waiver of legal evidence of title such as a Succession Certificate and settles the claims on the heirs complying with alternative requirements, provided there is no dispute among them. At present the production of evidence of title is dispensed with where the net claim amount does not exceed Rs. 75,000 and the payment is made on the strength of an Indemnity Bond with necessary Surety. Such sureties are also dispensed with when the net claim amount does not exceed Rs. 5,000 and even Indemnity Bond is dispensed with where the net claim amount does not exceed Rs. 1,000.

(iii) With a view to helping claimants who have not attained the age of majority and have no natural guardian or guardian appointed by a Court of Law, the LIC relaxes the legal requirements to the extent of paying the claim to the *de facto* guardian of the minors on the strength of alternative requirements such as Indemnity Bond if the total claim payable does not exceed Rs. 5,000.

(iv) Considerable relaxation has been made in the matter of attestation of claim forms. While originally the claim forms were to be attested by public officials such as a Gazetted Government Officer, Magistrate, Head Post Master, etc., now attestation by an agent of the LIC who is a member of the Agents' Club at the level of Divisional Manager and above, Development Officers with 5 years service, Head Master of a High School, etc. is also accepted so that the claimants can get the attestation without any difficulty.

(v) Where the policy document is reported to have been lost, payment is made on the strength of an Indemnity Bond executed by the claimant jointly with a surety. However, the surety is dispensed with where the sum assured or paid-up value does not exceed Rs. 5,000. Even the Indemnity Bond is dispensed with where the net claim amount does not exceed Rs. 1,000.

(vi) Investigation of claim is dispensed with in case of policies where the sum assured does not exceed Rs. 5,000 and in respect of policies which have been revived or reinstated where the sum assured less paid-up value on the date of revival did not exceed Rs. 5,000 except where the claim is suspected to be *mala fide*.

7.34 The following Table gives the percentages of claims settled (excluding early claims) analysed according to the time taken for settlement during 1978-79 :—

TABLE VII—13

Time-lags in settlement of Death Claims 1978-79 (excluding early claims)

	% of claims settled within 30 days of intimation	% of claims settled within 31—90 days of intimation	% of claims settled after 3 months of intimation
	%	%	%
Northern Zone	21	43	31
Central Zone	22	47	31
Eastern Zone	11	31	58
Southern Zone	19	48	33
Western Zone	24	46	30
Corporation	19	45	36

It will be seen that the percentage of claims settled within 30 days of intimation for the Corporation as a whole comes to 19%. The percentage of claims settled within 31 to 90 days of the intimation is 45% and those claims settled after three months of intimation is 36%. Thus, only in 64% of all ordinary death claims the operational goal of ensuring settlement of claim within a maximum period of 3 months is complied with.

7.35 Appendix 41 gives causewise and durationwise analysis of outstanding death claims as at the end of 31st March, 1979. Of these, 34% have remained outstanding for more than 6 months to two years and about 11% for periods ranging between two and five years. There were 183 claims outstanding for more than five years. This shows the inadequacy of the follow up action.

7.36 In regard to early claims arising by the death of the assured within two years from the date of commencement or date of revival, while calling for the normal requirements from the claimant, simultaneously arrangements are made for investigation of the *bona fides* of the claim. Before considering the procedures prescribed for such investigation it will be pertinent to consider why such investigation is necessary. It is often argued that it should be the obligation of the insurer to satisfy himself about the state of health of the life to be insured on the basis of medical examination conducted by his own medical examiner and once the contract has been concluded it should not be called into question merely because the life to be insured did not disclose some facts regarding his own personal or family medical history. This, however, runs counter to the basic principles on which a contract of life insurance is based. A contract of life insurance is based on the principle of 'utmost good faith', and the insurer depends, besides the results of the medical examination conducted by his own medical examiner where necessary, on the information given in the personal statement by the life to be assured. It is well known that routine medical examination cannot provide all facts relating to the personal health of the life to be assured or his past medical history. Further, standards of medical examination differ from one examiner to another. In these circumstances, the insurer has to perforce depend on the obligation of the proposer to disclose all material facts about his own personal and family medical history which would be relevant in considering his proposal for life assurance by the insurer. Non-disclosure of such material facts or giving wrong information in the personal statement would vitiate the contract of life insurance. It is in the light of this background that it becomes necessary to arrange for an investigation into the *bona fides* of the claim, where the claim occurs by death within a short period of commencement of risk so that if there has been any fraudulent suppression of material facts this can be brought out and such claims can be repudiated in the interest of the general body of policyholders. All the same, it may be noted that the LIC has recently decided that investigations may be dispensed with in case where the sum assured is less than Rs. 5,000 or where the claim is by accident, unless the claim papers reveal *prima facie* some adverse features about the personal history of the policyholder.

7.37 Even though in the light of the reasons stated in the previous paragraph investigations of early claims are essential, it is at the same time also necessary to ensure that such investigations are completed as expeditiously as possible, so that claimants are not put to unnecessary inconvenience and delays.

7.38 Investigation of early claims are generally conducted through selected field officials such as Development Officers, Assistant Branch Managers or Branch Managers. For this purpose every Divisional Office is expected to keep a list of Development Officers, Assistant Branch Managers, etc., distributed areawise, whom they consider suitable for conducting such investigations. Whenever an intimation of an early death claim is received, the investigation is entrusted to such selected field personnel. In addition, every Divisional Office is also instructed to train some members of the staff in its claims department in claims investigation work so that such trained persons from the Divisional Office are sent out for more detailed investigation when the local field official who has been entrusted with the investigation work is unable to carry out the investigation to the satisfaction of the Divisional Office and the Divisional Office considers the claim to be doubtful. Further to ensure that the investigation work is completed expeditiously, certain time limits have been prescribed by the LIC. It has been laid down that in all cases of investigation, the report must be submitted by the investigating official within a period of three months. Extension of this time limit is given only in cases where the Divisional Office is satisfied that as a result of the enquiries already made some adverse factors are indicated which would require further investigation. It is also laid down that failure to submit the investigation report within the prescribed time limit would be viewed seriously and adverse remarks would be taken on the personal file of the investigating official. Similarly, if the report is submitted after making only superficial enquiries, similar action is also taken for the poor quality of work. Where it is found that investigation officer has failed to complete the investigation within the prescribed time limit, further investigating is entrusted to some selected staff member from the Divisional Office with instructions to complete the investigation as expeditiously as possible.

7.39 The Officers-in-charge of the Claims Department are required to review the position of outstanding early claims every month. The Divisional Manager is also required to review all the outstanding early claim cases personally at least once every quarter and record his instructions for processing the claims further. All the Divisional Offices are required to submit a quarterly report of early claim investigations to the Central Office and on the basis of a review of such reports, suitable instructions are issued from time to time to the concerned Divisional Offices as well as to the Zonal Office.

7.40 In spite of the steps so far taken by the LIC for expediting claims investigation work, considerable delays still occur in investigation of early claims and taking decisions thereon. The following Table gives an analysis of early death claim cases pending investigation as at 31st March, 1979, according to the duration for which such cases are pending :—

TABLE VII—14.

Number of cases pending Investigation classified according to duration as at 31-3-79

Less than three months	662
More than 3 months but less than 6 months	414
More than 6 months but less than 1 year	381
More than 1 year but less than 2 years	241
Over 2 years	116
TOTAL	1814

It will be seen that out of a total of 1814 early death claim cases under investigation as many as 738 cases have been pending for more than 6 months and as many as 116 cases have been pending for over 2 years. This clearly shows that in spite of detailed instructions given by the LIC and the various control measures prescribed, serious delays are still taking place in investigation of early claims, which causes considerable distress to the claimants. We discussed with the concerned LIC officials the causes for such inordinate delays in investigation of early claims. What was reported to us was the reluctance of most of the officials to take a decision wherever there was the slightest doubt regarding the admissibility of the claim even though strict legal proof which would justify repudiation was not readily available. In all such cases the general tendency is to pursue the investigation further in the hope that some definite evidence may be forthcoming. This aspect is considered by us in a later section.

Repudiation of Claims

7.41 We shall now consider the general policy followed by the LIC in repudiation of a death claim. We are informed that a claim by death is repudiated only where it is abundantly clear that the policy had been obtained fraudulently by the life assured by suppressing material facts. Apart from the principle that no one should benefit by a fraud, repudiation of fraudulent claims is essential to protect the interest of the general body of policyholders as payment of such claims would be at the expense of the other policyholders, eating into the surplus available for distribution to them. At the same time it is imperative that the LIC should be fully satisfied that there was a deliberate fraud. Normally, the procedure followed by the LIC before taking a decision to repudiate a claim is first to closely scrutinise the report of the investigating officer to see whether there is any evidence of definite and wilful suppression of material facts in the personal statement submitted at the time of proposal or revival. Wherever necessary, reference is also made to LIC's medical referees and legal advisors. We are informed that no claim is repudiated if there is no evidence of suppression of material information by the life assured. However, where the competent LIC officer is fully satisfied that the claim is fraudulent, the claim is repudiated although it may happen that the evidence collected may or may not be proved, considered as conclusive by a court of law. The strength or weakness of the evidence is a matter of individual judgement. It is also represented by the LIC that in a number of cases where on the basis of information and evidence received by the LIC the claim is obviously fraudulent, the claimant often makes all possible efforts for winning over the concerned persons and preventing them from giving evidence in favour of the LIC as well as tampering with official reports such as hospital case sheets and influencing other witnesses on whom the LIC would normally rely, with the result that by the time the case is heard, the LIC loses much of the evidence. In many cases of fraud, intimation of death is deliberately delayed so that it becomes difficult for the LIC to secure evidence which ordinarily could have been collected had the death been intimated in time.

7.42 As a control on the servicing offices of the LIC in the matter of repudiation of claims, these offices are required to submit to the Central Office, quarterly statements of repudiated claims giving relevant particulars including the grounds of repudiation and the nature of evidence on the strength of which the claim was repudiated. The statements are scrutinised at the Central Office level and where it is felt that the grounds of repudiation are not adequate, the files of the cases are obtained from the concerned offices, the cases are re-examined and appropriate action is taken including considering settlement of the claim on ex-gratia basis for part or full sum assured.

7.43 The following Table shows the number of claims repudiated during the last five years.

TABLE VII—15

No. of Death Claims repudiated from 1973-74 *to* 1977-78

Year	No. of Death Claims Intimated	No. of Repudiated Claims	Percentages of (3) to (2)
1973-74	57,779	512	0.9
1974-75	62,373	773	1.2
1975-76	70,987	1189	1.7
1976-77	72,415	1400	1.9
1977-78	75,609	968	1.3

7.44 The Table below gives the number of repudiated claims which were contested by the claimants, the number in which the decision has gone in favour of the claimants, the number which were decided in favour of the LIC and the number where a compromise was arrived at.

TABLE VII—16

Position regarding repudiated claims from 1956 *to* 1979

Total Number of repudiated death claims contested in counts from 1956 to 1979	1277
Number of cases decided in favour of LIC	348
Number of cases decided against LIC	338
Cases settled by compromise	74
Cases undecided	517

In view of the large number of cases which have gone against the LIC, it has decided to set up a high level Claims Review Committee to examine all cases where there are appeals from claimants against the decision of the Divisional Offices to repudiate a claim. In respect of all such appeals the files of papers are obtained from the servicing offices and placed before the Claims Review Committee which consists of the two Managing Directors and an Executive Director. The Committee critically examines all such cases and takes a decision whether to confirm repudiation or to admit the claim or to consider ex-gratia settlement in full or part on the merits of the case. It is however, to be considered whether some other machinery is required.

Other Services

7.45 Besides those referred to earlier, other services are required to be rendered like registration of nominations and assignments, revivals of lapsed policies, alterations in policy terms and transfers of policy records. Efficiency of service in all these areas is measured in terms of the time-lag between the receipt of the request from the policyholder and disposal of the same by the LIC's offices. The LIC has already fixed norms for the purpose in terms of time-lag between receipt of communication from the policyholder and compliance with his request. The inspection reports give an analysis of the actual time-lags for the various operations in the various Divisional and Branch Offices. Appendix 42 shows the time-lags for the various operations in various Divisions as per the latest inspection reports. It will be seen that the level of efficiency differs considerably from one Division to another and also from department to department in the same Division. It will also be seen that very few Divisional Offices have been able to achieve the goals set by the LIC and in a number of Divisional Offices the time-lags actually experienced are far in excess of the prescribed norms.

Complaints from Policyholders

7.46 The LIC has set up a Complaints Department at the Central Office to deal with the complaints received from the policyholders. Definite procedures have also been laid down for dealing with complaints received at the Zonal and Divisional Offices. According to these procedures, a management information cell is required to be set up at each of the Divisional Offices in the secretariat of the Divisional Manager, not only to ensure quick disposal of the complaints received but also for considering corrective measures wherever necessary so as to prevent repetition of complaints of a similar nature. The Complaints Department at the Central Office keeps a watch and control over the handling of complaints at the Divisional and Branch levels. The Central Office received from the Divisional Offices statements relating to the number of complaints received and disposed of, time taken in the disposal of the complaints as well as an analysis of the causes which gave rise to such complaints. The Audit and Inspection departments are also examining the performance of the offices in the disposal of complaints and their reports are made use of in judging the performance level of the offices inspected.

7.47 The following Table gives the total number of complaints registered by all the Offices—Divisional Offices, Zonal Offices and Central Office—for five years from 1974-75 onwards.

TABLE VII—17

Statement of Number of Complaints received

Year	No. of complaints	Mean No. of policies in force (No. in lakhs)	No. of complaints per thousand mean No. of policies in force
1974-75	37,862	184.21	2.05
1975-76	35,297	192.49	1.83
1976-77	25,134	200.10	1.26
1977-78	18,244	205.55	0.89
1978-79	19,925	210.00	0.95

Zonewise distribution of Complaints—1977-78 & 1978-79

	No. of complaints received during 1-4-1977 to 31-3-78	No. of complaints received during 1-4-78 to 31-3-79	Percentage of variation
Northern Zone	2586	2485	—4%
Central Zone	4475	4335	—3%
Eastern Zone	6743	8109	+20%
Southern Zone	2345	2095	—11%
Western Zone	2095	2901	+38%
TOTAL	18244	19925	+9%

It will be seen that though for the first 4 years there was a steady decrease in the number of complaints registered, this has shown an increase during 1978-79. This increase is mainly in the number of complaints registered in the Eastern and Western Zones. While Eastern Zone has shown an increase of 20 per cent, the Western Zone has shown an increase of 38 per cent over the previous year. The other Zones have shown marginal reductions.

7.48 The Table below gives the number of complaints disposed of during the financial year ending 31st March, 1979, analysed according to time-lags.

TABLE VII—18

Statement showing the complaints disposed of according to time-lags during the period from 1-4-78 to 31-3-1979

Name of Zone	Within 1 month	Between 1 month & 3 months	Between 3 months & 6 months	Over 6 months	Total
Northern	2147	241	35	14	2437
Central	3809	426	38	38	4311
Eastern	6379	1535	149	42	8105
Southern	1574	327	114	86	2101
Western	2045	501	159	51	2756
Grand Total :	15954	3030	495	231	19710

It will be seen that the Eastern Zone besides registering the largest number of complaints is also showing a higher proportion of complaints disposed of after one month.

7.49 The following Table shows an analysis of complaints during 1978-79 according to the subject matter of the complaint.

TABLE VII—19

Subject and Zone-wise Statement of Complaints received during the period from 1-4-78 to 31-3-79 (including complaints received at C.O. and forwarded to the Divisions).

Name of Zone	Claims	Commission	Renewal Premium Collections & Adjustments	New Business	Loan & Surrenders	Transfers of Recds	Other functions & Misc.	Total
Northern	735	347	434	94	424	178	273	2485
Central	1113	672	527	281	859	356	527	4335
Eastern	2775	1583	840	372	1278	477	784	8109
Southern	583	361	218	90	456	111	276	2095
Western	736	384	598	232	320	177	454	2901
Grand Total:	5942	3347	2617	1069	3337	1299	2314	19925
Percentage	30%	17%	13%	5%	17%	6%	12%	100%

It will be seen that a high proportion of complaints relates to settlement of claims and sanction of loans and surrenders.

7.50 Table below gives an analysis of complaints disposed of according to cause which has been responsible for the complaint. :

TABLE VII—20

Statement showing the complaints disposed of according to the Cause of Complaints during the period from 1-4-78 to 31-3-79

Name of Zone	Unjustified complaints	Administrative delays	Negligence of staff	Defective Procedure	Outside the Control of Office	Total
Northern	1276	914	2	—	245	2437
Central	2538	1082	2	—	689	4311
Eastern	3184	3873	—	1	1047	8105
Southern	720	601	—	1	779	2101
Western	1558	793	12	1	392	2756
Grand Total:	9276	7263	16	3	3152	19710
Percentage	47.06	36.85	0.08	0.02	15.99	100

It will be seen that a large proportion of complaints are described as unjustified complaints. We are informed that these are cases where, on the basis of letters received from the policyholders, action had already been initiated by the operating offices but the policyholders in their anxiety to expedite disposal had also preferred a complaint to the controlling offices like the Zonal Office or Central Office. The other important cause is described as "administrative delays". This is an area where obviously the operating offices are responsible for undue delays in attending to normal services leading to complaints from policyholders. Very few complaints are considered as due to "negligence of staff" or "to defective procedures". It is doubtful whether this really reflects the correct position or is due only to a reluctance on the part of the concerned offices to fix responsibility on persons who are responsible for negligence of official duties leading to serious administrative delays and also a reluctance to make an in-depth study of existing procedures which may be contributing to undue delays.

7.51 Though it would appear that the procedures laid down by the LIC for attending to complaints in the various offices are generally satisfactory, in actual practice the procedures are not functioning efficiently. The whole question is linked up with the tightening up of basic discipline in various offices and improvement in staff attitude at all levels, to which a reference is made in a later Section.

Salary Savings Scheme

7.52 The Salary Savings Scheme (SSS) which was introduced by the LIC as early as 1958, provides to policyholders of the salaried class the most convenient method of remittance of premia. The LIC prevails upon individual employers to agree to deduct premiums payable by their employees under their life insurance policies from their salary every month and remit the total collections to the LIC. As premiums are deducted from the salary along with income-tax and provident Fund deductions, lapses are avoided. Because of the inherent advantage, the SSS has become the most popular medium for canvassing of life insurance business from the salaried class. The new business secured under the SSS has been increasing over the years and now constitutes nearly 30 per cent of the total number of policies secured in India. The total number of policies in force covered by the SSS as on 31-3-1979 was 65.54 lacs, *i.e.* over 30 per cent of the total number of policies in force.

7.53. The administration of SSS involves (i) issuance of correct Demand Invoice in time by the concerned LIC offices, (ii) timely remittance of the SSS collections by the Paying Authorities with accurate particulars and (iii) reconciliation of the amounts received and appropriating them towards the individual policy accounts. Though the procedure is apparently simple, it has not been working quite satisfactorily and a number of difficulties are being experienced. The LIC has taken several steps to improve the working of these schemes. Some of the problems that have arisen and the steps taken to deal with them are described below.

(a) *Introduction of RSS with the Paying Authority*

The LIC has laid down that before introducing a new SSS the Pay Roll procedure of the Employer must be carefully studied and the format of the demand list which will be sent by the LIC decided upon to conform with the Pay Roll system of the employer. The Paying Authority should unequivocally agree to furnish a reconciliation of any difference between the Demand Invoice and deductions made and remitted to the LIC. However, it is learnt that Schemes have been introduced without making such a study and sometimes without satisfying that the employer was really interested in the introduction of the Scheme for his employees. Where the former precaution is not taken, the Demand List sent by the Divisional Office does not help the Paying Authority in effecting deductions from the salary as the list is prepared in a manner which is out of alignment with the Pay Roll system of the employer. In other cases the paying authority is indifferent though he has given his consent and is not co-operative in regular remittance of deductions or in furnishing clarifications regarding discrepancies in collections made. In such cases, the scheme runs into difficulties with the amounts collected going into deposit and time being wasted in reconciliation of the premium remittances.

(b) *Delay in receipt of premium from the Paying Authority*

It is reported that some of the Paying Authorities are in the habit of delaying the remittances. Strict instructions have been issued by the LIC to its offices to take appropriate follow up action where premiums are not received within 30 days from the end of the due month, and even to discontinue the SSS in cases of employers who are generally late in remittance of premium collection. The position, however, continues to be unsatisfactory in many of the offices. Such delays, apart from additional administrative work and inconvenience to policyholders, also result in substantial loss to the LIC by way of interest earnings on the funds.

(c) *Reconciliation and adjustment of remittances received*

The Paying Authorities are required to send a statement of Reconciliation where the amount collected differs from the amount stated in the demand invoice. Such a statement is essential for making appropriate adjustments and in giving credit to the individual policy account. However, a large number of employers do not provide such reconciliation statement with the result that the reconciliation and adjustment of the remittance received present serious problems. To deal with these problems the LIC has appointed Liaison Officers or servicing assistants who are expected to maintain liaison with the Paying Authorities with a view to understanding and solving mutual problems, as well as helping in reconciliation of the remittances received. Though in respect of small employers the problems are being resolved through such efforts, there are a number of cases where problems still persist.

(d) *Maintenance of Premium Records*

There is no uniform system prevailing in all the offices of the LIC regarding maintenance of basic policy records and accounts for SSS policy and the system differs from office to office. Though the LIC has made attempts from time to time for systematising these procedures, the position continues to be unsatisfactory particularly in offices with a very large portfolio of SSS business. As a result of such unsatisfactory record maintenance, delays occur when applications are received from policyholders for payament of loan or even settlement of maturity or death claim. Delays also occur in settlement of the agents' commission.

(e) *Transfers of Policyholders*

When a policyholder paying the premium through SSS is transferred from one office to another certain problems arise regarding the collection of premium and maintenance of record. Prescribed procedures are not being adhered to by the policyholders to ensure that such transfers are intimated in time to the concerned LIC offices so that necessary changes are made when preparing the demand invoices. In the absence of such steps being taken, default of payment of premium and even lapsation of policies will be presumed and intimated.

7.54 Having regard to the various problems experienced in the administration of the SSS, the LIC had appointed a Committee to examine these problems and to suggest solutions thereto on the system of working of SSS. The Committee has submitted its report making various recommendations. From a review of the working SSS in various offices and also the findings contained in the above report the following main points emerge :

(i) The SSS today is not at all economical if account is taken of all the expenses involved in the administration of the Scheme and SSS policies are in fact being subsidised by other policies.

(ii) One of the major expenses incurred in the administration of the scheme is that on accounting and payment of agency commission. As under the SSS practically no service is required to be rendered by the agent, it is for consideration whether payment of renewal commission to the agent is at all justified.

(iii) The present system of maintenance of policy and premium records for SSS policies is not working satisfactorily in many of the offices, particularly those with a large portfolio of SSS business, and radical changes will have to be made therein on the lines recommended in the aforesaid report. The LIC must set up a time bound programme for implementation of these recommendations at an early date.

(iv) Stricter controls must be enforced at the time of introduction of the scheme with new employers so as to ensure that the scheme is not introduced with any employer unless the conditions prescribed by the LIC are strictly complied with. Further, in respect of existing SSS policies also, if it is not found possible for the employer to ensure compliance with these conditions, the LIC should consider withdrawal of the Scheme after giving due notice.

(v) Strict control must be exercised on the remittance of the premium by the employer and interest at the rate charged on bank borrowing for working capital by the employer should be insisted upon whenever there is delay in remittance of the premium by the employer.

7.55 However, apart from steps to be taken for improving the administration of the scheme, the basic question that requires to be considered is whether such a Scheme is really the best method of providing life insurance coverage linked with savings for the salaried class. This problem will also be discussed by us in a later section.

Decentralisation of servicing functions to Branch Offices

7.56 One of the most important decisions taken by the LIC for improving the services to the policyholders was to decentralise all major policyholders' service functions to the Branch Offices. In Chapter III we have mentioned the steps already taken in this direction. Practically all Branch Offices in the mofussil areas are now rendering most of the essential services required by the policyholders. In respect of policies serviced by these Branch Offices, the Divisional Office is presently concerned only with the work relating to final settlement of a policy, namely, payment of surrender values, maturity claims and death claims. Even in respect of this work, certain preliminary jobs like issuing of maturity intimations and claim forms are being attended to at the Branch level. However, in respect of city Branch Offices, the pace of decentralisation has been slow. For instance, in the Bombay Divisional Office very few of the city Branch Offices have been entrusted with any servicing responsibility. In other metropolitan centres and large cities servicing is being done by the Branch Offices only in respect of policies issued after a certain date, the Divisional Office continuing to service the earlier policies. Again, in respect of policies covered by the Salary Savings Scheme, except for a few paying authorities who do not have any employees outside the area of the concerned Branch Office, servicing of SSS policies of all other paying authorities is being handled by the Divisional Office only. From the evidence given before us, it has been apparent that service by the Branch Office where the policyholder is able to have direct contact with the servicing staff and officers is far more satisfactory than servicing being done from the Divisional Office. Particularly in the matter of grant of policy loans and revival of policies, the Branch Offices are able to attend to the policyholders' requirements far more expeditiously than the Divisional Office. This indicates that more expeditious implementation of the programme of decentralisation of servicing functions to the Branch Offices can help considerably in improving the service to the policyholders.

Data Processing in LIC

7.57 On account of the repetitive nature and the massive volume of work to be handled in respect of various servicing operations like issue of premium notices to policyholders, accounting of premium collections, preparation of agents' commission bills, loan and deposit accounting, etc., large sized insures have inevitably to resort to the use of various types of data processing machines. The extent of efficiency of the various servicing operations is generally dependent on the efficient functioning of the insurer's data processing system. It is, therefore, essential to have a close look at the existing data processing systems in the LIC.

7.58 The machines used by the LIC for data processing fall under two broad categories :

(i) Adrema plate embossing and printing machines : These machines are used for printing of policy documents and all allied forms in connection with the issuance of the policy, as well as for the printing of renewal premium notices and receipts. Adrema plates are also prepared in respect of agents, development officers and medical examiners and are used for printing of addresses of these personnel for sending various statements and circulars.

(ii) Punched Card or Unit Record Equipment : These machines are used for premium accounting, preparation of commission bills and commission accounting, loan accounting, deposit accounting, preparation of new business and lapse statistics, etc. While in most of the Divisional Offices printing of premium notices and receipts is done on the adrema machines, in a few Divisional Offices this work has been transferred to punched card equipment. These machines are also used for the work of actuarial valuations, including mortality investigations and preparation of various statistics for statutory returns required to be submitted to Government.

7.59 All the Divisional Offices have Adrema and Punched Card Machines, the number of machines depending upon the size of the Division. Only the Bombay Division is having an Electronic Data Processing system based on IBM 1401 and 1410 computers.

7.60 Till recently the two main suppliers of Punched Card machines in India were the International Business Machines Corporation (IBM) of U.S.A. and International Computers Ltd. (ICL) of U.K. After the exist of IBM in 1978, there was only one supplier, namely, ICL whose business in India has been taken over by Messrs. International Computers Indian Manufacture (ICIM). Since the IBM have completely ceased their operations in India the LIC has now to look to ICIM for supply of these machines. Howver, the world over, the punched card unit record machines have been discarded as obsolete and have been replaced by more sophisticated systems based on micro processors and computers. ICIM themselves are no longer manufacturing unit record machines either in India or elsewhere and the machines that they have recently been supplying to the LIC are old discarded machines reconditioned by them. Till recently they were getting used machines from abroad and supplying them to the LIC after reconditioning. We understand that now even old machines are no longer available, and the ICIM entirely depend on old machines they can get in India for reconditioning for meeting the LIC's needs.

7.61 The normal working span of the unit record punched card machines is 7 to 10 years. We understand that a number of over-aged machines have not been replaced due to non-availability of machines. Further, the requirements of new machines for servicing the additions to the business in force are not being met at all. All this has led to a considerable deterioration in the functioning of unit record data processing machines affecting very seriously the service to the policyholders.

7.62 Apart from the total obsolescence of the unit record machines available with the LIC and the increasing frequency of breakdowns of these machines, the existing data processing system itself is proving totally inadequate to deal with the very large volume of data required to be handled in the various Divisional

Offices of the LIC. A further and a no less important reason is the severe limitations of the unit record system itself. The unit record system has a very limited capacity for storage of data. The punched card has a maximum of 80 columns and consequently not more than 80 characters can be recorded in one card. Obviously, one card is inadequate to accommodate all the information in respect of a policy. This has resulted in multiplicity of card files such as Premium Master Cards, Valuation Cards, Address Cards, Deposit Cards, Loan Cards, etc. Apart from that, under the existing system, the record of a policy has to be maintained on other files also such as adrema plate file, premium ledger file, loan ledger file, etc. Most of the changes under the policy require noting of such changes in more than one file. Controls, therefore, become necessary to keep the various files in step with each other. Time lags in giving effect to the changes as also failure to make changes in all the files arise. Controls to avoid such errors are effective only when the files are not voluminous. They become less and less effective when the size of the file increases. In practically all the Divisional Offices of the LIC the size of these files is very large and omissions and mistakes in giving effect to changes in all the files are becoming more and more frequent. Further, the punched cards and adrema plates get misplaced from time to time. These difficulties can be overcome only by consolidation of the various files and maintaining them on tapes or disc which is the medium for storage of data under the more versatile data processing systems which are currently being used by all insurers the world over. A single "file" which contains the entire information is more conducive to efficiency than a multiplicity of files.

7.63 Due to the inherent limitations of unit record-*cum*-adrema based data processing system, as also due to the increasing frequency of the breakdowns of the unit record machines, there is an increasing deterioration in the standard of service now being rendered to the policyholders as also in the financial and other controls on the LIC's various servicing operations. Some of these are listed below :—

(i) Because of the inaccuracies in the premium master card and adrema files, omissions in issue of premium notices and preparation of premium receipts are becoming more frequent leading to serious complaints from the policyholders.

(ii) The work of issue of first default notices has to be handled manually because of the inadequacy of the present data processing system. Having regard to the volume of work manual handling of this job is becoming increasingly difficult and as already reported earlier, in many of the offices this work is not being attended to at all.

(iii) The premium posting on policy ledger sheets has been discontinued in some of the Divisional Offices as a result of decentralisation and the Divisional Office has to entirely depend on Branch records to know the status of the policy. This involves some risk as the Branch Office records can be easily tempered with. Also if the records at the Branch Office are lost in any natural calamity like fire or flood, there is no alternative source to fall back upon. Under the unit record system, it is not possible to maintain premium payment particulars in the machine card files. The consequence is that even with the complete decentralisation of servicing responsibility to the Branch Offices, the Divisional Office will either have to continue with the premium postings on policy ledgers involving considerable amount of duplication of work or alternatively to discontinue the same and face the risks referred to above.

(iv) The commission billing system also is becoming increasingly unreliable. Adequate controls are not exercised in stopping payment of commission to terminated agents and there is a possibility of diversion of such commission to other agents by tampering with unit record card files. Further, reconciliation of monthly commission payments with premium collections, as also verifying the accuracy of commission paid by sorting the payment by policy year or commission year controls basis, which are the controls envisaged on commission payment under the existing Machine Department Manual procedures is becoming increasingly difficult and such reconciliation has been discontinued in most of the Divisional Offices. This again increases the risks of wrong payment of commission.

(v) It will not be possible under the present unit record system to provide for any future changes in commission rate pattern or commission payment procedures.

(vi) Settlement of bonus commission to agents is at present done manually at the Branch Office and there is practically no control on such payments. In the interest of adequate financial control, it is necessary to mechanise this work but it is not possible to do so on the present unit record system. Further, if the bonus commission procedure is to be changed on the lines suggested by us in another section of the report these changes cannot be given effect to in the unit record system or even on the present manual system.

(vii) Due to lack of proper controls on updating card files the list of maturities, survival benefit cases under anticipated endowment plan and other automatic changes to be incorporated in the policies are becoming increasingly unreliable. Many omissions are noticed in the lists prepared by the machine department, leading to inefficient service to policyholders, and delays in the matter of settlement of maturity claims and survival benefits under anticipated endowment policies.

(viii) At present the machine departments are not able to generate timely and meaningful statistics about policy lapsation such as agent, development officer or Branch-wise lapse statements, analysis of lapses according to plan of policy, mode of payment of premium, month of issue of policy, etc. In the absence of such statistics it becomes difficult to decide upon appropriate policies to prevent or minimise lapsation or to take appropriate follow-up action for revival of lapsed policies.

(ix) Though the Machine Department manual of the LIC visualises mechanisation of a number of jobs like policy deposit accounting, loan accounting and foreclosure action, etc., most of the Divisional Offices do not find it possible to undertake these jobs on the machines because of the inadequacy of machines. As handling these jobs manually is very difficult because of the large valume of work requiring to be handled, these jobs are either not being done at all or are being done very inadequately.

(x) Because of the inadequacy of the present data processing system, salary savings scheme servicing has become extremely unsatisfactory as well as uneconomic.

(xi) Above all, the increasing failures of financial controls arising out of the inadequacies of the existing data processing system are opening up a fertile ground for possible frauds.

7.64 It will, thus, be seen that the existing unit record machines as well as the whole data processing system of the LIC have become totally obsolete, which is a major cause for the serious deterioration in the standard of policyholders' servicing in the LIC. The deterioration in the functioning of the data processing system is of such serious magnitude, that unless very urgent action is taken to replace the existing system by a more modern and reliable system, the LIC may have to face a complete breakdown in its data processing system in the not too distant future with very serious consequences on its service to policyholders as well as on its overall financial working. We shall deal with this problem in a later part of the report.

CHAPTER VIII

EXPENSES OF MANAGEMENT

8.1 The imperative need for exercising strict control on expenses of management of a life insurer has been recognised the world over. This principle has been given statutory recognition by Section 40B(2) of the Insurance Act, 1938, which places a limit on the expenses of management of life insurance companies.

8.2 The LIC Bill did not provide for application of this Section to the LIC as Government felt that it would be superfluous. In fact, the then Finance Minister, Shri C.D. Deshmukh, explained the reasons for the omission thus :

> "Some members have suggested in their minutes of dissent that certain sections, which are among those left out, should be made applicable to the Corporation. For instance, one is Section 40-B which limits the expenses which an insurance company may lawfully incur. With the principle itself, namely, that the Corporation must be economically managed, there can be no quarrel. If we have thought it unnecessary formally to apply the provision of Section 40-B to the Corporation, it is because we are confident that the question of the Corporation exceeding the limits laid down in the Insurance rules could never arise. Even now many of the bigger insurance companies have a renewal expense ratio of less than 15 per cent which is the maximum prescribed under the rules. The Corporation should certainly be able to keep its renewal expense ratio at a much lower figure than this 15 per cent, which incidentally is rather a high limit. If, for any reason, the Corporation is unable to do this and the expense ratio does go up, I have little doubt that there will be a spate of questions in the Parliament and there will be ample opportunities for the Parliament to look into this question. Therefore, what else can be the purpose of a clause like this? Its absence will not, and indeed cannot, have the effect of encouraging the Corporation into extravagance."
> (18-5-56—Lok Sabha)

But since many Members of the Parliament were insistent, the Section was formally made applicable to the LIC through a Government Notification dated 23rd August, 1958 as provided under Sub-section 2 of Section 43 of the LIC Act.

8.3 This Section reads as under :

> "After the 31st day of December, 1950, no insurer shall, in respect of life insurance business transacted by him in India, spend as expenses of management in any financial year an amount in excess of the prescribed limits and in prescribing any such limits regard shall be had to the size and age of the insurer and the provision generally made for expenses of management in the premium rates of insurers.
>
> Provided that where an insurer has spent as such expenses in any year an amount in excess of the amount permissible under this sub-section he shall not be deemed to have contravened the provisions of this section, if the excess amount so spent is within such limits as may be fixed in respect of the year by the Controller by which the actual expenses incurred may exceed the expenses permissible under this sub-section".

8.4 The limit of expenses was fixed by the Insurance Rules in terms of the renewal expense ratio as defined in Rule 25(b) which reads as under :

> "The proportion of renewal premium income spent in payment of commission and other expenses in each year ...... after allowing, as the cost of the new business of the year, seven and half per cent of single premiums including consideration for annuities granted and seven and half per cent for each year of the maximum premium paying period but not exceeding ninety per cent in all, of first year's premium falling due in the year after deduction of those unpaid under policies allowed to lapse in the year."

8.5 Under the rules as they stood before nationalisation, different maximum limits were prescribed for different groups of insurers depending on age and size of the insurer. For the bigger insurers, that is those whose business in force was ten crores of rupees or more, the limit was 15%, which incidentally, Shri Deshmukh thought was too high. Government confidently expected that the LIC a giant insurer with an inherited business of oer one thousand crores and operating as a monopoly, would incur an expense ratio much below 15%. The limit of 15% was not changed because the Government still thought that fixing a formal limit was an idle formality.

8.6 It was expected that with the advantages of a monopoly and the consequent economies of scale that its overall size would render possible, the LIC would be able to bring down its expense ratio sharply. This was actually borne out to some extent by the experience of the LIC during the years 1958 to 1963-64. But thereafter, the renewal expense ratio rose and fluctuated, often exceeding the "prescribed" limit of

15%. The following Table shows the Renewal Expense Ratio of the LIC for all the years from 1958 to 1979-80 :—

TABLE VIII—1

Year	Renewal Exp. Ratio	Year	Renewal Exp. Ratio
1958	15.46	1968-69	15.91
1959	12.92	1969-70	16.15
1960	12.90	1970-71	14.65
1961	12.42	1971-72	14.36
1962-63	14.13	1972-73	13.72
1963-64	12.46	1973-74	14.99
1964-65	14.09	1974-75	18.97
1965-66	14.69	1975-76	18.14
1966-67	15.91	1976-77	14.92
1967-68	15.90	1977-78	15.65
		1978-79	15.40
		1979-80	13.01

8.7 In spite of the fact that it took over the entire staff of all the Insurers and granted substantial increases in salaries to the ill-paid employees of a large number of smaller companies, the LIC was able to bring down its Renewal Expense Ratio from 17.3% for all the Insurers combined in 1955 to 15.46% in 1958, 12.92% in 1959, 12.90% in 1960 and 12.42% in 1961. This trend continued up to 1963-64 when the Renewal Expense Ratio was 12.46%. The apparently high Renewal Expense Ratio of 14.13% for 1962-63 was not reflective of any increase in the level of expenses but was due to a change on the financial year which led to accounts being finalised for a 15 months period ending 31st March, 1963. From 1964-65, however, the Renewal Expense Ratio started showing a steady upward trend, the ratio exceeding the statutory limit in 1966-67.

8.8 As was visualised in the Finance Minister's speech referred to earlier, the Government took serious notice of the contravention of the already high expense limit and appointed a Committee of Enquiry to go into this question. The Committee submitted a detailed report in April 1969 which contained several recommendations. Implementation of such of the recommendations as were accepted by the Government and the LIC appeared to have had some immediate impact on the level of expenses of the LIC as the Renewal Expense Ratio dropped from 16.15% in 1969-70 to 14.65% in 1970-71, 14.36% in 1971-72 and 13.72% in 1972-73. However, the Renewal Expense Ratio went up to its highest level of 18.97% in 1974-75. This appears to have been the result of the combined impact of the upward revision of salaries of Class III and Class IV employees under the agreement arrived at with its Unions and the steep increase in the cost of living index in that year. The Renewal Expense Ratio remained at the very high level of 18.14% during the year 1975-76. In the subsequent three years, there has been some fall in the Renewal Expense Ratio, though it still continued to remain at a high level except for the latest year 1979-80, when there has been a substantial drop.

8.9 Incidentally, in the report of the Morarka Committee, there is considerable discussion on the suitability of the renewal expense ratio as an accurate index of the level of expenses. Their observations and recommendations on this point are given in Appendix 43. The Government, however, rejected these recommendations for the following reasons :

> "The renewal expense ratio has been the traditional index for measuring the cost of service to the policyholders. Any expense ratio has inherent limitations, as many items of expenses are not proportional to premium income, but renewal expense ratio has served its purpose well.
>
> The statements showing percentages of New Business Cost Ratio (NBCR) and Renewal Cost Ratio (RCR) do not bring out the trend of rising expenses, which the Renewal Expense Ratio has, and there is also no agreement how the NBCR and RCR should be calculated. In any case, it would be necessary ot combine these two indices to give a composite index in order to assess whether the expenses show an increasing or decreasing trend. In view of the practical difficulties in working out the two cost ratios and preparing a composite index, the recommendations are not accepted."

We feel that though the arguments put forward by the Morarka Committee have some force, for practical purposes the Renewal Expense Ratio as defined by the Insurance Rules (with suitable adjustments for expenses on Group Insurance business to which a reference is made later) would still be preferable as a practical guide for judging the trend of the level of expenses. We are, therefore, in agreement with Government's decision on the recommendations of the Morarka Committee. A slight modification is, however, required to allow for expenses on Group insurance business. When the Insurance Rules were framed, group insurance business constituted an insignificant proportion of the business and no adjustment was considered necessary to allow for the fact that expenses of this class of business are substantially lower. Now that group insurance business constitutes a significant proportion of the total, it is necessary that a suitable adjustment is made in arriving at the renewal expense ratio. The LIC itself calculates an adjusted renewal expense ratio, in addition to the renewal expense ratio calculated on the basis prescribed in the Insurance Rules, by deducting from the total expenses of management the expenses on group insurance premium income (in addition, of course, to the percentages of the first year premium income under individual insurance business) and relating the balance of expenses to the renewal premium under individual insurance business. We understand that up to 1974-75 group insurance expenses were taken as 4% of group insurance premium income. Since 1975-76 the actual expenses on group insurance business under major heads of account are separately accounted for and these actual expenses are taken into consideration for calculating the adjusted renewal expense ratio. The Committee feels that it is only the adjusted renewal expense ratio that should be adopted. The renewal expense ratios so adjusted are given along with the renewal expense ratios calculated on the basis prescribed by the Insurance Rules in the Table below:

TABLE VIII—2

Table showing the renewal expense ratio calculated in accordance with Insurance Rules and the adjusted renewal expense ratio calculated after excluding group insurance premium income and expenses

Year	Renewal Expense Ratio	Adjusted Renewal Expense Ratio
1968-69	15.91	16.15
1969-70	16.15	16.51
1970-71	14.65	15.23
1971-72	14.36	14.78
1972-73	13.72	14.24
1973-74	14.99	15.47
1974-75	18.97	19.64
1975-76	18.14	19.35
1976-77	14.92	15.92
1977-78	15.65	16.68
1978-79	15.40	16.42
1979-80	13.01	14.03

It will be seen that during 1979-80 the LIC has succeeded in bringing down the adjusted renewal expense ratio below the statutory maximum level for the first time in the last six years.

8.10 It has been contended that the statutory limit of 15% is on an *ad hoc* basis and should not, therefore, be considered as sacrosanct. We would, however, point out that Section 40B of the Insurance Act itself provides that in prescribing the limit on the expenses of management "regard shall be had to the size and age of the insurer and to the provision generally made for expenses of management in the premium rates of insurers". In the premium rates of the 'oriental', provision for expenses was made at the rate of Rs. 50 per thousand sum assured and 7½% of the premium for the first year's expenses and Rs. 2.5 per thousand sum assured and 7½% of premium for renewal expenses. At its inception the LIC adopted the premium rates with a reduction of by Re. 1 per thousand or 5% of the premium whichever was lower on the ground that with the monopoly the LIC enjoys and the economies of scale the expenses would go down by at least Re. 1 per thousand. On the assumption underlying these premium rates and taking the average sum assured per policy and average premium per policy both in respect of new business and business in force on the basis of the actual distribution of business in the year 1978-79, the limit on the renewal expense ratio on the basis that it does not exceed the provisions in the premiums, works out to about 12.13%. From the point of view of size and age, the LIC must be considered as a giant insurer and that too with the advantage of monopoly. The limit on the expenses of the LIC should, therefore, be nearer to 12% and in any case substantially lower than 15%.

8.11 There is also another way of looking at the question. The Endowment Assurance policy for instance, which is the most popular one, is nothing more than a combination of a recurring deposit and a decreasing term insurance, the former element being the more important. The following Table gives the components of the Endowment Assurance with Profits premiums as revised with effect from 1st April, 1980, showing the part of the premium representing the savings or the recurring deposit element, the part showing the risk or mortality element, the part representing the loading for bonus and balance being the provision for expenses of management:

TABLE VIII—3

Components of the Endowment Premium

Age	Term	Premium	Savings Element	Risk Element	Expenses	Bonus Loading
		Rs.	Rs.	Rs.	Rs.	Rs.
30	15	70.65	40.53	1.30	12.47	16.35
	20	51.50	25.65	1.68	10.42	13.75
40	15	73.35	40.53	3.49	12.83	16.50
	20	55.05	25.65	4.52	10.78	14.10

It will be seen that the premium for covering the risk of death is a very small part indeed of the total premium. On the other hand, between 17% and 20% of the premium is spent on expenses of management every year, something which does not happen in any other mode of saving. For Without Profit policies the provision for expenses would work out to between 22% and 27% of the premium.

8.12 Incidentally, we would like to refer to the demand often made that because of the substantial improvement in the mortality experience of insured lives, the LIC should reduce its premium rates substantially. From the Table given above it will be evident that the premium required for mortality cover is only a very small proportion of the total premium. Hence, an improvement in mortality can have only a marginal effect on the premium rates, particularly for Endowment Assurance plans which constitute the bulk of the LIC's business. Premium rates under an Endowment Policy depend mainly on the level of expenses of management and the expected return on the investment of the life fund.

8.13 There is yet another way of looking at the problem and that is to consider the impact of the expenses of management on the yield to the policyholder. The Table below shows the actual return to the policyholder corresponding to an assumed rate of accumulation of 7½% for the Life Fund, allowance being made for deduction of office expenses from the premium at various levels of renewal expense ratio from 12½% to 20% :

TABLE VIII—4

Effective rate of interest corresponding to an assumed rate of accumulation of 7½% for the Life Fund for various levels of Renewal Expense Ratio

Term(n)	15	20	25
Renewal Expense Ratio	Effective	rate of	Interest
12.5	4-13/16	5-5/8	6-1/8
15	4-7/16	5-3/8	5-15/16
16	4-5/16	5-5/16	5-7/8
17	4-3/16	5-3/16	5-3/4
18	4-1/16	5-1/8	5-11/16
19	3-7/8	5	5-5/8
20	3-3/4	4-7/8	5-1/2

It will be seen that if the Expense Ratio is 15% the return to the policyholder is reduced by about 2% on account of expenses of management alone in respect of an Endowment Assurance policy of 20 years term. For a shorter term policy the reduction in yield would be still higher. If the Renewal Expense Ratio goes up above this limit, the return to the policyholder would be reduced further by about 1/8% for each percentage point of renewal expense ratio above this level. This again means that if the LIC's policyholder is to get the same return on the savings entrusted by him to the LIC as on other comparable savings media, the Government will have to subsidise the returns on the LIC's investments by 2 to 3%.

8.14 Taking all the above aspects into consideration, it will be readily accepted that if life insurance is to remain as a viable saving medium, it is essential that the level of expenses of the LIC should be brought down to a level substantially lower than the present statutorily prescribed maximum level.

8.15 We shall now examine in detail the factors that led to the substantial rise in the Renewal Expense Ratio. For this purpose, it will be useful to examine the major heads under which the expenses are incurred. Appendix 44 shows the percentage of expenses to premium income under all the major heads of expenses for the years 1958 to 1978-79. The expenses are divided separately into those that can be directly related to new business or the first year's premium income, those which can be directly related to renewal premium income and the balance which cannot be so directly related and which are expressed as a percentage of the total premium income. It will be seen from the statement that the major heads of expenses are (i) the administrative staff salaries, (ii) commission to agents and (iii) development officers' salaries and other development expenses. The most important head is the administrative staff salaries which constitute nearly 45 per cent of the total expenses of the management. They have gone up from 10.5% of the total premium income in 1961 to 15.5% in 1975-76. The percentage has since come down to 12.96% in 1978-79. The next important item is the commission to agents which constitute about 31.5% of the total expenses. Commission to agents which is fixed as a percentage of the premium income, has remained constant. The third important item is the development officers' salaries and other expenses on development officers which are related solely to new business. It has gone up from 10.52% of the first year's premium income in 1961 to 19.38% in 1974-75 and was still as high as 18.91% in 1978-79.

8.16 Expenses on account of administrative staff salaries which, as stated above, is the most important item of expenses of management, depend on the number of employees as well as on the level of their salaries. We shall first consider the trend over the years of the number of staff of all categories employed.

8.17 Before examining this trend it will be useful to consider the basis on which the LIC has been fixing from time to time the cadre strength of various categories and sanctioning recruitment of additional staff. At the time of nationalisation there was a general feeling among the Members of Parliament as well as in Government that with the amalgamation of 243 different companies into a single Corporation, a large number of employees would be rendered surplus. But the Finance Minister announced in Parliament that irrespective of the immediate requirements of the Corporation, all employees of the erstwhile insurers would be taken over and be gradually absorbed in expanding business.

8.18 An attempt to assess the staff requirement of Divisional Offices was first made in 1957. A job-time study was conducted in the New Business and Accounts Departments of three selected Divisions. A similar job-time study was made in 1958 to assess the staff requirements of Branch Offices. However, in both cases it was not found practicable to arrive at detailed work norms for various operations. An *ad hoc* basis was, therefore, adopted. Later in 1961 a Committee was appointed to review the formula for determining the staff requirements. The Committee, however, found it difficult to determine work norms for all jobs. The approach adopted by the Committee was to fix the staff strength of each Department of a Divisional Office on the basis of a comparison with the most economically and efficiently run department in the Zone. Later in 1965 and again in 1969, studies were undertaken by the O&M Department but the basic approach was still the same.

8.19 The Morarka Committee recommended that "the Corporation should take immediate steps for measuring the work and bringing out norms for all items of work that are amenable to measurement", adding that the "Corporation may, if necessary, take the assistance of any expert outside body in this exercise". They further recommended that till the results of the study are available and the extent of surplus staff has been determined and located, "no further recruitment should be made". Following this recommendation and at the instance of the Government, the LIC requested the Staff Inspection Unit of the Ministry of Finance to undertake the task. The SIU reported that there existed an overall excess of Class III staff including Superintendents of 12.7% in Divisional Offices and 8.5% in Branch Offices on the basis of work loads obtaining as on 31st March, 1972. For Class IV the excess was 10.6%. Though no formal decision was taken for implementing the SIU recommendations, the staff requirement was scaled down.

8.20 In 1978 a new formula for assessing staff requirements was evolved in consultation with the SIU, and it now forms the basis for determining the staff strength. The staff requirement 1978-79 on the basis of the above formula and the actual number as at 31st January, 1978 are given in the Table below :—

TABLE VIII—5

	DOs & BOs at the Divisional Headquarters	Mofussil BOs	Total
Class III			
Actual strength . . .	22,983	9,370	32,353
Requirement on the basis of new formula . . .	22,459	9,601	32,060
Surplus	1,528	494	2,022
Deficit	1,004	725	1,729
Net surplus/deficit . .	+524	—231	+293
Class IV			
Actual strength . . .	3,223	1,500	4,723
Requirement on the basis of new formula . . .	2,707	1,710	4,417
Surplus	636	63	699
Deficit	120	273	393
Net surplus/deficit . .	+516	—210	+306

It will be seen that though there is an overall surplus of both Class III and IV staff, there is excess in many Divisional Offices and shortage in many Branch Offices.

8.21 While the staff requirements have been worked out on the assumption that all the operations required by the existing procedures would be performed, it is learnt that in a number of offices many important functions are not being attended to at all. For examples (i) reconciliation of premium receipts with invoices at the time of advancing receipts to Branches and of unissued premium receipts when returned from Branches, (ii) loan foreclosure action, (iii) reconciliation of payments received under salary savings scheme policies and (iv) reconciliation of schedules relating to bank accounts, premium deposits and other asset items.

8.22 It is understood that the LIC has been simplifying procedures with a view to reducing the work loads. Examples of this are changes in procedure for processing of new business, for taking lapse action, for revival of policies, for sanctioning and accounting of loans. As simplification and rationalisation of work procedures is a continuing process, the formula for determining staff strength would also require to be reviewed from time to time.

8.23 As a result of these steps, the LIC has been able to reduce considerably the number of staff per lakh of policies in force. The statement in Appendix 45 gives the number of administrative staff in each of the categories—Classes I, III & IV and their total. The statement also shows the number of policies in force at the end of the year and the staff strength for one lakh policies in force. An extract from that statement at quinquennial intervals is given below :—

TABLE VIII—6

Year ending	No. of in-force policies (in lakhs) in India	Number of Employees				No. of employees deployed to service One Lakh Policies
		Class I (NB)	Class III	Class IV	Total	
31-12-58	59.74	1432	22994	5544	29970	502
31-3-63	92.67	2495	30915	6462	39872	430
31-3-68	126.43	2977	32679	6966	42622	337
31-3-73	167.92	3512	35734	7128	46374	276
31-3-78	207.08	4221	36522	7372	48115	232
31-3-79	211.73	4223	36220	7547	47990	227

N.B. : The increase in the number of Class I employees has come mainly from promotions from Class III and Class II; there were as many as 4200 such promotions between 1956 and 1979.

It will be seen that the number of staff per one lakh policies in force has been decreasing steadily and is roughly half of what it was in 1958. As already explained earlier, the reason for this reduction is to be found mainly in the existence of a substantial surplus staff at the commencement and sanction of additional staff in the earlier years without scientific investigation of work norms and work loads. It is also reflective of the changes made by the LIC in its work procedures with a view to streamlining procedures.

8.24 The expenses on account of administrative staff salaries depend both on the number of employees as well as the level of salaries. We have already considered in detail the question of number of employees. We shall now turn to the level of salaries. Though, as already noted earlier, the number of staff per lakh of policies in force has been continuously going down, the staff salaries have been rising somewhat steeply. A part of this increase is undoubtedly due to inflationary trend and the continuous increase in the consumer price index. However, the staff salaries have increased far in excess of the rise in the consumer price index. The Appendix 46 shows the consumer price index from 1960 to 1978-79 and the salary cost per employee in each of the categories, Classes I, III and IV and for all the categories put together. It will be seen that the salary cost per employee in Class I has increased more or less in the same proportion as the consumer price index. The salary per employee in Class III has increased from 100 to 640 and that for Class IV from 100 to 619, though the consumer price index has risen from 100 to 332 only.

8.25 The increase in the average salary per employee in Class III is partly due to the fact that since there was very little recruitment to this cadre during the last few years an increased proportion of employees would be those with longer service and hence, higher salary. However, this accounts for the increase only marginally and the basic fact remains that salaries have increased faster than the consumer price index and this has more than neutralised the reduction in staff strength brought about by rationalisation. This is borne out by the following Table which gives the starting salary inclusive of all allowances of an employee in the Assistant's cadre in Class III for each of the years from 1960 to 1980, with the corresponding index with 1960 as the base :—

TABLE VIII—7

Table showing the starting salary of an Assistant of the LIC inclusive of all allowances

Year	Starting salary (inclusive of all allowances) Amount	Index	Consumer Price Index
	Rs.		
1-1-60	135.00	100	100
1-1-61	135.00	100	101
1-1-62	165.35	123	104
1-1-63	165.35	123	107
1-1-64	165.35	123	115
1-1-65	192.65	143	136
1-1-66	212.15	157	142
1-1-67	221.90	164	162
1-1-68	251.15	186	181
1-1-69	261.15	193	170
1-1-70	296.90	220	177
1-1-71	307.10	227	184
1-1-72	317.30	235	194
1-1-73	332.60	246	210
1-1-74	412.00	305	264
1-1-75	511.75	379	326
1-1-76	517.00	383	398
1-1-77	480.25	356	307
1-1-78	517.00	383	325
1-1-79	527.50	391	332
1-1-80	559.00	414	371

It will be seen that the index for the starting salary has also increased from 100 to 414 compared with the increase in Consumer Price Index from 100 to 371.

8.26 In examining the effect of a general continuous rise in prices on the renewal expense ratio, another aspect of the problem which is peculiar to life insurance and other long term business, needs consideration. The increase in the consumer price index is generally accompanied by an increase in the average sum assured per policy and the average premium per policy both in respect of new business and in respect of existing business. The tables below show the consumer price index from 1960 to 1978-79 and the average sum assured per policy and average premium per policy in respect of new business and similar indices in respect of business in force.

TABLE VIII—8

Increases in the average sum assured and average premium per policy in respect of New Business

Year	Cost of living Index	Average Sum Assured Per Policy	Index	Average Premium Per Policy	Index
1960	100	3903	100	160.57	100
1961	104	4061	104	157.89	98
1962-63	108	4120	106	174.59	109
1963-64	117	4154	106	176.25	110
1964-65	128	4693	120	204.86	128
1965-66	139	4960	127	201.70	126
1966-67	157	5260	135	227.83	142
1967-68	175	5711	146	239.85	149
1968-69	174	6176	158	258.96	161
1969-70	177	7015	180	296.26	185
1970-71	186	7539	193	300.22	187
1971-72	192	7902	202	320.62	200
1972-73	207	8554	219	358.08	223
1973-74	250	9344	239	404.39	252
1974-75	317	9807	251	463.82	289
1975-76	313	10473	268	472.18	294
1976-77	301	10207	262	483.61	301
1977-78	324	10815	277	528.89	329
1978-79	332	11721	300	594.80	370

TABLE VIII—9

Increase in the average sum assured and average premium per policy in respect of business in force

Year	Cost of Living Index	Average Sum Assured Per Policy	Index	Average Premium Per-Policy	Index
1960	100	2918	100	130.84	100
1961	104	3145	108	135.40	103
1962-63	108	3292	113	163.00	125
1963-64	117	3417	117	145.00	111
1964-65	128	3543	121	152.64	117
1965-66	139	3753	129	157.55	120
1966-67	157	3828	131	164.18	125
1967-68	175	4046	139	168.48	129
1968-69	174	4201	144	172.83	132
1969-70	177	4467	153	183.08	140
1970-71	186	4731	162	194.14	148
1971-72	192	5144	176	209.66	160
1972-73	207	5481	188	225.92	173
1973-74	250	5977	205	245.64	188
1974-75	317	6257	214	262.93	201
1975-76	313	6757	232	280.17	214
1976-77	301	7088	243	299.06	299
1977-78	324	7581	260	317.67	243
1978-79	332	7908	271	340.44	260

It will be seen from this Table that while the consumer price index had gone up from 100 to 332 during this period, the index for the average sum assured per new policy has increased from 100 to 300 and average premium per new policy has increased from 100 to 370. As far as business in force is concerned, however, the index for the average sum assured per policy has increased from 100 to 271 only and that for the average premium per policy in force has increased from 100 to 260 only. It may be mentioned that the average increase of premium per policy in respect of new business is mainly due to the higher proportion of Anticipated Endowment business to which a reference is made in Chapter VI. However, as a result of the decisions taken by the LIC recently to discontinue this plan and to continue only the Money Back Plan with certain restrictions, there is a possibility of substantial reduction in this class of business and consequently also in the average premium per new policy. In any case, as far as the renewal expense ratio is concerned, it is related to average premium per policy in force increase in which has been substantially lower than the increase in the consumer price index. It should be emphasized that such a trend is inevitable as even if plan-wise distribution of business remains the same and the LIC continues to cater to the needs of the same income group as at present so that the average premium per new policy increases in the same proportion as the consumer price index, as the major proportion of business in force was written in earlier years when the consumer price index was substantially lower, increases in the average premium per policy in force will be at a much lower rate than the consumer price index in an inflationary situation. This clearly brings out that if the renewal expense ratio is to be controlled and a rise therein consequent upon the increases in the consumer price index has to be avoided, it is all the more essential to ensure that the total staff strength is more effectively controlled through simplification of procedures, adoption of improved data processing system and techniques and other measures for improving productivity of the staff.

8.27 The other major head of expenses is what can be described as development expenses which includes the first year and renewal commission to agents and the development officers' salaries and their other costs. The total expenditure under this head ranges between 40 per cent and 45 per cent of the total expenses of management. It is necessary to consider whether a monopoly organisation should incur so much of expenses on sales. The structure of the development organisation would be examined in a later chapter. However, even within the existing pattern of organisation and terms of remuneration of agents and development officers, it is to be considered whether there is any scope for exercising more effective control on the total expenses in this area.

8.28 Commission payments to agents, both first year and renewal, show wide variations from Division to Division. The percentage of renewal commission to renewal premium varies from 3.88% to 5.85%. Similarly, the first year commission varies from 20% to 36%. During discussions with the concerned LIC officers it was explained to us that one of the reasons for these wide variations is the fact that in most offices provision for outstanding premiums and outstanding commission is being made on an *ad hoc* basis and there have been many instances of over-provision or underprovision of outstanding commission which distorts the ratios of commission to premium income. It also appears that the controls on payments of commission to agents are not working satisfactorily. The reports of Internal Audit have brought out from time to time large number of cases of wrong payment of commission to agents. Though corrective action is taken in respect of cases specifically reported, it has not been possible to find out the reasons for such a large number of wrong payments of commission. As the internal audit is based only on a study of small samples, it is likely that a large number of cases of wrong payment of commission may be going undetected. This would appear to be mainly due to inadequacy of the present Data Processing System as already explained in an earlier chapter.

8.29 As regards development officers, as we have already pointed out in an earlier chapter, the number of uneconomic units of Development Officers is very large. The salaries and other expenses of Development Officers expressed as a percentage of the first year premium income has gone up from 10.52 in 1951 to 18.91 in 1978-79. In 1966-67 it was as high as 22.07. In a later chapter we have given certain suggestions for restructuring the LIC's development organisation which would help in reducing the LIC's overall costs under this head.

8.30 Expenses under all the other heads put together constituted about 13% of the total for 1977-78. This percentage varied between 18% and 13% during the period from 1960 to 1967-68. In 1960, the percentage was 17.85 and the same showed a gradual decline.

8.31 Inflation has its effect on the cost of other heads also such as printing and stationery, postage and telegrams, imputed and actual rents for office premises, rental and service charges for accounting and data processing machines, etc. Such expenses can best be measured in terms of expenses per policy in force. The table below shows the administrative staff salaries as well as certain other major administrative expenses expressed as cost per policy in force. The variations are shown over quinquennial period from 1959 to 1978-79.

TABLE VIII—10

Statement showing expenses on Administrative Staff Salaries and some other major heads of administrative expenses expressed as cost per policy

	Administrative Staff Salaries (CCA, PF, OT, Bonus etc.)	Printing & Stationery	Postage, Telegrams, Telephones, etc.	Tabulating Machines-Rental and Service Charges	Rents	Other Administrative Expenses
	Rs.	Rs.	Rs.	Rs.	Rs.	Rs.
1959	12.45	0.91	0.93	..	0.64	4.23
1964-65	16.88	0.80	1.13	0.51	0.86	3.54
1969-70	23.57	0.72	1.24	0.71	0.84	3.93
1974-75	38.10	1.28	1.51	0.93	1.25	8.07
1978-79	42.03	1.23	1.71	0.68	1.51	6.88

It will be seen that while expenses on administrative staff salaries per in-force policy have gone up in a proportion higher than the corresponding increases in the consumer price index, the expenses under other major heads have gone up to a much lower extent. If the corresponding increases in the sum assured and premium per in-force policy are also taken into consideration, then it would appear that all other expenses expressed as a percentage of premium have remained more or less steady and if the renewal expense ratio has gone up, it is mainly due to the increases in the administrative staff salaries on the one hand and increases in the development officers' salaries and other development costs on the other. The remedy for the increase in the expense ratio will, therefore, have to be found in tackling the problem of expenses under these two heads.

CHAPTER IX

INVESTMENT

Nature of Life Insurance Business

9.1 The basic nature of individual life insurance businees as it has evolved through the centuries is that persons go in for insurance not merely to cover risk but also as a form of saving and investment. This alone explains the great popularity of with profit endowment assurance policies. The saving and investment aspect in the business of life insurance has grown considerably in size during the current century. Policyholders enrtust their savings to the life insurance companies in the hope that not only when death intervenes their dependents or nominees will get the money but also that if they survive to old age they will get the return of their savings with addition of substantial bonuses earned for them by judicious and profitable investment of their savings. The policyholder who takes up a with profit policy expects that the insurer will so husband the savings as to secure for him the highest return. The return to the policyholder is determined both by the yield obtained on the investment of the life insurance funds and by the level of expenses incurred by the insurer in the sales and administration of life insurance business. The with profit policyholders are, in fact, the dominant partners in the business of life insurance. It is, therefore, important to note that for life insurance companies, investment of its funds with a view to securing maximum yield consistent with security is the prime function of management and not something subsidiary or extraneous to the main task of securing and administering the insurance business. So great is the attraction of savings linked life insurance policies and the importance attached to bonuses by policyholders for ensuring a fair return on their savings that with profit endowment type of policies form the bulk of the entire business of the LIC. Of the LIC's total business in force as on 31-3-1979, 88% constituted with profit policies and of this 95% constituted endowment type of policies. As far as the new business during the year 1979-80 was concerned, about 98% constituted with profit business and of this about 96% constituted endowment type of policies.

Principles of Life Office Investments

9.2 Traditionally, security of capital was considered a corner stone of the principles that should govern the investment of life insurance funds. A clear enunciation of these principles was made by Mr. A. H. Bailey, an eminent British Actuary, as far back as in 1862 in the following terms :—

(a) That the first consideration in investment of life insurance funds should invariably be the security of the capital ;

(b) That the highest practicable rate of interest be obtained, but that this principle should always be subordinate to the previous one, the security of the capital ;

(c) That a small proportion of the total funds (the amount varying according to the individual circumstances of each insurer) should be held in readliy convertible securities for the payment of current claims and for such loan transactions as may be considered desirable ;

(d) That the remaining and much larger proportion may be safely invested in securities that are not readily convertible ;

(e) That as far as may be practicable the investments should be so made as to aid the life insurance business.

9.3 Over the years, however, criticism was building up against these principles, in view of the relatively large avenues of investment that opened up as a result of industrialisation and which gave opportunities for investment of funds giving higher yields with relatively improved security. Added to this was the need to improve yields on account of the inflationary trends in economy.

9.4 In 1948, another eminent British Actuary, Mr. J. B. Pegler submitted a paper to the Institute of Actuaries entitled "Actuarial Principles of Investment" which laid down the following principles for investment of Life Insurance funds :

(a) It should be the aim of a life office investment policy to invest its funds to earn the maximum expected yield thereon ;

(b) Investments should be spread over the widest possible range in order to secure the advantages of favourable, and minimise the disadvantages of unfavourable, political and economic trends ;

(c) Within the limits of the second principle, offices should vary their investment portfolios and select new investments in accordance with their view of probable future trends ;

(d) Offices should endeavour to orientate their investment policy to socially and economically desirable ends.

The new principles enunciated by Peglar shifted the emphasis from "security" of capital, to the concept of "expected yield", which takes into account not only the interest income on the investment but also the expected capital gains and losses based on an estimate of the probabilities applicable to each of these elements. The new principles also bring out that it is possible to achieve the maximum "yield" on the total investments by a judicious selection of the investments and by spreading them over the widest possible range. The new principles also emphasised that as the largest investor of public savings, an obligation was cast on the insurers to endeavour to orientate their investment policy to socially and economically desirable ends, while aiming at the maximum "expected yield".

Statutory Provisions governing Investments

9.5 The investment of life insurance funds in India is governed by Section 27-A of the Insurance Act, 1938. Before nationalisation, a large number of life insurance companies were controlled by industrial groups and there was considerable public criticism regarding the misuse of life office funds. The sole purpose behind the introduction of Section 27-A was to ensure that these funds which were in the nature of trust funds were so invested as to achieve maximum security for the policyholders. The Section provided that 25% of the life funds should be invested in Government securities, further 25% was required to be invested in approved securities, *i.e.*, generally securities guaranteed by the Central or State Governments, and of the remaining 50% of the investible funds a minimum 35% should be invested in approved investments which include besides the approved securities, mortgages, immovable properties, policy loans, etc. and investments in joint stock companies which have been paying dividends regularly for five years. Investment of the balance 15% Fund was left to the discretion of the life insurance company. The provision regarding investment of certain percentage in Government securities was brought in only with a view to ensuring security to the policyholders and not with a view to ensuring availability of funds to the Government for its own plans.

9.6 On nationalisation the Government did not immediately apply Section 27-A of the Insurance Act, 1938 to the LIC. The Investment Committee constituted under Section 19(2) of the LIC Act was left free to guide the LIC in making its investments in the light of the general principles indicated by the Government. The Finance Minister while speaking in Parliament on the LIC Bill on 20-3-1956 and 21-5-1956 had stated as under regarding the principle that would govern the policy to be followed by the LIC in making investments:

(a) ".....The Corporation will be guided by the advice given to it by the Investment Committee which will be constituted for the purpose and on which there may be, besides the members of the Corporation others who have expert knowledge of the subject. It is our intention to indicate in a broad manner what type of investment the Corporation should avoid and which particular type of investments it should view with favour. The investment in ventures established in pursuance of the plan would be given preference over others and the investment policy would be governed in the main by the major considerations such as the interest of the policyholders and the interest of development envisaged in the second Five Year Plan and subsequent plans."

(20-3-1956)

(b) "I would like to tell the spokesman of the private sector, industrialists and others that it is not the Government's intention to divert the flow of funds that is, large dimensions of the present funds—to the public sector to a greater degree than at present. Now, it is my endeavour to see that at least as much money as is available today is made available for investments in the private sector."

(21-5-1956)

9.7 In 1957, the Government introduced a Bill in the Lok Sabha providing for an Investment Board. The Board was to consist of the Governor of the Reserve Bank as Chairman, the Chairman of the Central Board of the State Bank and the Chairman of the LIC as Members. In effect, this Bill contemplated taking away the work of investment from the LIC and entrusting the function to a separate body on which the LIC would have been represented by its Chairman. Before consideration of the Bill, however, the Mundhra episode and the enquiry into it by Mr. Justice Chagla intervened. Considerable discussion took place in Parliament regarding the policy and the procedure to be followed by the LIC in respect of its investments. The Bill proposing the constitution of the Investment Board was not proceeded with. Instead in August 1958, Section 27-A of the Insurance Act was applied to the LIC with minor modifications. The Finance Minister while placing on the Table of the House the relevant Notification had said as under :

(a) "To begin with, I would like to make it clear that the Life Insurance Corporation shall always keep in mind the provision of Section 8(1) of the Life Insurance Corporation Act, which enjoins on it the duty of carrying on its business to the best advantage of the community. Let me be more specific. Whereas the life Insurance Corporation will always bear in mind that its primary obligation is to its policyholders whose money it holds in trust, and will work as far as possible on business principles, it will never lose sight of the fact that, as the single largest investor in India, it has to keep before it the interests of the community as a whole. It will, therefore, invest in ventures which further the social advancement of the country. It will take no parochial view. Its funds are drawn from all over India—and they will—as far as practical considerations allow—be invested for the good of the entire country. Thus, there shall be a studied diversification of its investible funds which is an essential requirement of any insurer particularly the sole insurer of the country".

(b) "I next come to the attitude which the Life Insurance Corporation should adopt in relation to the stock markets. There is not the slightest intention that the Life Insurance Corporation should indulge in speculation and thus take advantage of temporary fluctuations in market prices. It must necessarily invest on a long term basis. But this should not preclude it from certain buying and selling operations when circumstances as warrant. It will actively examine its investment portfolio from time to time and decide whether certain of its holdings are worth keeping, adding to, or disposing off. If, for instance, the Life Insurance Corporation were to sell during periods of boom and to buy during period of depression not only would the Life Insurance Corporation gain but, indirectly, the national interest would be served by evening out the fluctuations in the stock market."

9.8 The Estimates Committee of the Parliament in its Report submitted in April 1961 had dealt with the investment policy of the LIC in detail. The relevant conclusions and recommendation of the Committee are reproduced hereunder :

"Reading the assurance held out by the Finance Minister in regard to making investments available in the private sector, it is clear that the intention was more to help the development of industries in the private sector than in going to the share market and merely dealing in stocks and shares. Purchase of shares already in the market can be hardly held to serve the purpose of aiding the development of new industries or expansion of existing ones. They would mostly go to the benefit of the persons who are already possessed of such shares, very likely for speculation. That the LIC could buy only Rs. 17.15 lakh worth of shares/debentures floated by the existing companies during 1959 would indicate the inherent limitations of LIC's role in achieving the above purpose. The fact that the other public undertakings like the IFC, ICICI and State Industrial Finance Corporations, which could finance the new industries on a developmental basis have come into operation would seem to make the role originally contemplated for the LIC in this respect somewhat superfluous. The Committee feel that the Corporation's investments in shares and debentures fulfil little of the objectives of social advancement, diversification and advance of speculation. It would be in the interest of the country and the Plan programme for the Government itself to take over the entire investible funds of the LIC as an unfunded debt. The interest payable by the Government could be pre-determined periodically in consultation with the Corporation's liabilities. It should not be difficult for the Government to pay an interest of 3% as deemed to be sufficient by the Chairman, LIC or for a matter of that even something more. Such an argument would provide in the 3rd Five Year Plan period an estimated amount of Rs. 135 crores in addition to a sum of Rs. 315 crores approximately which could be utilised by the Government to the best advantage for the development plans. The various requirements of diversification, development, social advancement and furtherance of the interest of the community as a whole could be better served by Government with the help of the funds provided by the LIC for the plan that could be done by the Corporation itself. Government could likewise provide funds for the development of new industries for expansion of existing ones contemplated evidently for the private sector under the plan. Such investments should be made through other financing agencies in the Public Sector taking into account the size of investments made by the LIC for this purpose in the past and allocations in the plan.

"A very important factor to be borne in mind is that with the passage of time the business will increase to such an enormous extent that the LIC whose main purpose is to procure insurance business and render service may not be able also to devote sufficient time and care for assuring the most advantageous investment of the large funds without detriment to its main task. If the Corporation is freed from the controversial and distracting work of investment it can then find time and energy necessary which the growing business and servicing would demand. The Committee recommended that the desirability of changing the present policy of investment of the LIC on the above lines may be examined by Government. The measure suggested will not only relieve the LIC of the job of investments and increase its efficiency but will also enable the Government to better realise the objectives of nationalisation."

9.9 The LIC in its comments on these recommendations had *inter alia* observed as under :

(a) "The Committee's proposal may be in the interest of the country and the planned programme. It cannot, however, be said to be in the interest of the policyholders. It is not known how it will be ensured that the policyholders will not be worse off by the LIC being allowed a pre-determined rate of interest to be periodically fixed than if the LIC were to continue to conduct the investment activities so as to secure to the full, the advantages and opportunities for remunerative investments as they may arise from time to time in the future. Apart from that, it is the primary purpose of the investment of life insurance funds that the funds shall be wisely and judiciously invested so as to secure for the policyholders the highest possible return on their investments. The LIC, if it is divested of this primary function, may expose itself to the criticism that it can no longer hope to conduct its affairs so as to best serve the interests of its policyholders and there is the risk of the confidence of the insuring public in the LIC being undermined."

(b) "The ability of an insurer to procure insurance business depends to a large extent on his ability in the management of the investment of his funds. The two functions are inter-linked and one cannot be divorced from the other..........."

(c) "The Committee rightly observed that the first consideration has to be the security of the investments but they are not correct when they say that the other requirement is the adequacy of return to meet all liabilities. The other requirement is maximum yield consistent with security. It is not enough that the LIC earns on its investments a rate of interest sufficient to meet its liabilities. It is an essential function of an insurer that it earns for its policyholders the maximum possible yield consistent with security."

(d) "LIC's investment in shares and debentures of private sector companies through purchase and sale in the market is essential for the healthy functioning of the market. LIC's holdings in these may not be much, but if a purchaser like the LIC were to withdraw from the market, it would discourage a large number of persons who are today buying shares and debentures of new as well as existing companies. If the amount which the LIC today invests in shares and debentures of companies new and old were to be utilised for the development of industries in the Private Sector by some other agency which does not utilise the capital market, the balance which is now regularly available from other sources will not become so readily available."

The Government would appear to have generally agreed with the LIC's observations and did not accept the recommendations of the Estimates Committee on this subject.

9.10 In 1970 the Government appointed an Informal Group under the Chairmanship of Shri S. Jagannathan, the then Governor of Reserve Bank, to review the investment pattern of the LIC. As a result of the recommendations of this Group, major modifications were made in Section 27-A with effect from April 1975. Through this amendment, the following three major changes were made :—

(i) Previously, compliance in terms of statutory fixed percentages for investment in Government and approved securities was required to be accomplished in relation to the cumulative figures of the Controlled Fund as on 31st March every year whereas after the amendment the prescribed percentages relate to annual accretions to the Controlled Fund.

(ii) Earlier not less than 25% of the Controlled Fund was required to be invested in Government Securities which included Central and State Government Securities, whereas after the amendment not less than 25% of the annual accretions to the Controlled Fund has to be invested in Central Government Securities only.

(iii) Prior to the change, it was open to the LIC to include Government guaranteed loans in the 25% required to be invested in Government and approved securities, whereas now not less than 50% including 25% to be invested in Central Government Securities, has to be invested in Government and Government guaranteed marketable securities only.

(iv) A further 25% was required to be invested in the "socially oriented" sector.

9.11 We have carefully studied the report of the Informal Group and the changes made in Section 27-A of the Insurance Act. In this connection the Committee would like to draw attention to the objective accepted by the LIC relating to investment of funds which has been defined in the following terms :—

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

The Committee feels that the Informal Group's recommendations and the Government's decision thereon are not quite consistent with the primary obligation of the LIC of ensuring "attractive return" to the policyholders.

9.12 As noted above, by this amendment, the definition of approved securities was changed to confine it to that of approved "marketable" securities. Before that amendment, the LIC was investing a part of this in loans for some socially oriented projects which were guaranteed and approved by the Government. The rate of interest on such loans was necessarily higher than that obtainable on marketable securities guaranteed by the Government. Thus, this change led to a reduction in the average rate of interest that the LIC could earn on its total investments.

9.13 The Committee feels that the statutory framework laid down for investment of life insurance funds is not in conformity with the basic principles that should govern the investment of life insurance funds to which a reference has been made earlier and also the objectives accepted by the LIC relating to investment of its funds. In recent years, the LIC has had to face severe competition from other savings media such as Bank Deposits, Company Deposits, Unit Trust and National Savings. Details of rates of interest available on the other competing savings media are given in Appendix 47. As will be seen from this Appendix on National Savings the rate of interest is as high as 10.25%. The Banks which were till recently accepting only Short Term Deposits are now accepting deposits up to 5 years where the rate of interest is guaranteed at 10%. In respect of investments of Provident Fund and Gratuity Funds the prescribed pattern of investment is such that the net return is 8.65%. In respect of the LIC funds, however, the gross return on life insurance funds was on 7.89% in 1979-80. This is the gross return on the total funds and the net return to the policyholder which is represented by the interest earned on life funds less expenses of management, income-tax and Government share of surplus, is substantially lower. The reduction in the gross yield on this count may vary from a minimum of about 2% to as much as 5%. Though in another paragraph of this Report we have emphasized the compelling need for controlling and reducing administrative costs, by its very nature life insurance business will involve a higher level of selling and administrative costs than other savings media. Therefore, if life insurance business has to compete with other savings media, the return on the investments of life insurance funds has to be higher than that available on other savings media. It is in the light of these considerations that the statutory framework for investment of insurance funds as also the investment policy of the LIC will have to be examined.

Return on Investments in Central Government and other Approved Securities

9.14 We now propose to examine the investments of LIC within the statutory framework laid down for it. The Committee examined in detail the trend of yield pattern on long term Government Bonds in India as also in some Western Countries. Appendix 48 shows the yield on long term Government Bonds in U.K., U.S.A. and also in India. It will be seen that in U.K. from 1950 to 1978 the rate of interest on long term Government Bonds has gone up from 3.6% to 12.5% and at one time it was as high as 14.2%. Even in U.S.A. where the rate of inflation had not been so steep, the rate of interest on Government Bonds had gone up from 2.2% in 1950 to 8.5% in 1978. We understand that in 1979-80 there has been a further very steep increase in these rates. In India, however, the rise in the rate of interest on long term Government securities during this period has been only 4%, *i.e.* from 3% to 7%. The reason behind this is that in India, with over 90% of the investments in Government securities being made by Banks, LIC, GIC, Provident Funds and other approved funds, the Government Securities market is captive market. Whatever may be the justification for the captive market concept for others, for the LIC it acts as an inhibiting factor in earning a reasonably good yield and making its present savings linked insurance plans even moderately attractive when compared to other forms of savings. It is, therefore, important that at least as far as the LIC is concerned, the funds it is required to invest in Government and other approved securities should carry a rate of interest at least comparable to the rates of interest on other savings media.

9.15 A complaint which was made before the committee is that if the LIC was to make its purchases of Government Securities in the market instead of subscribing to the issue at the time that they are floated, the LIC would be able to get a much better return as generally the market quotations after issue are often lower than at the time of issue. The Committee has considered this criticism and feels that it is made on the basis of an inadequate understanding of the nature of the Government Securities market in this country and the magnitude of the investments that the LIC is required to make in such securities. As one of the largest investors in the Central Government securities, the LIC would have no option but to take up certain firm allotment at the time of issue of the loan. The Committee, however, noted that the LIC is also active in the securities market and tries to improve its yield on its total Government securities portfolio by means of switch operations when changes in the rates of interest governing new issues are anticipated.

9.16 What has been commented upon in the earlier paragraph applies with even greater force to State Government Securities and approved marketable securities which comprise bonds issued by State Electricity Boards, the Development Banks like IDBI, IFCI and ICICI and the various Land Development Banks. The yield on such securities has increased only from 6% to 6½% for the last 8 or 9 years. These securities and bonds are generally for 10 year term.

Return on Investments in the Socially Oriented Sector

9.17 The 25% of the investment of the controlled fund which LIC is required to make in the socially oriented sector normally comprises the following :

(a) Loans to various State Governments,

(b) Loans to State Electricity Boards, Municipalities, etc. on Government guarantees, and

(c) Mortgage Loans to State Electricity Boards, Loans to Sugar Co-operatives, Loans to Transport Corporations, etc.

Appendix 49 gives the rates of interest on various categories of fixed interest bearing investments, including those referred to above, over the last 10 years from 1969-70 to 1978-79. It will be seen that the loans in the first two categories carried interest of 6% and 6½% in 1969-70 though the loans were for terms as long as 15 to 25 years. We understand that the LIC has been representing to the Reserve Bank of India and the Government for improving the rate of interest on such loans and as a result of its efforts the rates have increased to 8% and 8½% in the year 1977-78. The rate of interest for investments made in category (c) has been moving in line with the rate of interest on term loans and is currently 11%. Appendix 50 gives the current yield on new investments in various categories made by the LIC during 1979-80 as also the tentative estimates for 1980-81.

9.18 The Committee noted that even in respect of socially oriented investments, a distinction has been made as between the loans guaranteed by State Governments which carry a lower rate of interest and loans which are granted on the security of mortgages where a higher rate of interest is permitted. The Committee feels that the rationale behind this distinction is somewhat illusory. As far as Electricity Boards are concerned, the loans by way of mortgages do not appear to have any practical meaning because in case of default, it would obviously not be possible to realise its dues by exercising its rights under the mortgage agreement. The mortgage agreement, therefore, involves unnecessary documentation and delays without any effective change in the nature of the security. We understand that till recently the LIC was holding the view that under the provisions of the LIC Act, it is not permitted to grant loans without security. However, we have been informed that recently the LIC has been advised that this view was not correct, and the LIC is now granting short term loans without security on the merits of each case. Under the circumstances, the LIC should seriously consider whether any useful purpose is served by insisting on mortgage agreement with the Electricity Boards for the loans granted to them.

9.19 As regards socially oriented investments, in the form of loans to Municipalities, Apex Housing Co-operatives, etc., which are guaranteed by the Government, the rate of interest is substantially lower. We understand that this differential rate of interest in respect of loans guaranteed by the State Governments is not applied in the case of Banks who are allowed to grant loans on the guarantee of State Governments at the prevailing rate. The discrimination against the LIC would, therefore, appear to be completely unjustified.

Regional Distribution of Investments

9.20 A complaint that is generally voiced about investment of life insurance funds in India is that there is considerable concentration in a few advanced States and a comparative neglect of the less advanced States. There appears to have been some force in this complaint as far as the position that was obtaining at the time of nationalisation is concerned. However, after nationalisation the LIC has been making conscious efforts to correct this regional imbalance. Appendix 51 gives total investment in different States grouped according to Zones as at 31st October, 1957 and as at 31st March, 1979. As well be seen therefrom the imbalance in regional investment obtaining as at 31st December, 1957 has been considerably reduced by 31st March, 1979. The extent of efforts made by the LIC to ensure a more balanced regional distribution of their investments is even better illustrated by the statistics given in the Appendix 52 which show a comparison between the surplus funds transferred by the Divisions operating in the various States and the actual investments made by the LIC in the territories of those States during the three years 1976-77, 1977-78 and 1978-79. It will be seen that the LIC has invested much more in the backward States like Assam and other North Eastern States, Madhya Pradesh, Orissa, Bihar and Rajasthan and relatively much less in the industrially advanced States such as Maharashtra and West Bengal as compared to the surplus funds received from these States.

Investments in Private Corporate Sector

9.21 Appendix 53 shows percentages of major categories of investments to the Controlled Fund from 31st December, 1960 to 31st March, 1979. It will be seen from that statement that the proportion of investments in the Government and other approved marketable securities has come down from 58.57% to 45.61% and the proportion of investments in the socially oriented sector has gone up from only 2.22% to 27.78%. However, the proportion of investments in the private corporate sector has been steadily going down and has come down from 14.78% as at 31st December, 1960 to 6.91% as at 31st March, 1979. This is excluding investments in participation certificates which are really in the nature of term deposits in banks. The fall in the percentage of such investments is clear evidence that the investment opportunities available in the private corporate sector in India are very limited and it is this factor which has led the LIC to invest large amounts in participation certificates. It is this excess amount which appears to have attracted the attention of the Government, which it is learnt is proposing to have a special deposit account for investment of such excess amounts.

9.22 The LIC's investments in the private corporate sector can be classified in three major categories :

(a) Granting of term loans and subscription to debentures.

(b) Underwriting of Equity and Preference Capital.

(c) Market operations.

As the LIC's principal concern is to obtain maximum "expected yield" on its investments, in accordance with Pegler's definition of 'yield', it concentrates on projects of medium and large scale. Financing of such projects is usually considered in consortium with other all India Financial Institutions, viz., IDBI, IFCI, ICICI, UTI and GIC. The assessment of the project is done with the help of Advisory Committees constituted for individual projects by the development banker appointed as the lead institution for the project.

9.23 The Committee has noted that while the LIC's experience of market operations in shares of private sector companies has been generally quite satisfactory, its experience in the area of underwriting of equity and preference shares of new projects has been somewhat adverse. The Committee was informed that financing of various large and medium scale projects is decided at Inter Institutional Meetings where the shares to be taken up by the different financial institutions are also agreed upon. The LIC's primary objective in participating in such project finance is to obtain the maximum "yield" for its policyholders. As past experience shows that the gestation period for getting return on equity and preference capital of an entirely new company is much too long and the chance of the equity capital being lost if the project does not succeed is also significant, the LIC is generally reluctant in participating in the underwriting of equity and/or preference capital of such new projects. However, there has been a view amongst some of the development bankers that the LIC should take its shares of underwriting of equity or preference capital along with the term loan and the development banker should not be left with all the doubtful part of the financing. It is this view which perhaps persuaded the LIC in the past to participate in the underwriting of equity and preference capital of new projects in respect of which, as already stated, its experience has not been very satisfactory. We understand that the LIC has changed its policy in this behalf and it is now restricting its participation in project finance only to term loans, except in cases where an existing successful company goes in for further equity capital for financing an expansion or new project.

9.24 The LIC is not a development banker and its funds have to be invested to the best advantage of the policyholders and, therefore, this aspect of investment has to be given paramount importance. As one can readily visualise, the equity issues of new companies for projects which have a long gestation period are not likely to evoke good public response and the LIC will be left with the full allotment of the shares for which it applies whereas in issues of successful companies with a stable record of dividend payments and bright prospects of the same being maintained it may get only a small proportion of the total subscription which it may make. Thus, the LIC would, as it were, be burning the candle at both ends, as it would accumulate large chunks of non-dividend paying shares while it may get minimal or no allotment of shares in companies with growth prospects, as some of these companies may choose not to go in for underwriting. A suggestion has been made lately in various industrial and commercial seminars and also by representatives of industry to the Committee that equity issues of all new companies should be taken up by the financial institutions like the LIC and they should be sold to the public as soon as they start earning dividends. The object of such a suggestion is to stimulate the investors' interest in equity investments. This will, however, be contrary to the basic objective and responsibility of the LIC of earning the best "yield" on its investments for the benefit of its policyholders and the suggestion should be completely ruled out.

9.25 A complaint that was made before the Committee by some representatives of employees and others is that considerable portion of the assistance given by the LIC to the private sector flows to the monopoly sector and this is not in the national interest. The LIC has explained that any restriction on the expansion of the monopoly sector which is considered desirable in the national economic interest has to be decided upon by the Government while sanctioning industrial licence or capital expansion. Once due clearance is given by the Government for a new project in the monopoly sector and the pattern of financing including the amount of contribution the promoters are expected to bring in is duly approved, there should be no objection to the LIC's investing its funds in projects promoted by the monopoly sector provided the projects are considered to be financially viable and expected to give good return on the capital invested. The Committee agrees with the LIC's point of view on this subject and would like to stress that all avenues of investment which are likely to give a good yield on the funds invested and which are within the framework of the Government's industrial policy should be available to the LIC. Appendix 54 shows appreciation/depreciation as also yield in respect of investments of equity shares belonging to large groups and other undertakings registered under the M.R.T.P. Act. As will be seen from this Appendix, all these investments have generally been profitable both from the point of view of yield and capital appreciation.

9.26 One significant achievement in the matter of strengthening the equity portfolio of the LIC has been its success in getting firm allotment of a substantial portion of the equity holding meant for Indian shareholders at the time of disinvestment in foreign controlled companies by the non-resident shareholders to comply with Foreign Exchange Regulation Act (FERA). The LIC along with the UTI and GIC act as a consortium and approach the Controller of Capital Issues at the time of determining the fair premium for the shares which are being disinvested and tries to arrange for the firm allotment of a substantial portion to the financial institutions.

9.27 The LIC's market operations, *i.e.* purchase and sale of equity and preference shares of private sector companies, have been directed at acquiring what may be termed as a "blue chips" portfolio. In view of the size of the funds it controls, the LIC along with UTI and GIC are able to achieve to an extent control of the market and to prevent the possibility of the market affecting their operations. By and large the LIC's market operations have been quite satisfactory and to a considerable extent it has enabled the LIC to set off its depreciation in fixed interest investments, particularly in Government securities by the appreciation of its equity portfolio. Appendix 55 shows the appreciation and depreciation in the value of shares, etc. and the profit or loss on sale/redemption of investment. It will be seen that in spite of the fact that the total investment in private sector companies is only a very small proportion of its total investment, as compared to about 48% of the total funds invested in Government and approved marketable securities, the appreciation in the market value of the private corporate sector securities has enabled the LIC to offset the effect of depreciation in the market value of Government and other approved marketable securities.

Investments in Mortgage Loans and House Properties

9.28 We shall now consider the LIC's investments in mortgage loans and in house properties. In considering the return in respect of mortgage loans granted directly by the LIC under its mortgage loan and OYH schemes, the administrative expenses incurred by the LIC on such loans have to be taken into consideration in determining the net yield obtained on such loans. An analysis has been made of the expenses incurred, including provision for bad debts and it was seen that in respect of loans under the LIC's ordinary mortgage scheme (M-1 Scheme), the total of expenses and provisions for bad debts amounted to 0.8% and against the gross yield of 13% charged for such loans the net yield worked to 12.2%. It would, therefore, appear that investment in such loans yield a reasonably attractive return and the LIC should try to expand its investments in this area. On the other hand, under the OYH Scheme, against the gross yield of 10.5%, which is reduced to 9.5% in respect of loans upto Rs. 25,000 or less, the total of expenses and provisions for bad debts come to 1.8% thus reducing the net yield to 8.7% for loans above Rs. 25,000 and 7.7% for loans upto Rs. 25,000 or less. Considering the fact that the LIC is already investing a large amount by way of loans to State Governments for housing which are meant for housing the weaker sections of the society and to the State Apex Co-operative Housing Finance Societies which cater to the needs of the middle income groups, where the rate of return is quite low, it does not appear justifiable that in respect of its direct loans also the LIC should charge a rate of interest which is significantly lower than the average rate available under this category of investments. There would, thus, appear to be a strong case for the LIC to review the rates of interest under its OYH Scheme.

9.29 Substantial amounts have been invested under the Employees' Housing Schemes. The Committee suggests that the subsidy in the rate of interest involved in respect of such housing loans to employees should be shown as an item of expenditure so that a correct appreciation is made of the total expenditure by way of staff amenities and this is not hidden by way of reduction in the return on the invested funds.

9.30 As regards the investment in house properties, it was noted that in the year 1971 the LIC took up development of social housing projects and so far it has taken up such housing schemes at Bombay (Borivli), Bangalore, Hyderabad, Kanpur and Ahmedabad. The total outlay of these schemes upto 31st March, 1978 was about Rs. 10 crores only. Though the initial projects at Bombay and Bangalore have yielded some profits on the LIC's investments it would appear that in the case of Kanpur and Hyderabad properties, the selling prices are proposed to be determined on the basis of interest of 6½ per cent on cost of land and 10½% on the cost of development of land and cost of construction and no profit element has been included. Considering the delays that normally occur in selling such houses, the actual return is likely to be lower. Investments in the housing schemes at Hyderabad and Kanpur have not proved to be satisfactory investments and the Committee suggests that the LIC should carefully examine all such investments in housing projects and ensure that such investments are undertaken only when adequate return is ensured.

9.31 As regards existing investments in properties, the Committee was informed that there are a large number of unremunerative properties in some of the larger metropolitan centres where the return is less than 2%. The Committee feels that if the LIC actively pursues with the various State Governments the question of relaxation of Rent Control Acts in respect of office properties owned by the LIC so that fair rents which can ensure reasonable return can be fixed for such properties, it should be possible for the LIC to improve the yield on its existing property investments considerably. Even otherwise the Committee noted that both in Delhi and Calcutta, the LIC has actually been able to improve its yield on the existing commercial properties as a result of an active follow up. If, as suggested, the LIC is able to persuade the State Governments to relax the Rent Control Acts it should be possible to improve the yield on such properties quite substantially. As regards the properties which are in the nature of residential buildings, the Committee feels it may not be practicable to persuade the Government to relax the rent laws and in such cases the LIC should consider sale of such properties to the existing tenants on a reasonable basis which would enable it to improve the total return on the funds invested in such properties. A more active policy on the part of the LIC can help the LIC to earn a substantially higher return on its existing investments in properties. The scope for profitable investment in properties in the nature of office buildings in the larger urban centres still remains and this should be further explorded by the LIC.

9.32 The LIC has also made serious efforts in improving its yield on its total investments is by more efficient handling of its cash flow management. We understand that the LIC has made arrangements with its bankers by which immediate credit would be given for all cheques lodged by the LIC with its bankers. It is also arranged that all funds which are in surplus of the funds required for the immediate use of Divisional Offices for their expenses and claim payments are transferred to the Central Office and these are placed on call and notice deposit to earn 8½% till recently and 10% now. Part of these funds is also kept in participation certificates with bankers. Recently the LIC has also started granting short term loans for one year to Industrial Companies of unquestioned financial strength charging a rate of interest of 16% per annum. The LIC would thus appear to be making consistent efforts to improve the yield on its investments within the confines of the statutory limits on its investment policy.

9.33 One of the criticism that has often been levelled against life insurance as a savings medium, which was repeated by a number of persons who appeared before the Committee, is that in the light of continuing inflation life insurance is not at all suitable as a savings medium as premiums are paid over a number of years when its purchasing power was much higher and the sum assured is paid at a later date in substantially depreciated currency. This means that apart from the fact that even the nominal rate of return on savings linked life insurance is not at all attractive, the real rate of return to the policyholder is in effect negative. A suggestion has been made from time to time that the sum assured under life insurance policies should be linked with the cost of living index. This would be possible only if the Government agrees to issue securities which are linked to the cost of living index in which life insurance funds can be invested. This has not been found practicable in any country except Israel where also its success is open to doubt.

9.34 However, other means used by insurance companies in the Western countries to make life insurance funds yield better returns are by making larger investments in equities and properties which appreciate in value with inflation and thus provide some hedge against inflation to the life insurance policyholders. In the U.K. life insurance companies have increased substantially their investment portfolios in equities and house properties and the increasing returns and capital appreciation obtained on these investments have enabled the U.K. companies to give much higher bonuses to their "With Profit" policyholders. They have recently introduced what is called "terminal" bonuses in addition to the normal bonuses which have also been increased substantially. This has enabled the U.K. insurance companies to offset to a considerable extent the effects of inflation as far as their "With Profits" policies are concerned and thus enabled them to retain the attractiveness of life insurance as a medium of long term savings. Another recent trend in some of the Western countries has been the introduction of equity linked life insurance contracts. Such contracts have been introduced both by old established insurance companies as well as by the Unit Trusts. Though such equity linked contracts have gained some limited popularity, particularly in the U.K., the traditional life insurance plans still retain their greater popularity because of the basic security offered by them coupled with high rates of normal and terminal bonuses.

9.35 In India, the equity market is very restricted and there is no possibility of the LIC investing in equities on a large scale even if the restrictions prescribed in the Insurance Act were substantially relaxed. It is, however, to be noted that to the limited extent the LIC has been able to invest in equities, the capital appreciation obtained by it on such investments has enabled it to offset to some extent the effects of depreciation on fixed interest bearing securities and the net long term yield on such investments is thus substantially higher.

9.36 In the light of the limited opportunities for investment inequities available to the LIC, the LIC has introduced another concept in respect of its socially oriented investments to provide some hedge against inflation. In case of loans to State Electricity Boards, the LIC is now charging a rate of interest at 2% above the bank rate subject to a minimum of 11%. Similarly in the case of investments in Mortgages the rate of interest is fixed at 2½% above the bank rate subject to a minimum of 9½%. It would be worthwhile for the LIC and the Government to consider whether it is possible to extend this idea further to other socially oriented investments.

9.37 A number of persons who appeared before the Committee have represented that the statutory provisions governing the investment of life insurance funds prevent the LIC from achieving its major objective of ensuring attractive return to the policyholder and if life insurance is to succeed as a savings medium, it is desirable that all the restrictions on investments of life insurance funds are removed and the LIC is left free to invest its funds with a view to obtaining the maximum yield. In paragraph 13 of this Chapter, we have already observed that the statutory framework laid down for investment of life insurance funds, is not quite in conformity with the basic principles that should govern the investment of life insurance funds and the objectives accepted by the LIC relating to investment of its funds. It should, however, be observed that opportunities for investment available to the LIC are themselves limited as already pointed out by us earlier. Though the present statutory framework permits the LIC to invest upto 15% of the accretion to its life funds in the private corporate sector the LIC has not been able to invest more than 7.2% in this category of investment. The LIC will, therefore, have to per force invest a fairly large proportion of its funds in various socially oriented projects of the State and Central Governments and also in Central and State Government Securities. What is necessary, however, is for the Government to recognise that LIC has an obligation to its policyholders of ensuring the maximum return on the savings entrusted to it by its policyholders comparable to the return available on investments in other competing savings media and take this aspect into consideration while determining the rates of interest to be allowed on the investments of life insurance funds in various socially oriented projects.

CHAPTER X

MANAGEMENT INFORMATION AND CONTROLS

10.1 A scientifically organised management information system is designed to provide in a compact as well as comprehensive form all the requisite information necessary for the purpose of transactional processing, performance evaluation and control and policy formulation. Moreover, information must become available to the managers on a regular basis in a form that will provide timely signals of approaching events and developments and will serve as an effective aid to decision making.

10.2 Data generation in the LIC takes place basically at two levels, namely, Branch Offices and the Divisional Offices. A number of statistical and accounting statements and returns are regularly submitted by the Branch Offices to the Divisional Offices and by the Divisional Offices to the Central and Zonal Offices. These cover all aspects of operations of these offices. Besides the statistical and accounting returns and statements, the Divisional Managers are required to send a monthly letter to the Chairman reviewing the Division's working. In June 1973, a decision was taken to review the whole management information system and as a first step in this direction, it was decided to prescribe a standard proforma giving statistical information on important aspects of the working of the Divisional Offices which was to form the basis of the Divisional Manager's monthly letter to the Chairman. The standard proforma covers, apart from information on the progress of new business, information regarding the progress of the development organisation and the working of the new business, policyholders' service, accounts, machines, development and establishment departments. In his monthly letter, the Divisional Manager is expected to comment upon the special achievements or failings of the Division brought out by the data given in the proforma. If the working of any department shows abnormal delays or accumulation of arrears, the Divisional Manager is required to give reasons which have contributed to this and steps taken or proposed to be taken to deal with the situation. The letter is also expected to give details of any special problems in the field of industrial relations and other areas that may have arisen during the month. Originally, the follow up action on the Divisional Manager's monthly letter and report was being taken by the Chairman or the Managing Director. Recently, a decision was taken that copies of the reports should be submitted to the Zonal Manager and follow-up action on these reports is now being taken by the Zonal Manager, who is responsible for control and supervision over the working of the Divisional Offices in the Zone.

10.3 In October 1973, another decision was taken to introduce a similar reporting system in respect of Branch Offices also. A standard proforma for the report to be submitted by the Branch Manager to the Divisional Manager was prescribed. The data furnished in the proforma would enable the Branch Manager himself to review the working of the Branch and in the monthly letter to the Divisional Manager which would accompany this proforma the Branch Manager was directed to indicate the nature of the action instituted by him in each area for improving on the performance. Here again the Divisional Manager is expected to review the working of the Branch on the basis of the report and where any serious difficulties in the working of the Branch are noticed, he is expected to guide the Branch Manager in taking appropriate corrective action.

10.4 Apart from the monthly reports, a large number of statistical returns are required to be submitted by the Branch Offices to Divisions and by the Divisions to the Central Office. In 1976, a Committee of Senior Officers was appointed at the Central Office to conduct a detailed study of the various statistical and accounting returns being submitted by the Divisions to the Central Office, with a view to examining whether there was any duplication in the information being submitted by the Divisions to the different Departments of the Central Office and to standardising and simplifying the forms and returns being submitted and eliminating those which were not being made use of. As a result of the study of this Committee, a large number of returns were eliminated while others were simplified and standardised and in respect of quite a few frequency of the returns was reduced.

10.5 In 1978, the O&M Department of the Central Office undertook a similar study of the statements and returns being submitted by the Branch Offices to the Divisional Offices. As a result of this review, a number of returns were eliminated while others were simplified and standardised. However, discretion was left to the Divisional Manager to make any changes in the returns required to be submitted by the Branch Offices in his Division or for discontinuance of any of the statements because of the peculiar circumstances obtaining in his office, subject to his keeping the O&M Department of the Central Office informed of the changes.

10.6 Very recently the O&M Department at the Central Office has undertaken a project for creating a "Data Bank" at the Central Office. The aim of the Data Bank will be to gather data from the Divisional Offices. Zonal Offices and also Central Office, integrate the data into a suitable data organisation and provide necessary information to the Operating Departments of the Central Office for decision making purposes and also provide feed back to the Zonal Offices and Divisional Offices on their performance. Before reaching this stage of development they have undertaken :

(i) to study the existing data collection and retrieval systems ;

(ii) to analyse further the requirements of data for decision making ;

(iii) to design the necessary input and output formats and redesign wherever necessary the entire reporting functions to suit the Data Bank environment ;

(iv) to establish procedures for gathering accurate data ; and

(v) to establish means of communication to different offices for this purpose.

As a first step they have already initiated action for detailed study and analysis of the reports which are being received by the various functional Departments of the Central Office. We understand that the full project will be implemented only after the new computer is installed at the Bombay Divisional Office and adequate computer time becomes available for the Data Bank.

10.7 From the large volume of statistical and accounting returns being received by the Central Office of the L.I.C., various statements are being prepared giving comparative performances of all the Divisions in important areas. These provide very valuable feed back information to the Divisional Offices for evaluating their own performances, *vis-a-vis* that of the other Divisions. Where a Division is seriously lagging behind other Divisions, the Divisional Manager will be alerted to find out the reasons for the same and to consider appropriate corrective action. The areas in which such Division-wise comparative statements are being prepared are in respect of progress of New Business and of the Development Organisation, progress of the premium income, progress in the matter of deposit clearance, progress in the area of claim settlement, etc. A list of such comparative Division-wise performance statements which are being prepared by the Central Office for circulation to the Divisions is given in Appendix 56.

10.8 Since 1973, the Central Office Accounts Department is also preparing annually Division-wise statements of "Performance Indicators" in various areas. The list of the "Performance Indicators" which are being prepared by the Accounts Department every year and circulated to the Divisional Office is given in Appendix 57. Where major variations are found in any performance indicator of a Division compared to those of other Divisions generally or of the same Division in previous years, the matter is taken up with the Divisional Office concerned for explanation and follow-up action.

10.9 As will be seen from the foregoing paragraphs, the LIC has been making continuous efforts for improving its Management Information System. However, some important lacuna remain and some of these are referred to in the following paragraphs :

(i) As regards business performance, information available with the LIC is only in respect of number of policies, sum assured and premium income for both the Branch and Divisional Offices as far as new business is concerned and for the Divisional Office only as far as the total business in force is concerned. The present data processing system is unable to supply information regarding the number of lives covered by life insurance through individual assurances as also business in force in various centres and particularly in the rural areas. Similarly, no analysis of business in force is available according to the occupational groups, income groups, etc. The result has been that effective planning for development of business becomes difficult.

(ii) Another area where reliable statistics are not available is in the matter of lapsation of policies. Because of the defective data processing system, the operating offices are not able to obtain agent wise, development officer-wise and Branch-wise statistics of lapses. It is also not possible to get analysis of lapses according to plan of insurance or month of issue or other similar analysis. Non-availability of such statistics makes any effective preventive or follow-up action extremely difficult.

(iii) As the LIC has already realised, there is an urgent need for organising a centralised Data Bank at the Central Office level which would reduce considerably the work of compilation and processing of data by the various functional Departments of the Central Office and which would provide timely, accurate and comprehensive information to the functional departments which would both facilitate and improve the quality of decision making and which would provide valuable feed back data to all the Divisions on a more timely basis. This again is linked up with the introduction of more versatile data processing machines at the Central Office.

Internal Audit and Inspection Department

10.10 Regulation 46 of the LIC Regulations lays down the following functions for internal audit :

"In addition to the audit to be carried out by the Auditors appointed under Section 25 of the Life Insurance Corporation Act, 1956, the accounts of all the Offices of the Corporation shall be regularly audited by the Internal Auditors who shall be full time employees of the Corporation. A summary of the report of the auditors shall be placed before the Executive Committee as soon as possible after the close of each financial year.

Provided that in the case of Offices of the Corporation outside India, the Internal Auditors need not be full time employees of the Corporation."

Regulation 47 provides :

"Every office of the Corporation in India shall be inspected at least once a year by Inspecting Officers who shall be working under the control and supervision of a Managing Director or an Executive Director. A summary of the report of Inspecting Officer shall be placed before the Executive Committee as early as possible after the inspection has been carried out."

As required by Regulation 46 the Internal Audit Department of the LIC was set up in 1958. The Audit Department was functioning under the Chief Internal Auditor who reported to the Chairman, Executive Committee and the Board of the Corporation through the Managing Director. The Internal Audit Department was also set up at each Zonal Headquarters headed by an Internal Auditor who was responsible for the audit work in respect of offices of the LIC in the Zone. The Zonal Audit teams used to carry out the verification of cash, stamps, furniture, receipts, etc. at all the Branch Offices once a year, in addition to carrying out the audit of the Divisional Offices, Zonal Offices and the integrated head office units in the Zone. The points arising from the audit were discussed with the Head of the concerned office and reports were then finalised and forwarded to the Head of the office, the Controlling office, the Zonal Office and the Central Office. The Head of the Office was required to submit his compliance report to the Chief Internal Auditor at the Central Office through his Controlling office. The Chief Internal Auditor scrutinised the reply, decided whether it was satisfactory and whether any outstanding objection can be dropped. If any issue or objection was serious, it was reported to the appropriate department at the Central Office for remedial measures and for information of the Chairman. Besides the branch verification report and the internal audit report of the Divisional Offices, the Internal Audit Department also prepared annual audit reports on the Divisional Offices giving a summary of the main points from the interim reports and comments on the final accounts of the Division, the nature, extent and adequacy of the internal controls, a review of the budget for the year and certain statistical data on the performance of the office during the year.

10.11 Along with the Internal Audit Department, an Inspection Department was also set up independently at the Zonal Headquarters, under the direct control of the Central Office, through the Inspection and Co-ordination Department. The Inspection organisation was required to conduct an inspection of all the offices of the Corporation once a year. The main object of the periodical inspection was to enable the controlling office to know how efficiently the various offices were functioning and to keep a watch on the extent to which there have been departures from the prescribed rules, procedures and administrative instructions. The inspecting officer was required to study the state of work and arrears in each Department of the inspected offices.

10.12 The Morarka Committee in its report in the year 1969 made a recommendation that both on grounds of economy and administrative efficiency, the Internal Audit and Inspection Department should be merged. The recommendation was accepted by the Government in principle. The matter was reviewed by the LIC in the year 1972-73 and a proposal for merger was approved at the LIC Board Meeting held in April 1974. Subsequently, at its Meeting held in November 1974, the Board also approved the detailed procedure proposed for conducting the combined audit and inspection programmes and the scope of work of the integrated department after the merger. The merger became effective in the year 1975. The revised programmes conducted by the combined Audit and Inspection Organisation covers examination of all the main operations performed by the offices of the Corporation including those which have direct financial implications. The scope of audit covers appraisal of the adequacy or otherwise of the accounting, financial and other operational controls, the manner in which the Corporation's assets are accounted for and safeguarded from losses and the reliability of the management data developed within the organisation. For the purpose of conducting the audit, standard questionnaires have been prepared for use by the audit teams for the branch offices as well as for the various Departments of the Divisional Offices. These questionnaires are being reviewed every year in consultation with the functional Departments of the Central Office, so as to make the information collected more meaningful and useful. The audit programme covers regular audit of all the Branch offices once a year. Though normally the audit of the Branch offices is being done after giving due notice, surprise visits to some Branch offices are being made for on the spot verification of cash and other assets to provide a healthy check over the working of the Branch office. The Divisional audit is carried out covering all the Departments of the Division in five visits, the last one being devoted for the final audit.

10.13 The audit report, apart from the statistical data regarding the position of work in the various Departments inspected, gives also a list of the irregularities noted in the course of the audit, classified as "minor", "major" and "unclassified" in accordance with the detailed guidelines issued by the Audit Department of the Central Office. While all the irregularities are followed up by the Controlling office, in respect of financial irregularities, audit query slips are issued both to the operating and to the controlling office. These are followed up till a satisfactory report of the corrective action taken is obtained.

10.14 The scrutiny made by the Audit team covers an examination of the various functions entrusted to the offices. It includes a voucher audit of all payments for selected months as well as some sample checks of other operations. It deals with not only the adequacy or otherwise of the accounting procedures but also of other important functions of the various Departments. It provides a useful indication as to whether the existing procedures are working satisfactorily and, if not, it indicates the direction in which the changes are required. The reports also highlight both the shortcomings in the working of the offices and also favourable points thus enabling the management to appraise the overall working of the offices. If there has been any serious deterioration in the working of the offices since the previous inspection and audit, the reasons for deterioration are analysed and reported. This would enable the management to take appropriate corrective action. The final performance rating of the office is worked out on the basis of the classification of the irregularities applying a numerical rating method formulated by the Central Office, Internal Audit Department and the office or the concerned Department is placed in one of the five classes, *viz.*, "excellent", "very good", "good", "fair" or "poor".

10.15 A comprehensive report on the audit of all the offices of the Zone is prepared for submission to the Executive Committee by the Chief (Audit & Inspection) every month. The report submitted to the Executive Committee gives details of the major irregularities noted in the course of audit in respect of the offices of the Zone along with classification of the Branch office according to performance rating, given at the latest inspection report with comparative rating for the previous two years.

10.16 In addition to the routine inspection and audit, the Department is also often required to carry out special in-depth audit of particular aspects of the working of any office where a special request is received in this connection by the Central Office. Such special audits are often undertaken when any serious case of defalcation or breakdown in procedures has been noticed or reported upon.

10.17 The reports of the Internal Audit Department bring out a large number of irregularities in the working of various offices of the LIC. Some of the more important aspects noted by the Committee on a study of a number of internal audit reports and on the basis of discussions with the Internal Audit Officer are given below :

(i) There is inadequate control on cash collections and premium receipts in the Branch offices ; procedures prescribed for accounting of collections are not being strictly followed in many of the offices ; instances of misuse of premium receipts and even defalcations of premium collections are being reported frequently.

(ii) A large number of cases are being reported of wrong payment of commission due to wrong codification, payments to terminated agents who are not entitled to commission, etc. A number of instances are also being noted of mistakes in the preparation of bonus commission bills, which work is being done manually at the Branch offices.

(iii) A large number of cases are being reported of over payments or wrong payments in the matter of loans, surrenders, refund of deposits, etc.

(iv) Rules regarding recovery of late fees for delayed payment of premium are not being enforced strictly resulting in substantial losses in the form of interest to the LIC.

(v) There is lack of control on the operation of collecting bank accounts, resulting into locking of LIC funds of large amounts without earning any interest. Serious delays in reconciliation of these accounts are also reported from many offices.

(vi) The follow-up action being taken by the operating and controlling offices on the various "major" irregularities pointed out in the Internal Audit reports is far from satisfactory.

(vii) It is seen that though the Internal Audit is being done only on a sample or test check basis, a large number of cases of wrong payments or over payments are being reported along with other major irregularities. This brings out that financial controls within the LIC are not working quite satisfactorily.

Budgetary Control

10.18 The system of preparation of financial budgets and exercising budgetary control on the working of the Divisional Office has been in operation in the LIC practically since inception. The purpose of the budgetary system as operating in the LIC is two-fold. Firstly, it is meant to be a tool for exercising financial control over the working of the whole organisation. Secondly, it prescribes a limit on the expenditure that the Divisional Manager is allowed to incur in a number of important areas where expenses are controllable and within the discretion of the sanctioning authority. The first budget was prepared in the LIC in the year 1959. At that time it was envisaged that budgets for each Branch Office should be prepared by the Branches and forwarded to the concerned Divisional Office for consolidation. The Divisional Office was then expected to prepare a budget for the Division as a whole and submit the same to the Zonal Office for consolidation. The Central Office consolidated the budget proposals received from the Zones and submitted the budget for the Corporation as a whole, including in it the budget for the Central Office, to the Services and Budget Committee, Executive Committee and the

Board of the LIC. However, it was soon found that it was not practicable to prepare separate budgets for the Branch Offices, as the Branch was not an accounting unit and in many Branch Offices while the expenses including commission payments are incurred at the Branch level the income, particularly under the Salary Savings Scheme and that collected through Cash Collection Centres were accounted for at the Divisional level. The idea of preparation of Branch budgets was, therefore, given up and since 1961 budgets are being prepared only at the Divisional, Zonal and Central Office levels.

10.19 The starting point of the budgetary exercise is the finalisation of the estimate of new business expected to be completed during the financial year. The two major heads of accounts on the income side are the estimated first year premium income based on the estimated target of new business and the estimated renewal premium income. The estimate of the first year premium income is arrived at separately for the first year premium income expected to be received during the financial year from the business completed in the year and the subsequent instalments of first year premium income expected to be received during the current financial year from the business completed in the previous year. As regards renewal premium income, it is estimated by applying the trend of the conservation ratio to the total premium income of the previous year. As regards expenses side, the most important item of expenditure is that of salaries and other emoluments of the various categories of staff. The Divisional Office prepares the estimate of annual expenditure under this head on the basis of "committed" expenditure, which would cover the estimate of salaries to all the existing staff, including the cost of increments in the scale that the existing staff would be receiving less salaries of staff who would be retiring during the year. As far as any additional commitment arising out of new recruitment or out of increases in dearness allowance that may become payable to the staff due to increases in the consumer price index, these estimates are prepared by the Central Office. The budget proposals also include specific proposals for opening of new offices and estimates of new staff that may be required to be recruited for the new offices as well as for the existing offices.

10.20 The estimates of expenditure under heads like commission, medical bills, policy stamps, which are directly related to new business and first year's premium income, are arrived at on the basis of the estimates of premium income and the new sum assured, applying the percentages based on actual past experience of the concerned Divisions. In respect of all other items of expenditure, the estimates are arrived at on the basis of actual trend over the previous few years and taking into consideration any special factors which may have effect on the expenses under the particular heads during the financial year.

10.21 The Committee understands that the LIC's Board, while considering the budget proposals also takes into consideration the implications of the proposals on the expense ratio of the LIC and if it is found that the expense ratio is likely to exceed the statutory limit, cuts are applied on the expenditure under the various items so as to ensure that the expense ratio on the basis of the approved budget remains within the statutory limit.

10.22 After the budget has been approved by the Board, the Central Office Accounts Department decides allocation to the various Divisions on the basis of the original Divisional estimates and the modifications made by the Board in the total estimates and conveys to the Divisional Offices the final budget for the Division as sanctioned by the Central Office.

10.23 Apart from the financial budget for the Corporation as a whole, separate budgets are also prepared by the Investment Department and by the Buildings Department which are submitted to the Investment Committee and to the Executive Committee for consideration and approval.

10.24 The Central Office Accounts Department makes periodical reviews of the revenue budget (actual expenses and premium income) as under :—

(i) Monthly reviews are made and letters written to the Divisional Offices where wide variations are observed.

(ii) A half-yearly review is made as at 30th September on the basis of which, wherever necessary, revised budget estimates are prepared and placed for approval of the Executive Committee and the Board.

(iii) Besides the half-yearly review as at 30th September, quarterly reviews are made as at 30th June and 31st December by the Central Office Accounts Department. Appropriate letters are written to the operating offices where wide variations are observed.

(iv) Final yearly budgetary review is made as at 31st March after the accounts are audited. Variances in amounts and percentages are investigated and a report on such review is placed before the Board for its consideration.

10.25 As a part of the budgetary exercise, cost ratios are worked out in respect of each Division. Recently, the Chart of Accounts was suitably amended to facilitate an analysis of expenses on new business and on existing business operations. The major departmental expenditure under the head 'salary and allowances and other benefits to staff' is classified under the following heads : (a) Branches, CCCC, (b) Buildings, (c) G & S, (d) new business, development, publicity and training, (e) PHS, SSS, (f) Investment, Mortgages and Legal and (g) Other departments. On the basis of this analysis the major expenses are allocated between new business expenses and existing business expenses. Expenses like those on medical benefits to staff, rents, etc. are allocated in the same proportion as the salaries, between new business and renewal expenses. Expenses on items like stationery, postage and telegrams etc. are allocated in proportion to the first year and renewal premium income. On the basis of such allocations the new business and renewal cost ratios are worked out. This revised basis of calculating the New Business and Renewal Cost Ratios has been adopted since 1977-78.

10.26 As far as Buildings Department expenses are concerned, expenses up to 6% of the value of the capital projects and major building repairs are capitalised while the balance is added to the expenses of management of life insurance business. All investment expenses and expenses on administration of Mortgages are also treated as expenses of management of existing business.

10.27 Some important shortcomings which the Committee found in the existing budgetary system are listed below :—

(i) Under the present system, Budgets are prepared only at the Divisional and Central Office levels. With the decentralisation of servicing functions to Branch Offices, the Branch Office has become the most important operating office. If the budgetary cost control is to become effective, it should start from the Branch level. However, so long as the Branch Offices are not made accounting units, it would not be possible to introduce budget formulation at the Branch level. It is desirable that early steps are taken to make the Branch Offices as accounting units so that the budgetary exercise can start from the Branch level and budgetary control can be exercised on the functioning of the Branch Offices.

(ii) At present under both the accounting system and budgetary system of the LIC, the expenses of the Buildings Department and of the Investment Department including the mortgage section are included in the expenses of management. This gives a distorted picture of the actual return being obtained on the investments of the LIC. As regards Buildings Department, except for the very small part of the staff and time required to be spent on the maintenance of the existing office buildings which can legitimately be termed as expenses of management, all other expenses are really expenses incurred in connection with investments in buildings. If these expenses are not charged either to the capital account or to the rental income as may be appropriate, it will give a distorted picture of the yield obtained on the investments in building projects. From the point of view of proper financial controls and planning, it is, therefore, essential that the expenses which are really related to the handling of investments are debited to the capital or interest or rent account as may be appropriate and not to expenses of management.

(iii) So far the budgetary exercise in the LIC has been only of the nature of an accounting exercise for exercising control on expenditure. Apart from formulation of budgetary targets in respect of new business and formulation of performance targets in a few areas like claim settlement and deposit adjustment, no detailed exercise in the form of performance budget has yet been undertaken. Some beginning in this direction was made and certain operational goals have been laid down by the LIC in some of the important areas of its operations. However, for a stricter management control, it is desirable that detailed performance budgeting is introduced in all the important areas of LIC's objectives and operations and a continuous review is made of the actual performance in relation to such performance budgets and objectives.

CHAPTER XI

MANAGEMENT OF HUMAN RESOURCES

11.1 The objectives that the LIC has accepted in the area of management of its human resources are as follows

> "Involve all people working in the Corporation to the best of their capability in furthering the interests of the insured public by providing efficient service with courtesy".

> "Promote amongst all agen's and employees of the Corporation a sense of participation, price and job satisfaction through discharge of their duties with dedication towards achievement of Corporate Objectives"

In this Chapter we propose to review the problems that the LIC has faced in this area, the steps it has taken to tackle these problems and the extent to which it has succeeded in achieving the above objectives.

Categorisation of transferred employees

11.2 On nationalisation of life insurance business in 1956 the LIC absorbed all the full time employees of the erstwhile insurers. Over 21,000 employees of 243 insurers with widely varying sizes, financial standing and patterns of working became employees of the LIC in terms of Section 11(1) of the LIC Act. Under Section 11(2) of the Act the Central Government was given power to alter the remuneration and other terms and conditions of service of these transferred employees. In exercise of these powers the Central Government issued an order on 1-6-1957, which came to be known as the Standardisation Order laying down the terms and conditions of service of all transferred employees in the clerical, supervisory and subordinate cadres. Para 4 of the Standardisation Order also provided for categorisation of employees in the supervisory, clerical and subordinate grades. It laid down only broad criteria for categorisation and the actual categorisation was decided by Committees of Senior Officers constituted by the Zonal Managers which went into the past service records of all the employees and recommended their categorisation in the light of the criteria laid down in the Standardisation Order. The work involved was both voluminous and complicated. The actual categorisation not unnaturally gave rise to dissatisfaction among the employees especially of smaller units who felt that their claims to supervisory posts were not given due recognition. This, however, was inevitable when employees of as many as 243 companies holding different posts under different organisational patterns had to be fitted into a single framework. The employees who felt aggrieved were given an opportunity to make representation. These representations were duly considered by the competent authorities and modifications were made wherever found necessary. It would appear that by and large the work of categorisation was completed both expeditiously and in a reasonably satisfactory manner.

11.3 The problems that arose in the selection of officers of the various insurers for appointment to various posts in the LIC were even more difficult. The Central Government had during the period between 19-1-1956 and 1-9-1956 collected detailed information relating to officers in various insurance companies drawing a salary of Rs. 500 or more. Provisional selections to senior posts in the LIC were made on the basis of their records and interview by a Committee headed by Shri M. C. Shah, the then Minister of State for Revenue and Civil Expenditure, and officers so selected were asked to take over charge of their new posts on the Appointed Day. Broadly, the criteria for selection were qualifications, experience and the training which the Officer had received and the length of service in responsible positions. For other posts of Officers, provisional selections were similarly made by Committees in each Zone composed of senior officers' designate in the Zone. All these appointments were ratified by the LIC at its first meeting with the proviso that the appointments would continue to be provisional pending a review by the LIC on the basis of a detailed study of individual cases.

11.4 To assist the LIC in proper categorisation of all the Officers, the Central Government appointed a Committee under the Chairmanship of Shri S. Lal, ICS (retd.), to examine and interview officers of all ranks and grades of the erstwhile insurers to grade these officers appropriately and arrange them in a suitable order of seniority. The Committee submitted its report in May, 1957 to the Government together with two lists of gradings of officers—one in respect of officers on the administrative side and the other on the development side. The report was forwarded to the LIC by the Government in July, 1957. The Government asked the LIC to examine the report and endeavour to implement it to the maximum extent possible without unduly upsetting existing arrangements. The Government also desired that a Senior Services Committee should be constituted by the LIC to review each Officer's case in the light of the Lal Committee's report and a confidential report to be obtained on the working of the officer in the previous nine months' period in the LIC. If in any case the Senior Services Committee differed from the findings of the Lal Committee, the Government desired that each such case might be remitted to them for orders. The LIC accordingly set up a Senior Services Committee consisting of the Chairman and a few members of the LIC Board and also arranged to obtain confidential reports in respect of all the officers. The Committee also decided to respect the seniority accorded to the officers by the Lal Committee to the maximum possible extent. The actual categorisation of the officers depended on the number of officers needed by the LIC in each cadre. In a few cases where deviations from the Lal Committee's seniority were found necessary, these were got approved by the Government. A number of representations were received from the officers aggrieved by their categorisation and these were also examnied individually. The decisions taken in these cases were also referred to Government for approval. Thereafter, the provisional appointments were confirmed and wherever necessary pay of the officers was refixed.

Staff Regulations

11.5 Under Section 49 of the LIC Act, the LIC is empowered to make Regulations, with previous approval of the Central Government to provide, *inter alia,* for the terms and conditions of service of the persons recruited to the services of the Corporation and also of persons who became employees of the Corporation under sub-section (1) of Section 11. In exercise of these powers the LIC with the previous approval of the Central Government made Regulations in January, 1957 called the LIC Staff Regulations, 1956. Following the issue of the Standardisation Order, these Regulations were revised and the Staff Regulations, 1960, were framed which laid down in detail various service conditions governing the LIC employees of all classes and also the basic principles and procedures for recruitment of staff and selections for promotion. Regulation 4 of the Staff Regulations also provide for detailed instructions to be issued by the Chairman as administrative instructions for implementing the various provisions of the Staff Regulations.

Recruitment Procedure

11.6 In September, 1960, the LIC issued a Standing Order governing procedure for recruitment of supervisory, clerical and subordinate staff. The broad features of this recruitment procedure were as under :

(i) Minimum age limit of 18 years and maximum limit of 25 years were provided for direct recruitment to the clerical grades.

(ii) In the clerical and supervisory grades direct recruitment was to be made only to the Assistant's cadre and to a limited extent to the HGA's cadre with the prior sanction of the Staff Committee and subject to such conditions that the Committee may prescribe. Record Clerks, Section Heads and Superintendents' cadres were treated as promotion cadres to which direct recruitment would be considered only under special circumstances with the approval of the Chairman.

(iii) The minimum educational requirement for recruitment of Assistants, was Matriculate or SSC with 55% marks or Intermediate with 50% marks or Graduate. Lower marks were prescribed for posts of typists, telephone operators, machine operators, etc.

(iv) The procedure provided for pre-recruitment test for selection and for training after selection lasting over a period of 3 months. During the period of training the trainees were to get only a stipend of Rs. 100 per month.

11.7 The recruitment procedure laid down in 1960 was reviewed in 1971, and again in 1979. As a result of these reviews the minimum qualification for recruitment to the clerical cadre was made higher by increasing the percentage of marks at SSC and also at graduate level and some changes were made in the period and mode of training and the remuneration during the training period. Provision was made for relaxations, concessions and reservations to scheduled castes and scheduled tribes candidates and also in favour of physically handicapped, ex-servicemen and near relatives of employees who died while in service. The Table below gives the number of employees recruited to Class III and Class IV cadres in each of the financial years since 1959 as also the number promoted from Class IV to Class III.

TABLE 11.1

Year	Number of employees recruited		No. of employees promoted from Class IV to Class III
	Class III	Class IV	
1959	2861	901	—
1960	4010	715	1407
1961	4142	1205	634
1-1-1962 to 31-3-1963	5992	1660	650
1963-64	2487	989	450
1964-65	1595	375	608
1965-66	1275	460	137
1966-67	1026	457	258
1967-68	391	297	163
1968-69	600	103	97
1969-70	626	232	140
1970-71	1124	417	317
1971-72	2494	500	28
1972-73	2611	658	415
1973-74	2487	907	55
1974-75	1148	442	67
1975-76	468	115	53
1976-77	78	34	13
1977-78	94	56	593
1978-79	187	546	159
1979-80	932	435	14

Practically, all the recruitment to Class III was in the Assistant's cadre except for a small number directly recruited to the HGA's cadre for meeting special needs such as actuarial assistants, legal assistants, language assistants and architectural assistants. We understand that in recent years some direct recruitment has also been made to Record Clerks' cadre.

Recruitment to Officers' cadre:

11.8 For the immediate needs of the LIC both for specialised fields and for general management, the number of officers who came over to the LIC from the erstwhile insurers were considered to be more or less adequate. It was, however, observed that there was an acute shortage of qualified accountants and engineers. The LIC also realised that with the expansion of its activities in the years to come and the depletion that would be occurring in future years on account of retirements etc., a planned addition would have to be made to the category of officers both generalists and specialists. Early in 1957, the LIC took a decision to go in for open market recruitment of Chartered Accountants. Since then the LIC has been recruiting intermittently qualified accountants at the level of AAOs. When in 1958 it was decided to set up the Internal Audit Department, all posts including those of senior auditors were filled by recruitment from the market. Similarly, when it was decided to set up a full fledged Engineering Department, engineers and architects at all levels were recruited from the open market. In 1960 when the LIC commenced granting mortgage loans, it was decided to set up separate departments at the Central and Zonal Offices to handle this work. A special recruitment of legal officers was then made for which employees in the LIC with legal qualifications were also considered. The recruitment was made at the levels of AAOs and AOs. Later in 1962, when the LIC introduced the OYH Scheme, no outside recruitment was found necessary, the posts being filled by special selection from amongst the existing employees.

11.9 Though a number of Actuaries came over to the LIC from the erstwhile insurers, sizeable number left the LIC's services for better prospects outside and a few retired in the early years of the LIC. To meet the future needs of Actuaries, the LIC recruited a few Actuaries from outside from time to time. The number was, however, small as there were only a few Acutaries working outside the LIC and most of them being well placed were not interested in joining the LIC. Also the number of students taking up actuarial examinations had fallen sharply.

11.10 The number of generalists required for managing the PHS and other departments of the various offices of the LIC was generally adequate. However, from the point of view of future growth, infusion of new blood at the level of AAOs at a fairly young age and with relatively higher qualifications was considered desirable so that, in course of time the persons so appointed could be groomed for shouldering higher responsibilities. The LIC, therefore, decided to make regular recruitment from open market to the cadre of Assistant Administrative Officer every year through open competitive examinations. The bulk of the lowest category of Class I, *i.e.*, A.A.O. or A.B.M.(D), is, however, filled by promotions from within Class III and Class II employees. The following Table gives particulars of the number of employees recruited in Class I cadre at the AAO's level in each of the year since inception of the LIC and those promoted to the cadre from Class II and Class III

TABLE 11.2

Year	No. Recruited to the cadre of AAOs	No. Promoted from Class II to Class I	No. Promoted from Class III to Class I
1956	13	2	12
1957	15	—	1
1958	31	72	13
1959	7	44	28
1960	47	148	162
1961	49	162	143
1962	73	143	128
1963	79	34	70
1964	72	6	84
1965	42	27	70
1966	117	43	128
1967	50	32	30
1968	72	26	1
1969	36	51	95
1970	21	108	174
1971	40	276	332
1972	—	221	—
1973	—	165	—
1974	—	102	5
1975	2	136	639
1976	—	—	—
1977	—	53	198
1978	86	2	42

Training of Administrative Staff

11.11 From the inception, the LIC recognised the need for training for all categories of its staff. Such training was considered urgent and essential for clerical staff taken over from the erstwhile insurers, as all such staff had previously been working in different insurance companies with widely differing work practices. A thorough briefing in the revised procedures and practices adopted by the LIC offices was, therefore, considered absolutely essential to enable them to discharge their duties adequately. For this purpose Divisional Administrative Training Centres were opened at each of the Divisional headquarters and an instructor of the rank of AAO was posted at each such training centre. A bigger Divisional Offices, more than one instructor was posted. The Divisional training centres were asked to look after the training of the existing staff as well as of new recruits. The training of the existing staff lasted for a period of one month on half a day basis. The trainee assistants were required to attend office in the forenoon and the training centres in the afternoon. During this period of training, they were expected to study the Departmental manuals and, thereby to know the rationale behind the various administrative procedures.

This training was also expected to help them to understand the inter-connection between the various Departments in an office and to have an integrated view of the functioning of the office as a whole.

11.12 The training of new recruits was spread over a period of three months. For the first two weeks they were given intensive training in the fundamentals of life insurance, plans of insurance, policy conditions and privileges and administrative procedures. For the next four weeks the theoretical training was continued for two hours a day and for the rest of the day they were given practical training in the Divisional or Branch Office to which they were to be appointed. For the last six weeks of the training, the trainees were asked to do actual work in the concerned Department of a Divisional Office or Branch Office, as the case may be.

11.13 In 1965, the LIC reviewed the work of various Divisional training centres. By then about 18000 assistants comprising 10800 transferred employees and 7200 new recruits had been trained. As the remaining transferred employees were mostly of advanced age, it was decided to restrict the training to new recruits only. Further, as the number of new recruits started falling, appointment of full time instructors in each Division was discontinued and the Divisional Office was expected to utilise the services of one of the existing officers for the training of new recruits. In 1971, when the recruitment procedure was reviewed, the period of training was brought down from three months to two weeks' theoretical training and two and a half months' practical training.

11.14 The scheme of training formulated by the LIC for Class III staff does not cover training of HGAs and Section Heads and Superintendents, though in the early years Superintendents were covered by the scheme of training given to AAOs at the Officers' Training College as described below. However, recently the LIC has brought out two book-lets, one for Section Heads and one for Superintendents, which describe the fundamentals of supervision and the role that the Section Heads and Superintendents have to play.

Officers' Training College

11.15 In 1960, the LIC established its Officers' Training College at Nagpur with a faculty consisting of the Principal and six other Officers. In 1969, the College moved from Nagpur to its new premises at Borivli in Bombay which had been specially planned as a centre of training and education. In the early years the training at the College was arranged for AAOs and ABMs(A) and Superintendents and laid particular stress on organisation of distribution of work, human relations, and covered the theory and practice of life insurance and administrative procedure of the LIC. It was organised as a six weeks programme. When the LIC embarked on a programme of direct recruitment to the AAO's cadre by competitive examination, the newly recruited officers were required to undergo theoretical and practical training for one year. The training of the newly recruited officers at the College lasted for a period of six months and covered, besides basic knowledge of the principles and practice of life insurance business, detailed knowledge of the working of various offices and departments of the LIC and their inter-relationship. After the theoretical training at the College, the trainee officers were posted for practical experience in the various departments and offices of the LIC and then brought back for a refresher course at the Officers' Training College before being appointed in a regular post. The periods of training at the College and of practical training as well as the contents of training have been changed from time to time for subsequent batches of direct recruits.

11.16 By 1961, the Officers' Training College extended its activities to the training of officers in the cadre of AOs, BMs and ABMs(D). In 1965, Officers of the level of ADMs were also brought together for seminars which were specialised training sessions based on participation and discussions on the working of particular departments. Recently, a seminar of Divisional Managers was also arranged with a view to acquainting the officers newly posted as Divisional Managers in charge of Divisions with the role they were expected to play. On the advice of the successive Principals, the method and content of training have also been changing over the years. Originally, the emphasis was on manual and other procedures besides general training in management subjects. This was the need in 1960 when the officers came from different cultures who were not familiar with uniform procedures adopted by the LIC for its various departments. The emphasis in the training, we understand, has now shifted from transfer of information to improved understanding of the rationale behind the LIC's various systems and procedures and other studies which would enable the Officers to improve their managerial skills, particularly skills which would help them to get things done through cooperative efforts. The methods of training were also changed and over the years, the emphasis has shifted from lectures to training programme and case studies through group discussions. The College has also introduced a tutorial system with a professor in charge of each trainee-officer and each trainee is expected to look up to his tutor for assistance and guidance while at the College. The professor acts as a counsellor during the training session pointing out the areas of improvement.

11.17 In January 1978, as a result of suggestions made by some members of the Board, a Committee of senior officers was constituted to study the whole problem of training requirements of the LIC and to suggest improvements in the existing facilities. The Committee submitted a detailed report in June, 1979. We understand that the report is still under consideration.

11.18 From a review of the existing training arrangements of the LIC for its administrative personnel, the following broad considerations arise :

(i) The role of the supervisory staff in Class III, *viz.*, Section Heads and Superintendents, and the need for training of such staff so that they are able to play their supervisory role effectively, have not been adequately appreciated.

(ii) Though the Officers Training College has been doing very useful work, adequate thought has not been given to the total training needs of the LIC for its officers and whether the OTC is adequately equiped to satisfy their needs. The Committee of Senior Officers which has recently reviewed this question has submitted detailed suggestions on this aspect but no action has still been taken on that report.

(iii) The three main areas where the present training arrangements for the Officers cadre need to be strengthened are

(a) the training of *all* employees promoted from Class III or Class II to Class I so as to enable them to fully appreciate and effectively function in their new role ;

(b) the training of *all* Officers who are being posted as Branch Managers in charge of Branch for the first time. With the change in the functions of the Branch Offices, it is essential that the Officer posted to head a Branch is not only fully briefed on all aspects of the work done in the Branch but is also enabled to develop the skills necessary to get work done through a cooperative endeavour ;

(c) the training of all officers who are being posted as Divisional Managers incharge of a Division. This is the most important executive post in the LIC and it is necessary to ensure that only men with proven managerial abilities as well as wide experience are posted to this office and also they are helped to develop the necessary managerial skills which would enable them to deal effectively with the varied problems they would have to face in the course of day to day management.

Promotion Procedures and Policies

11.19 In August, 1958 the LIC formulated certain tentative proposals regarding a promotion policy for its Class III and IV employees. Informal discussions were held with the Employees' Associations and their views were obtained on the proposals. After detailed considerations of the views submitted by the Employees' Associations as well as by Officers-in-Charge of various offices of the LIC, a well-defined promotion procedure was evolved and administrative instructions were issued in July, 1960 under Regulation 4 of the Staff Regulations 1960. Some of the salient features of the promotion procedure were as follows :

(i) Eligibility standards for promotion to the various cadres within class III and from class IV to Class III were laid down.

(ii) Tests were prescribed for promotions to the cadrs of Superintendents, HGAs, Section Heads, Stenographers and Record Clerks. Provision was made for exemption from test on the basis of length of service and age for promotions to the cadres of Superintendents and Section Heads and on the basis of technical and other qualifications to the cadre of HGA.

(iii) Selection for promotion was to be made on the basis of seniority, suitability and merit. It was also provided that merit and suitability will be determined on the basis of work record and confidential reports.

(iv) Various promotion committees were to be constituted for assessing the merit and suitability of the candidate in the light of the criteria laid down after interviewing all the candidates and to make recommendations to the appointing authority.

(v) Definite rating system was laid down providing for marks for merit on the basis of confidential reports, suitability as judged by the interview, academic and technical qualifications and seniority.

11.20 The promotion procedure granted exemption to employees who had passed Associateship examination of the Federation of Insurance Institute and those who had passed one full part of the examinations of the Institute of Actuaries, from the tests for promotion to the cadre of HGAs. As it was felt that the number of technically qualified persons in the LIC was not sufficient to meet the requirements, it was decided in 1961 that all those who pass the prescribed technical examinations would be considered for promotion to the Higher Grade Assistant's cadre, straightway subject to satisfactory work record. It was then expected that the number of persons qualifying for these technical examinations would be small and much less than the number of such qualified persons required by the LIC to handle technical work at the HGA's level. Though the number of persons qualifying for Acturial examinations was very small, the number qualifying for the Associateship examination of the Federation of Insurance Institutes went up sharply. The result was that within a period of few years a much larger number of employees than was required to man posts in the technical cadres were promoted to the cadre of HGAs. As it was not possible to entrust all these HGAs with duties to be discharged by HGAs, in a large number of cases promotion meant no change of duty. It was, therefore, decided to discontinue such 'automatic' promotions and all promotions were linked to vacancies. This led to considerable dissatisfaction amongst employees who had passed the qualifying examinations but could not be considered for promotion because of lack of vacancies. Another cause of dissatisfaction was that the number of employees in the HGA's cadre who qualified for Fellowship of the FII and thus became eligible for consideration for promotion to the Officer's cadre had also started increasing and it was not found possible to consider promotion of such employees, only on the basis of their work record and merit. The LIC also felt that from the point of their long-term requirements it was necessary to continue the system of direct recruitment to the Officers' cadre through competitive examination. This again led to considerable disappointment among persons who had qualified in technical examinations making them eligible for consideration for promotion to the Officer's cadre and who felt their claim should receive priority from the LIC over those outside candidates recruited on the basis of competitive examinations. The employees' point of view was that reasonable opportunities were not being provided for promotion of class III employees to class I. The LIC assured the employees that not more than 40% of the vacancies in the lowest level of officers' cadre will be filled by direct recruitment. Actually, between 1961, when recruitment on the basis of a competitive examination was first started, and 1970 only 340 out of 966 vacancies were filled by direct recruitment. However, dissatisfaction continued to exist amongst the employees on various aspects of the existing promotion procedure and when the matter regarding terms and conditions of service of the employees was taken up before a Tribunal for adjudication, the employees' demand for revision of the promotion policy was also referred to the Tribunal. When a settlement was reached on the wage demands, the LIC management also agreed to hold discussions with the Employees' Associations for a review of the existing promotion procedure. In the light of this assurance detailed discussions took place between the LIC management and the Employees' Associations for a review of the promotion procedure and a settlement was arrived at in October 1, 1971. The promotion procedures under this settlement included many radical departures from the previous procedures. Some of the salient features of the new promotion procedures are described below :—

(i) It was proposed to abolish the cadre of Section Heads and Superintendents and convert the cadre of HGAs into a new cadre to be called Special Assistants.

(ii) Subject to certain transitional arrangements, existing Section Heads would be absorbed in the Special Assistant's cadre and the existing Superintendents would be absorbed in the AAO's cadre.

(iii) A scheme of competitive examination from amongst the existing employees for promotion to the AAO's cadre was introduced on an experimental basis in lieu of direct recruitment to the AAO's cadre, except for the posts requiring technical qualifications for which direct recruitment was to continue.

(iv) Interviews were eliminated for promotions to the cadres of Record Clerks and Special Assistants.

(v) There was reservation of certain percentage of vacancies for persons with technical qualifications in promotion to the Special Assistant's cadre and to the AAO's cadre. There was also reservation of vacancies for promotion to the AAO's cadre for employees qualifying through internal competitive examinations.

11.21 Though this settlement was agreed to by all Employees' Associations other than the HGAs' Association, the HGAs' Association which felt that the settlement was highly prejudicial to its interests, challenged it before a number of High Courts. Both the Madras and Kerala High Courts struck down the settlement and according to the Madras High Court's decision the case was referred back to the National Industrial Tribunal for a fresh hearing. The National Industrial Tribunal gave its award in June 1974. The award more or less set aside the settlement on promotion procedures that was arrived at earlier between the LIC and the majority of the Employees' Associations and more or less restored the position to the one obtaining under the previous promotion prcedures with minor modifications. In the light of this award the LIC issued revised instructions on promotion procedure which are still in force. However, most of the issues which had led to the dispute between the LIC and the Employees Associations on the promotion procedure still remain unsolved.

11.12 Two of the more important problems that still remain unsolved are :

(i) The LIC has a lrage reservoir of technically qualified personnel, many of whom are highly skilled. Majority of them, however, continue to do routine work which can easily be handled by far less qualified employees. If the LIC is able to change its methods of work organisation in such a manner that these technically qualified employees are given an opportunity to utilise their qualification, knowldege and skill in their day to to day work, it would not only help removing the frustration that these employees currently feel but also help in improving the overall output and quality of work of all employees.

(ii) At present Superintendents and AAOs are considered inter-changeable posts and both perform the same functions. The continuation of the two separate cadres creates many problems because of the different pattern of remuneration for the two cadres. The Committee is aware that the proposal for merger of the two cadres could not be implemented because of the Court decision. The Committee, however, feels that if the grounds on which the Courts did not find it possible to agree to this proposal are properly studied, it shall not be difficult for the LIC and the Government to find a way for solving this problem.

Appraisal System and Promotion Policy for Class I Officers

11.23 Except for the direct recruitment to the Assistant Administrative Officers' cadre of Chartered Accountants and of others through competitive examinations, all vacancies in Class I posts in the LIC are generally filled by promotions from within. Promotions are decided on the basis prescribed by Staff Regulations, *i.e.*, merit, suitability of a candidate for a particular post and seniority, merit and suitability being judged by Confidential Reports. At its very inception the LIC had laid down elaborate procedures for writing of Confidential Reports on the work record of all Class I Officers as a regular yearly exercise. The Confidential Reports are written by the Reporting Officer who is generally the next higher officer under whom the reported officer is working and this report is then reviewed by the next superior officer and further reviewed wherever necessary. The Confidential Report Form was revised in the year 1959 and was again reviewed and revised in the year 1968. The C.R. Form now requires the Reporting Officer to report not only on the qualities of the reported officer as judged by him but also on his actual work record and his potential for growth. As regards promotion procedure, the Staff Regulations prescribe appropriate Committees to assist the appointing authority in the matter of selection for promotion. The Committee decides upon the selection on the basis of work record of each officer within the field of selection which is determined taking into account the vacancies available. For this purpose, the Committee takes into consideration the whole file of the C.Rs. of the Officer. The LIC had decided that though due regard should be paid to seniority, merit and suitability should be the more important criteria for selection for promotion. In actual practice, however, we understand that the Promotion Committees used to go into the record of the seniormost officer and decide whether or not he is suitable for promotion and only if he is not considered so suitable it goes to the next case. Thus, the policy generally followed seems to be one of "rejection of the unfit rather than selection of the best". We understand that in recent years there has been a slight change in this procedure. Every year the Promotion Committees take up consideration of all the officers promoted in a single year which is considered the seniormost group and within this group selection is made of the "best" officers on the criteria of suitability and merit as judged by the Confidential Report. It is, however, generally admitted that the present reporting system is not at all satisfactory. A general impression exists that there is a lack of objectivity in reporting and most of the C.Rs. are colourless. The need for a thorough review of the existing system has, therefore, been recognised for a long time.

11.24 In the light of the admitted shortcomings of the existing appraisal and promotion system, the LIC undertook in 1970 a detailed study of the problems involved and developed certain concepts for a review of the whole system. Briefly, the proposed system required determination of job description for each officer covering broadly his important managerial functions, spelling out the general responsibility as well as the key result areas for each job fixing performance targets in each of such key result areas, periodical reviews of actual performance *vis-a-vis* the targets, discussion with the concerned officer at the time of such review, etc. The appraisal policy envisaged complete redesigning of the annual C.R. form, providing for an open reporting system including self-appraisal by the officer reported upon of his own performance based on his job description and performance targets review thereof by the reporting officer after discussion with the reported officer and including the reporting officer's assessment of the executive traits of the officer and his potentialities for growth. The report was meant to be used not only for considering his promotion to the next higher cadre but even more for the purpose of perspective and career planning, *i.e.*, to decide on the training requirement of the officer through job rotation or formal training at the O.T.C. The appraisal system also included an organised counselling system.

11.25 In 1971, a working paper was also prepared on a management development programme. This paper alongwith the paper on the proposed appraisal system and promotion policy were discussed with the Zonal Managers with the representatives of the Officers' Federation and also in the Services and Budget Committees. The proposed management development programme took note of the various disciplines required by the LIC, namely, marketing executives, actuaries, accountants, lawyers and generalists and suggested proper opportunities for development of expertise in the various fields of specialisation and for the specialists to acquire general managerial abilities. The Officers Training College was proposed to be developed as the main instrument for training, supplemented by specialised training in institutions like the Administrative Staff College of India, Hyderabad, the Indian Institute of Management, Ahmedabad, etc. Regular schemes of job rotation were also planned to equip the officer for higher responsibilities.

11.26 The ideas developed in the proposed appraisal system as well as the management development programme were discussed with the representatives of the Officers' Federation. Though the initial reaction of the Officers' Federation was not unfavourable, no agreement could be arrived at, particularly because of the continuing differences between the Federation and the LIC on other issues relating to the Officers' scales of pay. The result has been that no decision could be taken by the LIC on the proposals mooted for reviewing its appraisal system and promotion policy and for evolving a suitable management development programme. The problems which had prompted development of the proposals for a review of the existing appraisals and promotion system continue perhaps in a more acute form. Recently, the LIC had referred the whole question of reviewing the appraisal system, promotion policy and management development programme, to the Indian Institute of Management, Ahmedabad, and we understand that a report submitted by the IIM, Ahmedabad, is under consideration of the LIC.

Wage Negotiations and Industrial Relations

11.27 Soon after the formation of the LIC, the question of standardisation of terms and conditions of service of the transferred employees was reviewed by the LIC in consultation with the Ministry of Finance. The Ministry took the view that being a Public Sector Undertaking, the LIC should follow the pattern of remuneration applicable to government servants. Accordingly, scales of pay and allowances which were comparable with the scales of pay applicable to Lower Division Clerks and Upper Division Clerks in Government service were adopted and the LIC issued an order dated 31-12-1956 prescribing uniform terms and conditions of service for all the transferred employees in the Clerical and Supervisory cadres. As the LIC Act had vested powers for altering the terms and conditions of service of the transferred employees in the Central Government, the order of the LIC was challenged in a writ petition before the Bombay High Court and the High Court struck down this order. One of the grounds on which the order was struck down was that any terms and conditions of service of the erstwhile insurers which were settled through wage settlements or awards under the Industrial Disputes Act cannot be altered to their prejudice by the LIC. Pursuant to the Bombay High Court Order, an Ordinance was issued which was enacted into a statutory provision by amending the LIC Act. The amended Section 11(2) vested in the Central Government the power to alter the terms and conditions of service of the transferred employees notwithstanding anything contained in the Industrial Disputes Act or any other law or any other award or settlement. Section 49 of the LIC Act was also amended vesting powers in the LIC, with prior approval of the Central Government, to fix terms and conditions of service of transferred employees as well as employees recruited after 1st September, 1956. Thus, though the power was vested in the Central Government to alter terms and conditions of service, the Government decided to hold informal discussions with the representatives of the two Employees' Unions which then existed. Hoving regard to the importance of the matter, the then Finance Minister, Shri T. T. Krishnamachari, himself participated in the discussions with the Unions. On the basis of these discussions a broad consensus was arrived at which was then incorporated in the Standardisation Order which was issued by the Central Government. The revised order which provided for scales of pay on par with those prevailing with the larger insurance companies before nationalisation was accepted by the Employees' Unions as an interim arrangement. The Order did not provide for payment of bonus but, in lieu of bonus, it authorised the LIC to formulate schemes, such as, free insurance, housing, medical benefits, etc.

11.28 Even though the terms and conditions laid down in the Standardisation Order were generally accepted by the Employees' Unions, they did not give up their claim for bonus and the Unions soon organised themselves and launched agitations in support of their demand for bonus. The Government again reviewed the position and allowed the LIC to enter into a settlement with the employees on the issue of bonus. The settlement of 1959 provided for payment of bonus at the rate of 1½ months' basic salary.

11.29 In 1960, the two All India Unions of insurance employees submitted a Charter of Demands for wage revision. Normally, any demand for revision of wages is considered on the basis of the following criteria :

(i) Capacity to pay ;

(ii) Wages in comparable outside employment ;

(iii) Productivity ;

(iv) State of economy in the country and the role of the organisation in the national economy.

These are also the factors which are usually considered in industrial adjudications for wage revision. In normal circumstances, the employer frames an offer in the light of above considerations, and the initial offer is generally on the conservative side. Negotiations then start between the employer and the Union and the Union tries to mount pressure through agitations to force the employer to revise the initial offer to the maximum extent possible. Normally, the employer and the Union arrive at a compromise at a level somewhere between their initial stands and an agreement is arrived at. In the case of the LIC, however, under the provisions of the LIC Act, the terms and conditions of service, including salary scales, are governed by regulations to be framed by the LIC with the previous approval of the Government. This position is not peculiar to the LIC and obtains elsewhere as well. The reason is that what is done in one public sector organisation will inevitably have its repercussions elsewhere. While one can thus appreciate the need for Government approval, it does render the negotiations with the Unions less purposeful. Since the scope for negotiations is thus restricted, the result has been that in all the negotiations that have taken place beween the LIC and the Unions the initial offers were rejected outright by the Unions which subsequently mounted agitations. The normal course of the dispute was, therefore, initial offer, rejection, fresh offer, rejection, agitations and work stoppages for prolonged periods, questions in Parliament and political intervention, followed by a series of meetings between the LIC and the Government and ending in a settlement on terms more favourable than what was offered earlier. This was the course of the negotiations which commenced in 1960 and concluded in 1963. The 1963 agreement introduced the concept of automatic linking of Dearness Allowance to the consumer price index. This followed the precedent recently set in the Banking industry, though the extent of linking was less liberal.

11.30 In December, 1967 when the period of the settlement of 1963 expired, the Employees' Unions submitted fresh Charters of Demand. Again, the dispute followed the usual pattern. The dispute continued upto 1969 when it was referred to the National Industrial Tribunal. In spite of the reference to the Tribunal and commencement of adjudication proceedings, the Unions' demonstrations and work stoppages did not abate. This agitation was also linked with the Unions' agitation against the LIC's decision to instal Computers in its Bombay and Calcutta Divisional Offices. Though a Computer was installed in the Bombay Division, the LIC was forced to abandon the installation of a Computer at Calcutta. Following this, there was some abatement in the agitation but strained industrial relations continued as the wage dispute was still unresolved. In March, 1970, the then Chairman, reopened negotiations with the Unions. The initial reaction was intensification of the agitations, including programmes of work to rule, demonstrations inside office premises, etc. In some offices instances of sabotage and a few cases of physical assault on officers were also reported. However, soon thereafter an agreement was arrived at between the LIC and Employees' Unions, involving an additional expenditure of more than Rs. 5 crores, as compared to the earlier offer, which involved an additional expenditure of Rs. 2 crores. The agreement also provided for automatic linking of D.A. with the consumer price index for all categories of employees in Classes III and IV on the Bank pattern. The agreement arrived at was presented to the Tribunal which gave a consent award in terms of the agreement.

11.31 Sometime in 1972, the Government raised the limit of minimum bonus from 4% to 8⅓% of the total salary, *i.e.*, Basic Pay+D.A. Pursuant to this, the LIC Unions demanded and obtained bonus at the rate of 10% of the total earnings.

11.32 As usual, on the expiry of the period of settlement of 1970, the Unions submitted fresh charters of demand. Before 1970 the LIC used to deal with two Unions—All India Insurance Employees' Association and All India Life Insurance Employees' Association. When the dispute was referred to the Tribunal which culminated in the award of 1970, more Unions—All India National Life Insurance Employees' Federation and L.I.C. H.G.As' Association, came to be impleaded as parties before the Tribunal. Further, the majority Union of the LIC, namely, AIIEA broke up into two in 1970. As a result of the break-up, another Union, *i.e.* All India Life Insurance Employees' Federation came into being. Submission of the Charters of Demand by the various employees' associations was followed, as usual, by agitation. After initial discussion with the Ministry of Finance, it was decided to make an offer involving only marginal improvements in the existing scales, as it was considered that the wage levels in the LIC were already high and that any further revision would lead to unjustified wage increases in other public sector undertakings. This offer was rejected by all the Unions. The Unions jointly organised usual walk-out strikes involving disruption of work. The Government then agreed to the LIC making a fresh offer involving substantial improvement in the scales of pay, allowances as well as bonus. On the whole, the offer made by the LIC with Government approval entailed additional expenditure of 15% of the wage bill and bonus revision from 10% as provided in the agreement of 1972 to 15% without any ceiling. Even though by the usual standards of comparison with other institutions like Banks, this offer would have been considered as reasonable and even generous because of the problems brought about by multiplicity of unions, no settlement could be arrived at. The agitation continued including work stoppages in several offices as well as indiscipline on a wide scale. Some of the Unions organised noisy demonstrations inside the office premises during working hours. As the LIC found it difficult to maintain minimum discipline to carry on day-to-day administration, it was forced to declare selective lock-out in some of the affected Divisional Offices. Following the lock-out, the Unions were persuaded to agree to a settlement more or less on the same terms which they had earlier rejected. The Settlement of 1974 also provided for the cooperation of Unions in maintenance of discipline, and improvement of productivity.

11.33 The history of negotiations given above refers only to the negotiations between the LIC and Associations of Class III and IV employees. As regards Class II (Development Officers), reference has already been made in Chapter IV. As regards Class I Officers, soon after formation of the LIC, the Officers of the LIC formed an Association with a senior officer from their own ranks, as its President. Originally, the Association was formed mainly as a service organisation to provide a forum for discussion of common problems. However, consequent on the revision of scales of pay of Class III and IV employees as a result of the settlement of 1962, it was soon found that in respect of their emoluments the relative position of the Class I Officers at junior levels, *vis-a-vis*, their Class III colleagues had become somewhat anomalous. Informal discussions took place between the Officers' Association and the LIC to consider a revision of the Class I scales so as to remove their anomalies and effect some improvement in scales of Officers at all levels. As no agreement could be reached through these informal discussions, the Class I Officers' Association also submitted a Charter of Demands. After examining the same, the LIC submitted certain proposals for revision of salary scales of Class I Officers at all levels for approval of Government. Since no decision was taken by Government for a long time, the senior officers then resigned from the Association and others decided to form a Federation of Officers' Associations with an outsider as President. The Federation resorted to certain agitational programme following which the Government approved certain proposals which did not meet with the aspirations of the Class I Officers' Federation. This was then followed by further agitational programme by the Federation, including hunger strike, dharna, etc. It was only in 1965 that further discussions took place between the LIC and the Class I Officers' Federation and a satisfactory setlement was arrived at. It was possibly the first time that a Public Sector institution signed an agreement on wage scales and terms of remuneration with an Officers' organisation.

11.34 The settlement with the Class I Officers' Federation did not include any linking of dearness allowance with the consumer price index as in the case of Class III and IV employees. This in fact was the position in other undertakings as well. Therefore, due to the subsequent rises in the index, further disparity developed between the remunerations payable to Class III employees and that of the Class I Officers. In 1966, certain interim decisions were taken by the LIC with the approval of the Government to provide for some relief to Class I Officers. When a further settlement was arrived at in 1970 in respect of Class III and IV employees, discussions took place with the Class I Officers' Federation also and a settlement was arrived at for revision of scales. It also provided for a review of the adjustment allowance—which was in lieu of the dearness allowance—as and when there was a rise or fall in the consumer price index by eight points. In terms of this provision the LIC reviewed the case of Class I Officers also when there was a rise in the index by eight points and granted suitable reliefs. However, in 1972 Government decided on a different pattern of compensation which was not acceptable to the officers and this led to agitations including pen-down strike, etc. The matter was settled after further discussions between the LIC and the Officers' Federation and with the Government.

11.35 Again, when the pay scales and terms of remuneration of Class III and IV employees were further revised with effect from 1st April 1973, as a result of the settlement of 1974, the LIC made certain proposals for revision of pay scales and allowances in respect of Class I Officers also. After getting formal approval from the Government, certain offers were made to the Class I Officers' Federation which, *inter alia,* provided for some increases in dearness allowance for a rise in the consumer price index at the overlapping stages between Class III and Class I scales and also suitable increases at other stages. As some modifications were sought by the Federation on the offer made by the LIC, the matter was referred back to the Government, but no settlement could be arrived at. This resulted in certain agitational moves on the part of the Officers' Federation.

11.36 The agreement with the Class III and IV employees' Unions also expired on 1st April, 1977, and a few rounds of discussions have been held between the LIC management and the Class III and IV employees' Associations as well as with the Class I Officers' Federation. The present position is that the offers made by the LIC to both Class III and IV employees' Associations as also Class I Officers' Federation with the approval of the Government have not been accepted by the concerned Associations and a position of stalemate exists.

11.37 The broad conclusion, which emerges from the history of wage negotiations between the LIC and its employees' associations, is that the present procedure which requires the LIC to obtain prior Government approval for any revision has not been working at all satisfactorily and has led to industrial strife leading to frequent work stoppages and work disruption and also resulting in lowering of the morale of employees at all levels. Equally, the need for the LIC and indeed for other public sector undertakings, to keep in step with other institutions is even greater to-day than what it was when the LIC Act was passed. It is, therefore, essential to evolve some other mechanism which will take care of both these somewhat divergent considerations.

Staff Morale and Job Satisfaction

11.38 We started this Chapter with a statement of the objective that the LIC has accepted in this important area which include "involving all people working in the Corporation to the best of their abilities in furthering the interests of the insured public" and "promoting amongst all employees of the Corporation a sense of participation, pride and job satisfaction. . . . . . . ". From our discussions with the employees of the LIC at all levels as well as with the agents and members of the public, it is apparent that the LIC has not been able to achieve much success in this direction. There is a lack of sense of involvement not only amongst the clerical and supervisory staff but even among a high proportion of the officers' class. Partly this is a reflection of the socio-economic environment in the country as a whole and partly a result of the continuing industrial strife to which a reference is made in the earlier para. However, to a considerable extent this is also a result of the lack of any positive effort on the part of the LIC management to understand and analyse the problems which are contributing to this feeling of lack of involvement and resulting into lack of job satisfaction and low morale amongst its staff at all levels and of its failure in developing policies which would help in improving staff morale and attitudes. We shall deal with this problem in Part II of the report.

PART II

RECOMMENDATIONS

S/63 M of Fin/80—13

rates has recommended that the LIC must, as a matter of policy, accept the obligation to return to each generation of policyholders the entire surplus contributed by them, by declaring terminal bonuses. Though the LIC has introduced terminal bonuses in addition to the normal reversionary bonuses, it has apparently not yet accepted the obligation to return to the policyholders the entire amount of surplus contributed by them as recommended by the Committee of Actuaries.

12.6 Acceptance of the principle mentioned in the previous para will touch only the fringe of the problem the policyholder in India faces. The return on the savings part of his life insurance premium is determined by the yield obtained by the LIC on the investments of the life fund minus the outgo of the LIC by way of expenses of management and payment of income-tax and Government's share of surplus. In India, as has already been stated in Chapter IX of this Report, even the gross yield on the investments of the LIC compares poorly with that obtained on other comparable savings media. Even this low gross yield is reduced substantially by the high level of expenses of management of the LIC. As was pointed out in Chapter VIII, para 8.13, the effect of expenses of management at a level of a renewal expenses ratio of about 15% is equivalent to a reduction in the gross yield by 2⅛% for a 20-year Endowment Policy. The yield suffers a further reduction on account of the income-tax payable by the LIC and the share of surplus appropriated by the Government under Section 28 of the LIC Act. The Table below gives the details of the actual payments made under the head of income-tax and by way of Government's share of surplus over the last 10 years, expressed also as a percentage of the life fund.

TABLE XII-1

Outgo by way of Income-tax and Government's share of valuation surplus—(1970-1979)

Year	(Amount in crores)			Percentage of Mean Life Fund		
	Income Tax	Govt. share of surplus	Total	Income Tax	Govt. share of surplus	Total
	Rs.	Rs.	Rs.	%	%	%
	(1)	(2)	(3)	(4)	(5)	(6)
1969-70	8.32	2.90	11.22	0.55	.19	0.74
1970-71	9.57	2.90	12.47	0.56	.17	0.73
1971-72	8.86	3.80	12.66	0.46	.20	0.66
1972-73	13.96	3.80	17.76	0.63	.17	0.80
1973-74	14.75	4.54	19.29	0.58	.18	0.76
1974-75	16.86	4.54	21.40	0.59	.16	0.75
1975-76	21.28	6.34	27.62	0.66	.20	0.86
1976-77	15.86	6.34	22.20	0.43	.17	0.60
1977-78	15.86	9.32	25.18	0.38	.22	0.60
1978-79	23.30	9.32	32.62	0.48	.19	0.67

It will be seen that the outgo on account of income-tax and Government's share of surplus is equivalent to a reduction in the gross yield by about 0.6%. The reduction in the yield to the policyholder on account of expenses of management, income-tax and the Government's share of surplus is about 2.75%.

12.7 The relative unattractiveness of the LIC's Endowment Assurance Policy as a savings medium is glaringly brought out by the Table below which compares the maturity proceeds of a With Profit Endowment Policy for Rs. 1000 sum assured with the amount a policyholder would get if he takes out (i) a Whole Life Without Profit policy or (ii) a level premium Term Insurance policy and invests the difference in premium as recurring Bank deposit earning 10% interest or in Public Provident Fund earning 7½% interest.

TABLE XII-2

1. Age at entry	30 Years
2. Term	20 Years
3. Endowment with Profit Premium	Rs. 51.50
4. Whole Life non-Profit Premium	Rs. 17.65
5. Term Assurance Premium:	
(i) First Year	Rs. 13.34
(ii) Subsequent years	Rs. 6.67
6. Balance of Premium—Whole Life (3-4)	Rs. 33.85
7. Balance of Premium— Term Assurance (3-5):	
(i) First Year	Rs. 38.16 (a)
(ii) Subsequent years	Rs. 44.83 (b)
8. Maturity Proceeds of Endowment	Rs. 1556
9. Accumulated value of 6 at the end of the term + surrender value of Whole Life Policy	Rs. 1747.42 (7½%) Rs. 2304.22 (10%)
10. Accumulated Value of 7 at the end of the term	Rs. 2058.22 (7½%) Rs. 2779.51 (10%)

NOTE: Sr. No.(5) : Rates as per Table 12 of Annexure X of Part II of Committee of Actuaries' Report.

(8) : Includes reversionary bonus @ Rs. 24.8‰ + Terminal bonus @ Rs. 3‰.

It may be mentioned that at present the LIC does not issue long term level premium term assurance policies. However, the Committee of Actuaries have recommended introduction of such a policy for a maximum term of 20 years subject to certain safeguards and restrictions. The figures given in the above Table are based on the premiums proposed for such policies in their report. It will be seen from the above Table that if the policyholder takes out a without profit whole life policy and invests the difference in bank deposit earning 10% interest, he would get on maturity about 48% more than what he would have got if he had taken out a with profit endowment assurance policy. If he had been allowed to take out a term assurance policy, the proceeds would have been 78% more. If the policyholder belongs to a high income-tax bracket, he could invest the difference in the premium between the endowment assurance policy and the term assurance policy in Public Provident Fund where income-tax relief is available on the same basis as for life insurance policies, and he would still get maturity proceeds which would be about 12% higher if he had taken out a whole life policy and nearly 32% higher if he was allowed to take out a term assurance policy. The amount payable at death would also be higher for a person who takes out a whole life or term assurance policy and invests the difference in a recurring deposit with a bank or in Public Provident Fund.

12.8 From the above example, it is evident that life insurance in India cannot compete with other savings media, even after allowance is made for the cost of life cover. If the LIC is still able to sell a substantial volume of savings linked life insurance policies, it is mainly due to its high pressure selling on the one hand and lack of awareness amongst the general public of the relative merits of different savings media on the other. It also clearly brings out that unless the LIC is enabled to improve substantially the yield on its investments and to reduce substantially its expenses of management, life insurance cannot be a viable savings medium.

12.9 The problem as it affects life insurance companies in the U.S.A. has been highlighted in the issue of the 'FORTUNE' magazine dated 14th July 1980 in an article captioned—

> "LIFE ISN'T WHAT IT USED TO BE AND NEITHER ARE THE INFLATION-BUFFETED INSURANCE COMPANIES THAT SELL THE PRODUCT".

Relevant extracts are given below :—

> "Change has been whirling through the life insurance business, converting it to something far different from what it was even five years ago. Its traditional customer, the individual, has been defecting and in particular had drawn back from the product the industry most loves to sell, whole life insurance. The industry has kept its assets growing nicely by expanding its group business, done mainly with corporations............"

> "The major problem is that this business, more than most, was ill designed to operate under inflationary conditions............"

> "In an age of inflation, whole-life is almost a caricature of the kind of product a buyer should wish to avoid; it is a long term promise to pay, denominated in fixed dollars; it develops savings, in the form of 'cash values' on which a policyholder earns only low rates of interest; and for all these wonderful things, the buyer gets to pay extra, laying out much more per dollar of insurance than he would if purchasing the main alternative product, term insurance, which includes no saving feature........."

> "Last year about 54% of all ordinary life sold was term, up from roughly 43% in 1972........"

> "A decade ago, 49% of its premiums and other receipts came from direct business with individuals; by now, that proportion is down to 48%. The remainder is group business of various kinds; life insurance, health and accident insurance and a category called annuities, which mainly includes business with pension, profit sharing and savings funds.........."

> "Plainly, the big revolution of the 1980s will be in the industry's products. A bewildering array of new offerings has already hit the market, many structured to tie premiums and face values to the rate of inflation. But the real wave of the future might well be products that take their cue from the old advice. 'Buy term and invest the difference'. In the past, that advice, if heeded, left the policyholder entrusting the money he did not spend on whole life to, say, a bank or the stock market. Now the insurance industry is itself coming forth with products that will accommodate the savings, reward the saver with a clearly stated rate of interest, and periodically extract money from the account to pay for the term insurance that is part of the package......"

> "One such product, called Complete Life has just begun to be sold by Life of California, a subsidiary of E.F. Hutton. Complete Life guarantees a 4% rate of interest on the savings—Plus, at any given time, an additional rate that the company believes will be justified by market interest levels over the coming year. Recently the extra rate was 4% for a total return of 8% (taxed only when the policyholder withdraws more than his original contribution from the account). Furthermore, most of the money that the policyholder puts in his account begins to draw interest immediately; comparatively little—usually less than 8% of the total—is eaten up by sales charges........"

> "Indeed the only sure things that figure to come out of this period of wrenching change are better products and better values for the insurance customer. He has commanded their appearance by getting smarter; the industry is responding because it must. That is not to say that the last dumb purchase of life insurance has been made. But such mistakes should be fewer, and that is a respectable result to have been whipped up in the winds."

It will be seen that in the U.S.A. also inflation has affected life insurance business adversely and there has been an increasing trend for a change over from individual to group approach. From the example of "Complete Life" plan referred to in the above article it will be seen that U.S. life insurance companies have been exploring other ways of maintaining the viability of life insurance as a savings medium.

include wives of the male members. Over 80,000 members, spread over 400 villages, are covered under this scheme. In view of the success that has attended this experiment, the Committee arranged for a study to be undertaken of some of the villages in this district where the idea of group insurance has already received general acceptance to explore whether other types of agencies can be utilised for developing group insurance in the rural areas. This study revealed that in these villages there are voluntary agencies like "Gram Vikas Mandal" and "Gram Rakshak Dal" which are registered as public trusts and they might be suitable for acting as agencies for developing group insurance schemes. If such voluntary organisations can be prevailed upon to take up the administrative as well as premium collection work, the LIC can consider offering a group scheme subject to say, at least 60% of the insurable population of the village joining the scheme.

13.5 The suggestion made in the previous paragraph is only illustrative. Conditions will vary from village to village, district to district and State to State. What is necessary is a determined effort to identify the agencies through which collection and administrative work could be organised, to determine the principles on the basis of which groups can be formed to preclude anti-selection and to make a start on an experimental basis in as many areas as possible. In the light of actual experience thus gained, lines of further development can be decided upon.

13.6 Another agency through which life insurance coverage can be extended to the rural people is the District Cooperative Banks. All District Cooperative Banks advance short term loans to farmers for their agricultural needs. Insurance cover could provide a collateral security for the Bank loan and the cost of insurance can be combined with the interest charged by the Bank. The group policy can be issued to the Bank itself covering all persons to whom loans have been granted, the insurance cover being the amount of the loan. The Committee recommends that the LIC should consult the Reserve Bank and explore the possibility of making such group insurance compulsory for all farm loans granted.

13.7 The LIC should make similar efforts to extend group insurance coverage to unorganised sectors in the urban areas. Some of the agencies through which such schemes can be operated are craft unions like unions of construction workers, loading and unloading workers, vegetable vendors or producers and workers' co-operative societies. The Committee has noted that the LIC has already introduced a few such schemes like schemes for members of Taxi Drivers' Cooperative Societies, Auto-Rikshaw Owners' Cooperatives, Handloom Weavers' Cooperatives, etc.

13.8 The Committee recommends that the LIC should lay down every year definite targets regarding the number of lives to be covered through group schemes in the rural areas and in the unorganised urban sector by each Division and create the necessary organisational framework for achieving them. Any problems that may arise should be dealt with expeditiously, thus facilitating rapid development of such business.

13.9 As has been observed earlier, a large proportion of lives insured under individual assurances as well as under group schemes belong to the salaried class. The Committee is of the view that the best way of providing life insurance cover at minimum cost to them would be through a compulsory insurance scheme. The Committee has noted that some form of compulsory insurance already exists for this class under the Deposit Linked Insurance Scheme, which is a part of the Employees' Provident Fund Scheme. However, the risk cover offered under this Scheme is low. The Committee, therefore, recommends that a compulsory insurance scheme which will provide a cover equal to 2½% times the annual salary of the employee subject to a maximum of Rs. 50,000 should be introduced for all employees covered through various Provident Fund Schemes. The Committee is advised that on the basis of the age and salary distribution of some of the smaller groups covered under the LIC's Group Term Insurance Schemes and on a rough calculation, the cost of providing such a cover, that is, 2½% times the annual salary, would work out to about 1.5% of the annual salary bill. This estimate is a tentative one and the actual charge will have to be determined after making a detailed actuarial study of the age and salary distribution and of the mortality experience of the employees to be covered by the scheme. The Committee is, however, satisfied that the estimate referred to above gives a broad indication of the level of contribution that may be required. The Committee also recommends that the compulsory insurance scheme can be administered by the Employees' Provident Fund authorities themselves under actuarial guidance as far as the establishments which contribute directly to the Employees' Provident Fund Scheme are concerned. As regards the General Provident Fund applicable to all Government employees, here again the scheme can be administered directly by the General Provident Fund authorities under actuarial guidance. In respect of all other privately managed Provident Funds recognised under the Income-tax Act, the compulsory insurance cover can be provided through the LIC's Group Term Insurance Scheme.

13.10 As regards salaried employees who are not covered by a Provident Fund, another approach for providing a compulsory insurance cover can be considered. The LIC has already submitted a proposal to the Gujarat State Government to provide, as a social security measure, some basic insurance cover to employees of Shops and Establishments with less than 10 employees. The proposal is to make a small beginning. The premium would be only Re. 1 per month of which 50 P. would be paid by the employee and 50 P. by the employer. The amount of contribution would be collected by the Municipal Corporations along with the Registration Fees under the Shops and Establishment Act. All the records necessary for the purpose of insurance would be available with the authorities administering the Shops and Establishments Act and the same authorities can be authorised to pay the death claims. The Committee understands that the Gujarat Government has accepted the proposal and had decided to make it operative in the four cities of the State with Municipal Corporations. The Committee recommends that other State Governments should also be approached for introducing similar schemes.

13.11 Besides the compulsory insurance scheme suggested by us for all salary earners contributing to a Provident Fund, the Committee recommends that the LIC should continue its efforts to extend Group Insurance coverage linked with savings to the salary earning classes through its Group Term-cum-Savings Scheme. Under this scheme the LIC is at present allowing accumulation of the contributions at 6% only. It should be noted that the LIC is currently earning on its new investments a rate of interest of over 8%. If the funds pertaining to such group scheme are invested separately and if a rate of interest ½% to 1% less than the actual rate earned on the LIC's funds, depending on the size of the group, is allowed, the scheme will prove more attractive than at present. The Committee is of the view that the difference between the interest actually earned and the interest allowed on the accumulations of contribution as suggested would be adequate to meet the expenses of administration of the Schemes.

13.12 The Committee is informed that under its existing Group Term-cum-Savings Schemes the maximum amount of cover that the LIC allows is Rs. 12,000 and that it has recently decided that under all new group schemes, the cover should be restricted to Rs. 10,000 only. The Committee is of the view that even the present limit of Rs. 12,000 is too low and that the limit should be increased to Rs. 50,000 which is the maximum limit suggested for the proposed compulsory insurance scheme. It is, of course, understood that the actual amount of cover to be offered will be decided for the group as a whole and will thus preclude individual selection. The Committee is convinced that the Group Term-cum-Savings Scheme re-designed on the lines suggested would be found attractive by a large number of employee groups and will help the LIC both in spreading insurance coverage and in mobilisation of savings at minimum cost.

13.13 The Committee appreciates that introduction of compulsory insurance schemes and wider extension of Group Term-cum-Savings Schemes for salaried employees may affect LIC's direct business adversely as currently a very large proportion of its business is being secured from salaried employees. The Committee, however, feels that there is enough potential in the country for development of life insurance business and if to an extent the potential from salary earning class is reduced, it would stimulate the LIC to concentrate on other classes who have till now been relatively neglected, and thus help in greater spread of life insurance business in the country as a whole. The Committee also believes that even after introduction of compulsory insurance schemes and extension of Group Term-cum-Savings Schemes to large sections of salaried employees, there will still be scope for selling individual savings linked life insurance policies to the salaried class, provided steps are taken to make life insurance a viable savings medium.

13.14 A suggestion has been made by a section of consumers that under the present set up, life insurance cannot be a viable saving medium and, therefore, the LIC should concentrate on providing basic life insurance cover at a reasonable cost and leave mobilisation of savings to other media. As we have pointed out in the previous chapter, a similar trend has already appeared in the U.S.A. However, we feel that in Indian conditions, this approach has to be viewed with a good deal of caution. Life insurance can provide a more dependable saving medium than most other forms of financial savings as under a life insurance contract the policyholder enters into a long term commitment to save regularly. As this saving is also linked with life insurance cover, it amounts to a form of compulsory saving. If life insurance cover alone is availed of separately and the policyholder is left free to manage his savings by himself, the probability is that he may not save at all because of pressure of urgent needs on the family budget and the money which would otherwise have been invested as life insurance premia may be used up for current expenses. So far as those who are contributing to the Provident Fund and who can increase their contribution to the Prvident Fund and thus ensure regular savings, we have already accepted the force of the argument and suggested that it would be far more economical to provide life insurance cover through a compulsory insurnce scheme. However, for all others, it is in the interest both of the individual and of the national economy that life insurance is utilised as a preferred saving medium. To ensure this it is essential that its competitiveness *vis-a-vis* other saving media is restored by tackling the twin problems of low yield and high expenses. If this is done, then traditional life insurance business, which combines life insurance cover with savings, can again become the preferred savings medium, as is the case in the U.K.

13.15 In considering life insurance as a saving medium the difference in the return (taking into account the tax reliefs obtainable) obtained by those in the higher income brackets and by those who pay little or no tax has to be considered. This difference in the return obviously involves serious lack of equity. Some, therefore, feel that the relief availed of by persons in the higher income bracket for savings in certain media like life insurance, provident fund, Unit Trust, etc. should be totally withdrawn and the resulting increase in the revenue should be utilised for the benefit of all savers by subsidising premiums as is done in the United Kingdom or alternatively by increasing the rate of interest on such savings. The Committee, however, feels that though theoretically such an approach would be justified, from the practical point of view it would be counter-productive so far as savings through life insurance business are concerned. Persons in the higher income groups who now take out life insurance policies because of the substantial tax relief obtained by them are not likely to take out such policies if direct tax relief is not available. With discontinuance of bigger policies the average premium per policy will go down sharply and this will push up the expenses per policy. Therefore, any gain the low income group policyholders may derive by this measure is likely to be offset by the increase in expenditure on the administration of the policies. Under the circumstances, the suggested method is not likely to achieve its aim. The Committee would, therefore, like to recommend an alternative approach on the lines of the suggestion made in the report of the Committee of Actuaries which involves establishment of a separate fund for policies on which no income-tax relief would be available and on which the Government would allow a substantially higher rate of interest. The broad outlines of the plan are given hereunder :—

(i) Only one type of policy will be issued under this Fund which will be Endowment With Profits Policy for terms 15, 20 and 25 years and maturing not beyond age 60.

(ii) The maximum amount of annual premium that can be paid—under all policies taken under, this plan, by an individual would be Rs. 1,000. The proponent would be required to give details in the proposal form, of policies already taken out by him under this plan and the amount of premium he is paying under such policies. He should also be required to give a declaration that if the information given is false or inaccurate and he had, in fact, taken out other policies under this plan, any premium paid in excess of Rs. 1,000 per annum under such policies would stand forfeited and the sum assured would be reduced correspondingly.

(iii) Premiums paid under these policies would not be eligible for any income-tax relief. This will by itself ensure that such a policy will be mainly availed of by persons who are not liable for high rates of income-tax.

(iv) This fund will be invested in a special Deposit Account as directed by the Government. The rate of interest on this fund should be at least 2% higher than the rate of interest on 7 Year's National Savings Certificate where the current rate of interest is 10.75% compound. The 2% difference in yield is to cover outgo by way of expenses of management so that the net yield obtained by the policyholder is the same as on investments in National Savings.

(v) In determining the LIC's liability for income-tax, the surplus of this fund would be excluded from the total surplus.

(vi) The entire surplus of this fund disclosed by periodical actuarial valuations should be available for distribution to the policyholders and no share will be reserved for the Government.

(vii) A separate account of this fund should be maintained and all premiums and other income relating to this fund should be accounted for separately. All expenses should be allocated between the Ordinary Life Fund and this Fund in proportion to the respective premium income of the two funds.

13.16 Various suggestions have been made to the Committee for introduction of new plans of insurance to meet the needs of the rural population. The Committee has already recommended that for extending life insurance coverage to large sections of the rural population, the group approach would be the most fruitful and the Committee has also made specific recommendations in this direction. However, the Committee accepts that there is still considerable scope for individual life insurance business in the rural areas, particularly amongst the relatively more affluent farmers, artisans and tradesmen. After considering the various suggestions received, the Committee recommends examination of the following two suggestions for special plans.

(i) As the rural population do not have regular income, any special plan for rural populations should permit variations in premium from year to year. To meet this particular problem, the Committee suggests that the LIC should consider issuing single premium Endowment policies under which the risk cover would be double the amount payable on maturity. The cost of servicing such policy would be small. As the full premium is paid in one instalment and would be available for immediate investment, it should be possible to assume a much higher rate of interest in the calculation of premium than under the ordinary Endowment plan. A variation of this plan would be to have a single policy contract with a Pass Book issued to the policyholder, under which option would be given to the policyholder to pay additional premium at any time and obtain additional cover merely by way of an endorsement in the Pass Book. As both the original cover as well as additional covers would be on the basis of single premium contracts, it may be possible to issue all such policies on non-medical basis, subject of course to certain limits on the maximum sum assured. To ensure that agents take interest in persuading the policyholders to go in for periodical additions to such policies, commission at reasonable rates should be paid to the agent each time an additional cover is availed of. It should be possible to work out a suitable scheme on the above lines which would permit considerable flexibility and still be simple to administer.

(ii) In rural areas there are often periods which may extend from one to three years when the policyholder is unable to pay the premium because of drought or other natural calamities. The LIC should, therefore, consider issuing an ordinary endowment policy under which a small term insurance premium would be collected along with the first premium which would provide risk cover for a period upto three years in case the policyholder is unable to pay the premium for some time after two years' premia have been paid. Any time within the three years' period during which risk cover is provided without payment of the normal annual premium, the policyholder will have the option to pay off the arrears of premium with interest for continuation of the policy beyond the three year period. Risk premium already paid would then again become available for covering further defaults in future. Though the risk premium would increase with the age, as the amount at risk will go on reducing with the duration of the policy, it should be possible to determine, at the outset, the amount of risk premium to be collected along with the first premium which could provide risk cover for defaults in payment of premium upto three years throughout the term of the policy.

13.17 These suggestions are made for consideration of the LIC. We recommend that before introduction of any new plan, the LIC should arrange for a detailed market study through their field organisation to obtain the probable response of the public to the new plan.

13.18 There is one other plan which the Committee feels the LIC ought to introduce and that is a level premium term insurance plan. The Committee has noted that the Committee of Actuaries had recommended introduction of such a plan. The Committee understands that the LIC has not yet taken any decision on this recommendation. One of the reasons for the LIC's reluctance to offer this plan is the fear that it may adversely affect its efforts for mobilisation of savings. It would appear that the same fear was responsible for the LIC's decision to restrict the maximum insurance cover under its Group insurance plans to Rs. 10,000. The Committee does not share this view. As a monopoly organisation, it is the LIC's obligation to provide all types of life insurance cover which are actuarially sound and are generally offered by insurers in other countries. The Committee, therefore, recommends that the LIC should introduce this scheme. In fact, it has been represented to the Committee that the limit of Rs. 50,000 on the sum assured under the level-premium term insurance plan suggested by the Committee of Actuaries is unduly restrictive and that in fact there should be no limit at all provided the LIC is satisfied about the insurability of the proposer from the point of view of health and financial means. The Committee is unable to agree with the suggestion for an increase in the maximum sum assured. It must be noted that in India it is not possible to get reliable records of past medical history of the proponent and the risk of adverse selection is great. It is, therefore, necessary to be cautious at the beginning.

PENSION SCHEMES

13.19 As the Committee has already noted in Chapter VI, paragraph 6.74, at present approved Pension Funds are not permitted to grant pensions themselves, but are required to either introduce the LIC's Pension Scheme or to purchase annuities from the LIC on retirement of an employee. The employers who want to introduce pension schemes for any section of their employees have, therefore, to approach the LIC. However, as the benefits available under the LIC Pension Scheme or the premium rates charged by it for annuities are far from attractive, the growth of Pension Schemes in this country has been very limited. A number of representations were received by the Committee for substantial improvement in the benefits being granted under the LIC's scheme or alternatively to recommend to the Government to permit private pension funds to grant pensions directly to their members without resort to the LIC.

13.20 Before the LIC came into being, a number of private pension funds were operating and though granting of pensions by Pension Funds was included in the definition of life insurance business, the Controller of Insurance was given power under Section 118 of the Insurance Act to exempt all such Pension Funds from the operation of the Act. All Pension Funds appear to have been granted exemption and in any case no privately administered Pension Fund appears to have been registered under the Insurance Act. When the LIC Act was formulated, a provision was made for exempting all existing Pension Funds from the operation of the LIC Act but no such power, as was given to the Controller under Section 118 of the Insurance Act, was given for exempting new Pension Funds. The result has been that all new Pension Funds have now to approach the LIC for purchasing annuities whenever any member of the fund retires. Because of various restrictions on the operation of the LIC, the terms on which the LIC can grant pensions are not as favourable as what a Pensioner would get if the Pension Funds were themselves permitted to grant pensions directly from the Fund. Further, as the schemes are now being operated by the LIC, there is no flexibility in the type of benefits that can be granted and the result has been that the growth of the pension business has been very much stunted. The Committee is strongly of the view that the present restriction on the operation of approved Pension Funds is not at all justified and all approved Pension Funds should be given freedom from the provisions of the LIC Act, as was the case before nationalisation. At the same time, the LIC should itself re-examine its methods of operating its pension schemes and should urgently consider introduction of the managed fund concept which is recommended by the Committee of Actuaries in their report, so that they are able to offer terms which are competitive with those which privately managed pension funds can give to their members. The Committee would like to point out that at present under the Income-tax Act Gratuity Funds are set up directly by the employers and the Trustees are allowed to either manage the Fund themselves or insure the gratuity liability with the LIC under the LIC's Gratuity Scheme. In spite of this option given to the Gratuity Funds under the Income-tax Rules, the LIC has been able to write a substantial volume of business under its Gratuity Schemes. The same type of freedom should also be offered to the Pension schemes. The Committee, therefore, recommends that :

(i) The LIC Act should be suitably amended, so that exemption is granted to all Pension Funds from the operation of the LIC Act, on par with the exemption granted to the Funds existing as on 1-9-1956 under Section 44(f) of the LIC Act, subject to their working being supervised by the Controller of Insurance; and

(ii) The LIC should urgently re-examine its present pattern of working of Pension Schemes and introduce the managed fund concept, so that it is able to offer terms which are competitive with those that can be offered to their members by privately managed Pension Funds.

CHAPTER XIV

MARKETING ORGANISATION AND DEVELOPMENT PLANNING

14.1 As we have mentioned in Chapter IV, it has been recognised the world over that "life insurance is sold and not bought" and therefore, for selling life insurance a well trained and effective marketing organisation is essential. In that Chapter we have also considered the shortcomings of the existing marketing organisation of the LIC which consists of a three tier set-up of Agents, Development Officers and Assistant Branch Managers (Development). Any change in the existing set-up must, apart from correcting the defects that have been noted, should ensure that the new set up would be adequate to deal with the changes we have proposed in the pattern of development of life insurance business.

14.2 In Chapter XIII we have suggested certain changes in approach and emphasis in the development of life insurance business. One is that the LIC should adopt as a major part of its development strategy promotion of group insurance extensively in the rural areas and in the unorganised sectors in the urban areas. We have also suggested that the LIC should lay down definite targets every year of the number of lives to be covered through such schemes. We have also recommended introduction of a compulsory insurance scheme for all salaried employees covered by various types of Provident Fund schemes and suggested greater effort in selling of group term-cum-savings scheme for salaried employees. The effect of all these proposals would be that the LIC, which has so far been concentrating on salary earning classes for its individual insurance business, will have to shift its emphasis to other classes such as professionals, businessmen, traders, artisans, farmers and other self-employed groups. We have pointed out that life insurance has ceased to be viable as a savings medium and have suggested various steps which would markedly improve the returns on the savings part of life insurance premium and thus, make life insurance again a viable saving medium.

14.3 Certain basic changes will, therefore, be necessary in the LIC's marketing organisation. An extensive marketing organisation will have to be set up for development of group insurance business. While there will still be enough scope for individual life insurance business, including savings linked policies like endowment assurance, the emphasis will shift from the salaried classes to other classes.

14.4 We shall first consider the marketing organisation for selling individual life assurance business. In Chapter IV we have examined in detail the efforts made by the LIC to forge a stable organisation of professional agents and how these efforts have met with only a limited success so far. During our discussions with them, some senior executives of the LIC expressed serious doubts about the success of a policy which concentrates mainly on building up a stable organisation of professional agents. Their views were as follows :—

> "The nature of life insurance selling in India is such that even with the utmost care and effort in the selection of agents, it will not be possible to avoid a large scale turn over among them. The LIC, therefore, while continuing its efforts to encourage more and more agents to become full time professional agents, will have to rely primarily on Development Officers supported by the large band of casual agents for a rapid development of its business. There is no need to be unduly concerned about the agent's role in service to policyholders because few agents render any service, or about lapses or year-end concentration of new business either as they are the inevitable concomitants of rapid growth. To reduce procuration costs the LIC may consider reduction in the agents' commission or limiting it to a short period."

Needless to say, we do not share this view which fundamentally is based on a pessimistic approach. We believe that if life insurance business is to grow on healthy lines a strong agency organisation consisting of trained professional agents should be the corner stone of the LIC's marketing organisation. In the following paragraphs we recommend certain steps for strengthening and professionalising the agency organisation.

14.5 There should be a pre-recruitment training and test before an agent is appointed. The LIC should devise appropriate aptitude tests as well as tests for the basic knowwldege required by an agent and selection should be made on the basis of such tests and after interview by the Branch Manager, who should be made responsible for proper selection of agents. He should ensure that only such persons as are likely to continue in their insurance agency career are recruited and in no case a "Benami" is given an agency.

14.6 The functions of an agent are set out in Regulation 8 of the Agents' Regulations. The importance of the agent's role both in selling and servicing can be seen from their functions, some of which are reproduced below :—

(i) Programmed selling, that is, selling the right type of policy suited to the needs of the prospect and for the right amount, taking into consideration his capacity to save ;

(ii) Proper completion of all requirements at underwriting stage so as to minimise references back.

(iii) Admission of age at the proposal stage ;

(iv) To keep in touch with the policyholder for ensuring regular payment of premium ;

(v) Assistance to the policyholder for revival in case of default, including giving of revival quotations and getting the revival requirements completed ;

(vi) Assistance to the policyholder in obtaining policy loans including giving policy loan quotations and getting all loan application papers completed ;

(vii) Assistance to the policyholders in matters of alterations of plan or sum assured necessitated by the changing needs of the policyholder; and

(viii) Assistance to the policyholders/claimants in claim settlement.

14.7 The Committee is of the view that renewal commission should be viewed as payment for services required to be rendered and not as a deferred compensation for just selling a policy. It is, therefore, necessary to ensure that agents render essential services to policyholders. Though the Committee appreciates that there would be practical difficulties in strictly enforcing any such rule, it suggests laying down some broad criteria for this purpose such as follows :—

(i) The agent should be required to maintain certain essential records which should be periodically verified by the Branch Manager.

(ii) Whenever there is default in payment of premiums, the agent should be required to give the reasons for non-payment.

The suggestions made above are only illustrative. The Committee is of the view that it would be possible for the LIC to evolve on the basis of practical experience, methods of ensuring that agents do maintain contacts with policyholders and render essential services to them to entitle them to payment of renewal commission.

14.8 To enable the agent to render these services, proper post-recruitment training is essential. The Committee recommends that the training should be at three levels. The first will be the pre-recruitment training, which will be given by the Development Officer who recruits the agent and which would give him basic knowledge of life insurance plans and selling techniques to enable him to start working as an agent. The second stage is the post-recruitment tarining given by trained instructors covering all aspects of policy servicing and giving more detailed guidance in selling techniques. This stage would also include field training by the Development Officer through joint calls on prospects. Servicing of "orphaned policies", that is policies where the original agent has ceased to work as an agent, can also form part of such field training. The third will be advanced training of a high standard for professional agents, provided through special courses designed by the Federation of Insurance Institutes leading to the grant of a diploma on passing an examination. Agents who have obtained the diploma should receive recognition as professional agents and holding of the diploma should after a transition period, be made a condition for membership of various clubs.

14.9 At present the LIC classifies its agents into three categories—inactive, active and qualified agents. None of these classifications gives any indication as to whether the agent is working effectively throughout the year. The Committee, therefore, recommends that a new classification of "effective agents" be introduced the criterion being that the agent insures a minimum of 2 lives for a sum assured of Rs. 10,000 every month for at least 10 months in the year and his total business during the year is not less than 25 lives and a sum assured of Rs. 2 lakhs. Effects of the Development Officials should be concentrated on increasing the number of such "effective" agents from year to year.

14.10 Various views have been expressed before the Committee on the commission structure of agents from the point of view of controlling the total cost, conservation of business and avoidance of rebating. One suggestion is that while the total of the agency commission payable to the agent during the entire term of the policy need not be reduced, the commission rates should be rescheduled with a lower first-year commission and higher renewals as this would help in reducing the evil of rebating and also help in conservation of business. Another suggestion is that as most of the agents do not render any post-sales service, there is no justification for continuing payment of renewal commission throughout the duration of the policy and that the renewal commission should, therefore, be restricted to a period of say 5 or 7 years. Suggestions have also been made that for a monopoly organisation like the LIC, the present high levels of commission are not necessary and there should be substantial reduction in the level of first and/or renewal commission. The Committee has carefully considered all these suggestions. The Committee has also taken into consideration the levels of commission being paid in a number of Western countries where generally higher rates of first year commission are being allowed, the renewal commission being either lower or restricted to a short period. After careful consideration, the Committee has come to the conclusion that if the LIC is to get the right type of person to work as agents particularly in the rural areas and untapped segments of urban areas, it would be necessary to retain the existing levels of agency commission. The Committee also feels that any rescheduling of commission rates between first year and renewal would not be of great practical utility.

14.11 The Committee is, however, of the view, as already stated earlier, that renewal commission should be considered as payment for services required to be rendered by the agent and not deferred compensation for selling of life insurance policies. It is, therefore, necessary that the present rule regarding continuation of renewal commission after termination of agency should be modified. The Committee recommends that the continuation of renewal commission after cessation of the agency should be allowed only if the agent has worked for at least 15 years out of which for at least 10 years he should have completed the minimum qualifying business required in accordance with the Agents' Regulations.

14.12 As regards payment of "hereditary" commission, the Committee is of the view that there is no justification for payment of commission after the death of an agent. However, to give protection to the families of agents who die during their agency career, a more generous term insurance benefit should be allowed. The Committee recommends that the present term insurance scheme for agents may be modified to cover all agents who have completed the minimum qualifying business for a period of at least five years and the quantum of cover fixed at five times the renewal commission earned by the agent in the agency year preceding his death.

14.13 In order to bring down the high incidence of early lapses certain changes are necessary in the agents' commission schedule. The Committee recommends that commission on first year's premium should be paid only on receipt of the full first year's premium. Further, bonus commission should be based on the first year's premia after deducting there from the premia on policies which have lapsed during the year in question without acquiring surrender value. The Committee realises that such a change in the method of payment of bonus commission may be difficult to implement with the existing data processing machines and that it will be possible to give effect to it only after the existing data processing system is replaced by a more versatile system as recommended by us.

14.14 Regarding Development Officers the Committee recommends that their functions should be redefined. At present, though the Development Officer is expected to recruit, train, motivate and supervise the agents, his work is appraised mainly on the basis of the sum assured and premium income secured through his organisation. This has resulted in the neglect of the essential function of the Development Officer, namely creation of a stable agency organisation. The Committee, therefore, recommends that the Developmnt Officer's functions should be clearly defined as that of recruitment and training of agents and supervision of the working of the agents recruited by him. It should be his responsibility to see that the right type of persons are chosen as agents and given pre-recruitment training before appointment and they are given detailed training, guidance and motivation in the field after recruitment so that they develop into "effective" agents. The work of a Development Officer should be appraised solely on the basis of his success in developing an organisation of "effective" agents. His targets should be fixed in terms of the number of agents to be recruited by him, the proportion of recruited agents to be made 'effective" and the increase in the number of "effective" agents. The Committee accepts that for employees whose work will be completely in the field, a scheme of incentives and disincentives should constitute an essential part of their remuneration. However, the incentives and disincentives should be linked to performance in creating an "effective" agency organisation and not to "cost ratio". Once this principle is accepted, it will be possible to detach agents, who have been trained and become self-reliant, from the Development Officer to work as direct agents. For this purpose, the Committee recommends that all agents who have worked as "effective" agents for a period of at least 3 years and who are in a position to work on their own should be detached from the Development Officer and made direct agents. This, however, will not affect the appraisal of the Development Officer as his work is to be judged mainly on the basis of the new agents he is able to recruit and make "effective".

14.15 The cadre of Assistant Branch Managers (Development) should be treated as a selection grade for the Development Officers and not as an intermediary between the Development Officer and Branch Manager. In the Urban areas the ABM(D) will look after all agents who have been made direct. It will be his responsibility to see that the direct agents continue to remain "effective" and their productivity continues to increase. In the rural areas where a Development Officer is in exclusive charge of a certain area, it may not be practicable to detach from the Development Officer, agents, who have worked as "effective" agents for three years. However, in such areas where a Development Officer has been able to create a fairly large organisation of "effective" agents, he should be considered for promotion to the cadre of Assistant Branch Manager (Development). After such promotion also, he will continue to look after his whole area and it will be his responsibility to see that whenever any gaps occur in the agency organisation by termination of an existing agent, the vacancy is filled by recruitment of a new agent. The Assistant Branch Manager (Development) in the rural area will have to ensure that all the agency blocks in his area are manned by "effective" agents. The Assistant Branch Manager (Development) will also be directly looking after the Career Agents both in the rural and urban areas which schemes should be continued.

14.16 To summarise, the Committee recommends that :

(i) Development Officer's functions should be restricted to recruitment and training of agents and supervision of the working of the agents recruited by him so as to enable them to become "effective" agents ;

(ii) The cadre of Assistant Branch Manager (Development) should be treated as a selection grade for the Development Officer and not as an intermediary between the Development Officer and the Branch Manager.

(iii) Agents who have worked as "effective" agents for a period of three years should be detached from the Development Officer and placed directly under an Assistant Branch Manager (Development) who will supervise their work ;

(iv) In the rural areas where a Development Officer is in exclusive charge of an area, he will continue to look after all the agents in that area even after promotion as Assistant Branch Manager (Development) ;

(v) In short the above changes will mean elimination of one tier between the agent and the Branch Manager, a reduction in the total number of Development Officers particularly in the urban areas and gradual expansion of the number of professional type of direct agents.

Marketing Organisation for Group Insurance Business

14.17 We have, till now, discussed the marketing set-up for selling of individual insurance policies. We shall now turn to group insurance business. Under the existing set-up, the responsibility for all policy matters relating to such business rests with the Group and Superannuation Scheme Department at the Central Office. Actual marketing as well as day-to-day administration of this business is attended to by the Regional Centres set up at selected Divisional headquarters. Such Regional Centres are headed by an officer of the rank of Assistant Divisional Manager who is usually assisted by one or more marketing officers of the rank of Branch Manager or Assistant Branch Manager (Development) and an administrative Officer of the rank of Assistant Administrative Officer or Administrative Officer.

14.18 In addition to these Regional Centres, marketing centres have been set up at some of the Divisional Offices and placed in charge of officers of the rank of Branch Manager or Assistant Branch Manager (Development). They have only a small staff for some essential functions and they depend for technical guidance on the regional centres. For instance, whenever any new scheme of any magnitude is being negotiated by them they seek guidance from the Regional Centre before the negotiations are finalised. The Regional Centres deal with all administrative matters such as completion of new schemes, issue of policies, issue of renewal notices for existing schemes, determination and collection of renewal premiums and settlement of claims. It is important to note that selling of group insurance is basically different from selling of individual insurance as considerable technical expertise and knowledge is essential for the sale itself. The details of every scheme have to be worked out in the light of the different requirements of each group and the rates of premium have to be determined separately for each group on the basis of the membership data, benefits system, method of funding, etc. The Committee understands that the LIC is already considering equipping all Divisions fully obviating the need to refer to the Regional Centres.

14.19 In view of the technical nature of this type of business, the LIC has decided as a matter of policy that negotiations of Group schemes should normally be conducted by the officials of the Group and Superannuation Department. Other Branch Officials are also allowed to negotiate, but under the guidance of the Regional Centre. Also, the group insurance field is not thrown open to all agents but only to those who have acquired enough knowledge of group schemes and are considered competent to canvass this class of business and even then they are required to obtain prior permission before approaching any particular institution. Agents are not allowed to canvass group schemes from the following categories of employers :—

(a) Government and semi-Government institutions ;

(b) Public Sector Organisations ;

(c) Institutions which have already been approached by the Group and Superannuation Department Officials and where substantial progress has already been made.

14.20 The Committee makes the following recommendations with regard to the marketing organisation for the expansion of the group scheme business and its administration :—

(i) The decision already taken by the LIC to set up full-fledged Group and Superannuation Department in all the Divisions should be implemented at an early date.

(ii) In each Branch office, particularly in the rural areas, at least one Officer from the cadre of Assistant Branch Manager (Development) and one Higher Grade Assistant should be given thorough training in the sale and administration of group insurance business so that they are able to initiate and conduct negotiations for the sale of group business under the overall guidance of the Divisional Office.

(iii) Later in the report the Committee will be recommending setting up of a large number of development-cum-servicing centres in the rural areas, each staffed by one officer of the cadre of Assistant Branch Manager and two Assistants of the H.G.A.'s cadre. The Committee recommends that these staff also should be given training in the special problems of development of group business in the rural areas, so that they can take the initiative in developing group business in these areas.

(iv) Though group schemes should continue to be canvassed mainly by the officials, professional agents who have received specialised training in this behalf and passed a prescribed test may be allowed to play a limited role in selling this business. They should, however, be restricted to rural areas and to the unorganised sector in the urban areas. They may also be allowed to play a limited role in the sale of group gratuity schemes and pension schemes with large employers in the urban areas. The Commission to the agent will, however, be restricted to a small percentage which will not add materially to the cost of group cover.

(v) A scheme of incentives should be introduced for officers in charge of group business for outstanding performance in the development of such business. However, the scale of incentives should be so fixed that it does not add materially to the cost of the group cover.

Development Planning

14.21 In planning for business the emphasis should shift from the number of policies, sum assured and premium income to number of lives covered as well as to the growth of the agency organisation as represented by the number of "effective" agents. As suggested earlier, the LIC should fix targets every year for the number of lives to be covered through group insurance schemes in the rural areas and in the unorganised sector in the urban areas. To start with, such targets may be fixed for the Division as a whole. Later it may be possible to fix targets Branch-wise as well. Separate targets may also be fixed for the number of lives to be covered and the amount of savings to be mobilised through group term-cum-savings plan and through group gratuity schemes and group pension schemes. The work of the Development Officials concerned with this business should get recognition at all-India levels through competitions and awards. In its internal and external publicity, increasing stress should be laid by the LIC of the role of these schemes in extending insurance coverage.

14.22 As regards planning for development of individual life insurance business, the basic planning should be in terms of growth of organisation as represented by the number of "effective" agents. Planning should start with locating all the centres in the rural areas which have the potential for supporting an "effective" agent, which may be termed an "agency block". The plan would take into consideration the number of such blocks where "effective" agents are already working and the number of blocks which lack such agents. The aim of the plan should be to ensure that the proportion of agency blocks where there are "effective" agents should steadily increase.

14.23 As regards urban areas, the Committee has noted that at present there is no effective planning to ensure that the agency organisation covers all important sectors of the urban centre. The Branches are at present located on the basis of availability of premises and convenience of the Development personnel. As, till recently, the City Branch Offices were not handling any service to policyholders, the convenience of the policyholders did not arise. Further, in the recruitment of agents no efforts are made to see that all the important sectors of the population are covered. The Committee suggests that the LIC should undertake a complete review of its present policy in the matter of location of Branch Offices and recuritment of agents in the larger cities. It should take steps to disperse the Branch Offices over the city with a view to locating the Branches near the policyholders' place of work or residence. It should also plan its agents' recruitment in such a manner that all important sectors classified on the basis of geographical location, economic activity or communitv-wise are covered.

14.24 As regards overall targets for the Branches, Divisions and the LIC as a whole, the Committee recommends that these targets should be fixed not in terms of new business, but in terms of the increase in the business in force as represented by the number of lives covered, sum assured and premium income and also in terms of the increase in the number of "effective" agents.

14.25 One of the terms of reference of the Committee is to assess the potential for growth of life insurance particularly in the rural areas and suggest steps for accelerating the development of business. The existence of a vast potential for development of life insurance business is obvious from the fact that only 10% of the insurable population has so far been covered by the LIC and 90% still remains to be covered. The main reason for the LIC's failure in extending the coverage to the rural areas and to the weaker sections of the community has been its concentration on savings linked individual insurance business which is beyond the reach of large sections of the community. The Committee has, therefore, recommended a wider spread of group insurance business which would enable the LIC to extend the coverage of life insurance to those neglected sections. As for the potential of life insurance as a means of mobilising savings, this depends on restoring viability of life insurance as a savings medium. The Committee has, therefore, concentrated its attention on the steps to be taken to make life insurance viable as a savings medium in the face of other competing savings media. If the recommendations made by the Committee in both these areas are accepted and early action taken thereon, the Committee is convinced that the LIC will be able to extend the coverage of life insurance at a much faster rate than at present and thus tap the potential for life insurance in the country which is indeed vast in an increasing measure.

CHAPTER XV

SERVICE TO POLICYHOLDERS

15.1 In Chapter VII we have discussed the nature of the services required to be rendered to policyholders and also the shortcomings and deficiencies observed in practice. As was stated therein, the important areas of service to policyholders are :

(i) Underwriting of proposals and issue of policies,

(ii) Issue of premium notices and default intimations,

(iii) Collection and accounting of premiums,

(iv) Settlement of policy loans,

(v) Other services such as registration of Assignment and Nomination, alterations in policy contracts, transfer of policy records, and

(vi) Settlement of maturity and death claims.

Service of the policies covered by salary savings schemes is also an important area requiring special consideration. We shall now submit, in the following paragraphs, our recommendations regarding the steps that the LIC should take to remedy the shortcomings.

Underwriting of proposals and issue of policies

15.2 The main problem in this area is the delay in issue of policies particularly in respect of proposals completed in the peak month of March. As we have noted earlier, such delays have serious adverse consequences on other aspects of policy servicing as well. The Committee expects that if the concept of "effective" agent and the change in emphasis in fixation of targets from new business to increase in the business in force (which have been recommended in Chapter XIV) are accepted, they should go a long way in ensuring a more even spread of business. Meanwhile the LIC should consider ways of ensuring expeditious issue of policies. At present all policies are being printed with the aid of adrema plates. In recent years their cost has increased considerably. As, normally, the same adrema plate which is used for printing the policy is later being used for printing premium notices and receipts, the cost of the adrema plate is spread over the various servicing operations. However, in respect of salary savings scheme policies no premium billing is involved and the adrema plate used in the printing of the policy has no further use. Therefore, for policies under salary savings scheme, which form an increasing proportion of the total, printing with the aid of adrema plates is needlessly costly. The Committee is informed that prior to nationalisation the two leading companies, namely, the "Oriental" and the "New India" used to print their policies by use of spirit duplicator machines at much less cost. With the increasing cost of adrema plates, the LIC should consider using the spirit duplicator machines for printing policies under salary savings scheme and in divisions where premium billing work has been taken over by punched card machines or computers. If this is done, this work can be transferred to the branches, thus reducing the pressure on Divisional Offices and reducing the time lag in issue of policies. This will also result in considerable saving in cost.

Issue of Premium Notices and Default Intimations

15.3 Shortcomings in this area arise mainly from the inadequacy of the existing data processing system. We shall be dealing with this aspect later in this Chapter. Meanwhile we may digress for a moment to examine whether the traditional practice of advance preparation of premium receipts needs to be continued. Preparation of advance receipts involves considerable amount of work and cost. Further, control over them at the branch offices is also not quite satisfactory and instances have been reported where receipts have been misused and premium collections misappropriated. A suggestion has been made that instead of preparing receipts in advance the premium notice form itself should contain a small counterpart which could serve as a receipt. The branch office which is responsible for receiving premium and issuing receipts should be supplied with Cash Register Machines which would endorse receipt of the premium on the counterpart of the premium notice and simultaneously print out the details of the receipt on a scroll which would serve the purpose of a cash book. Such a system, it has been represented, would not only reduce considerably the work-load at the cash counter but would also provide stricter control on cash collections. The Committee recommends that the LIC should introduce such an alternative system on an experimental basis in one of its Divisions so that, on the basis of actual experience, it can decide whether the system is workable and if so consider its extension to all the Offices.

Collection and Accounting of premium

15.4 Of the two main problems in this area, the first relates to provision of facilities for collection of premium in the rural areas. As has been noted earlier, the LIC has made arrangements with Banks for collection of premiums at centres where it has no office and that where there is no branch of a bank either, it has made similar arrangements with post offices. However, as was pointed out by us in Chapter VII, in most places collection through banks is not working satisfactorily and consequently reconciliation of bank collection account is heavily in arrears. The Committee also noted that because of the lack of good collection facilities, lapses in rural areas are high. The Committee, therefore, recommends that in all important rural centres where a full fledged branch office would not be economically viable, the LIC should open small offices which may be termed Development-cum-Servicing Centres. Such offices should have a small complement of staff consisting of an officer-in-charge in the cadre of ABM, with one or two assistants in the HGA's cadre. These offices would be responsible for development of business as well as collection of premium and rendering of certain essential services to policyholders.

15.5 The second problem relates to deposits. The Committee believes that one of the main causes of the large proportion of collections going into deposit is the lack of contact between the agent and the policyholder after sale. If the Committee's recommendations on the agent's role in the service to the policyholder are accepted and agent's help is sought in ensuring that premiums are paid in time and with full particulars and also in obtaining the necessary requirements for clearance of deposits, it should be possible for the LIC to reduce the amounts of collection going into deposit.

Policy loans

15.6 It was noted in Chapter VII that to improve the LIC's performance in regard to grant of policy loans, action will be required in the following areas:

(i) Completion of decentralisation of policy servicing functions to branch offices, including settlement of all policy loans,

(ii) Extending the decentralisation programme to city branch offices,

(iii) Reorganisation of the work relating to servicing of SSS business.

15.7 Further, as pointed out earlier, a large proportion of applications for policy loans are for very small amounts particularly under SSS policies. Since this work entails fairly high administrative cost, the Committee recommends that apart from raising the minimum amount of loan that could be sanctioned under a policy from Rs. 150 to Rs. 250, no loan should be granted within three years of a previous loan and not more than three loans in all during the currency of a policy.

15.8 In Chap. VII para 7.22 a reference was also made to the need for a review of the rate of interest on policy loans, in view of the high administrative costs involved in sanctioning and servicing policy loans. As loans are availed of by only a section of policyholders, equity demands that the net rate of interest obtained by the LIC on its policy loans, that is, after allowing for administrative costs for servicing such loans, is not lower than what is obtained on its investments generally. The Committee recommends that the LIC should immediately undertake a study of the unit cost of the operation involved and revise the rate of interest accordingly.

Settlement of Claims

15.9 In Chapter VII the Committee has pointed out that the LIC has shown a substantial improvement in the matter of claim settlement during the last ten years, and that its performance compares favourably with that of leading Indian companies before nationalisation and even of U.S. insurance companies today. In that Chapter we have also pointed out some of the major shortcomings which still remain and where improvement is essential.

15.10 Taking maturity claims first, the two major problems are firstly to ensure that maturity intimations are sent in time and are accurate and secondly that the follow up by the field staff of maturity claims remaining outstanding for more than three months is made more effective. As regards the first, the problem is due mainly to the defective data processing system which we shall deal with later in this Chapter. As regards the second, the Committee recommends that the LIC should make a thorough review of its present scheme of servicing of outstanding claims by its field staff through issue of claim particular sheets (CPS) and take all possible steps to make the scheme more effective. The action taken on CPS and the number of outstanding claims settled through such follow-up action should be suitably included as one of the indices in appraisal of performance of the development officials.

15.11 As regards death claims, two major areas where improvements are necessary are firstly with regard to investigation of early claims and secondly in dealing with repudiation of claims. As was pointed out in Chapter VII para 7.40 considerable delay still occurs in investigation of early claims and also in taking decisions quickly. To reduce delays to the minimum, the present machinery for claims investigation will have to be strengthened and the decision making process speeded up. According to the procedure laid down by the LIC the investigation can be entrusted to Field officials and wherever necessary to members of the staff specially trained for the purpose. In practice the work seems to be entrusted to the former category only. The Committee recommends that the LIC reviews the present system, ascertains reasons for the delays and evolves necessary machinery as well as sanctions to ensure that the time limit it has laid down for completing the investigation is not exceeded and decisions are taken without delay.

15.12 An even more sensitive area is the repudiation of claims. The Committee has noted that in many cases which were taken to court, the decision went against the LIC. While the LIC must expect to lose some cases, however fair the decision might be, this does point to the need for reviewing the entire question of the basis on which the decisions to repudiate are taken. We recommend that a committee consisting of a Managing Director of the LIC, the Controller of Insurance and an Actuary not currently in the service of the LIC should go into all the cases of repudiated claims where the courts have decided against the LIC or where the LIC has decided to compromise the case. In the light of a review of these cases, the said Committee should make specific recommendations regarding the policy to be followed in the matter of repudiation of claims.

15.13 It has been represented to the Committee that resort to court proceedings is both costly and time consuming and most claimants would not be able to afford the costs and time. A suggestion has been made that a Special Tribunal be set up for hearing appeals against repudiation of life insurance claims. The Committee is not in favour of a Special Tribunal for this purpose. The Committee, however, notes that under Section 47A of the Insurance Act a provision already exists for referring disputes regarding claims upto Rs. 2,000 to the Controller of Insurance. The Committee recommends that this section may be amended to increase the limit to Rs. 25,000 sum assured.

15.14 The Committee notes that currently the LIC pays interest at the rate of 6% for delay in settlement of claims, where the delay is attributable to the LIC only. The Committee recommends that the rate of interest to be allowed for such delayed payment of claims should be the same as the rate the LIC charges on delays in payment of premia.

Complaints from Policyholders

15.15 In Chapter VII we have given details of the machinery set up by the LIC for dealing with complaints received from policyholders. It was pointed out in that Chapter that though the procedures laid down for this purpose are generally satisfactory, in actual practice they are not proving effective. The Committee recommends that the LIC should find out the reasons for this and take appropriate steps to see that the existing machinery is made more effective.

Salary Savings Scheme

15.16 It was pointed out by us in Chapter VII that the Salary Savings Scheme provides the salaried class the most convenient method of payment of premium. The scheme is, therefore, becoming increasingly popular among this class. However, in actual working it has thrown up a number of administrative problems and as a result the service to the policyholders is far from satisfactory. In the following paragraphs we are giving our recommendations regarding the more important problems in this area.

15.17 The Committee recommends stricter enforcement of the conditions laid down by the LIC at the time of introduction of a scheme with a new employer. The responsibility should be fixed on the Divisional Manager/Branch Manager to see that all instructions are strictly complied with. Further, in respect of existing salary savings schemes, if it transpires that the employer is unable to comply with the conditions prescribed, the LIC should consider withdrawal of the scheme after giving due notice.

15.18 The Committee further recommends that the LIC must exercise strict control on the timely remittance of the premium deductions by the employer and whenever there is delay in remittance of premium by the employer interest at the rate usually charged on bank borrowing for working capital should be collected.

15.19 We have already recommended in Chapter XIV that payment of renewal commission to agents should be linked with services required to be rendered by them. Under the SSS as it is operated at present, after issue of the policy, the agent has practically no role in servicing. Therefore, there appears to be no justification for payment of renewal commission to the agent. The Committee recommends that commission under SSS should be restricted to the first three years. Such commission should also be paid only after the full year's premium is paid in each of the three years.

15.20 The Committee also suggests consideration of another approach which is to restrict canvassing of policies under SSS in respect of each Paying Authority to a selected professional agent who will be responsible for both selling and servicing the policies. Entitlement to commission would then be conditional on the agent ensuring that premiums are remitted by the authority in time, with necessary supporting reconciliation statements. Such an arrangement would improve the administration of SSS business and also make the operation of commission settlement much simpler.

15.21 Another point for consideration is that the cost of administration of SSS policies is substantially higher than that of other policies. Where premiums are paid directly, an additional charge of 5% is made for monthly mode of payment. However, under Salary Savings Scheme, this additional charge is waived. The Committee recommends that the LIC should undertake a detailed study of the cost of administration of SSS policies and if it is established that it is substantially higher than on ordinary policies, the extra charge for monthly payment should be made applicable to Salary Savings Scheme policies also. This may not be necessary if either of the two alternatives suggested in the previous two paras is implemented.

15.22 Another point for consideration is the desirability of fixing a minimum amount for the monthly instalment premium. As each monthly premium collected has to be separately accounted for, the cost of administration is comparatively high. The Committee, therefore, recommends that the minimum amount of instalment of premium under SSS should be fixed at, say, Rs. 10 per month.

15.23 As regards, payment of commission on the existing policies, under SSS, the Commitee recommends that the payment should be released on yearly basis after receipt of the whole year's premium.

Decentralisation of servicing functions to Branch Offices

15.24 As already noted by the Committee earlier, one of the most important steps taken for improving service was to decentralise all major policyholders' service functions to branch offices. In a branch office the policyholder would be able to have direct contact with the servicing staff and would thus be able to get much better service. The Committee recommends that the LIC should pursue this policy of decentralisation of servicing functions to branch offices and ensure full coverage of all mofussil and city branch offices with a time bound programme.

15.25 The Committee also recommends that the LIC should open a number of Development-cum-servicing centres in the more important rural blocks where it does not have a branch office and where the present potential for business is not enough to support a full fledged branch office. These offices besides looking after development of business and agency organisation will also attend to certain essential servicing functions like collection of premium. This would help considerably in improving service facilities in rural areas and also help in spreading life insurance coverage both through individual assurances and group schemes to the rural areas. The Committee recommends that the LIC should draw up a definite programme for opening such offices, so that over a ten-year period there is at least one such office in each Community Development Block. The Committee appreciates that opening of a large number of such small offices may increase the overall costs of administration at least initially. As this step is suggested in pursuance of the LIC's social objective of spreading life insurance business in rural areas, the Committee recommends that a part of these costs should be reimbursed by the Government from the share of valuation surplus at present being allotted to it. We are dealing with this aspect separately in a later section.

Data Processing System

15.26 In Chapter VII we have already pointed out that the existing Unit Record Machines as well as the Data Processing System of the LIC have become totally obsolete and this is the major cause of the serious deterioration in policyholders' service operations. We have also pointed out that the deterioration in the functioning of the data processing system is so serious that unless very urgent action is taken to replace the existing system by a more modern and reliable system, the LIC will soon face a complete breakdown in its data processing system with very serious consequences on its service to policyholders as well as on its overall financial working. In view of the situation which has been described at length in that Chapter the Committee strongly recommends that the LIC should arrange for a complete change over from the existing data processing system based on the Unit Record and Adrema machines to a versatile and modern system as early as possible. The system that the Committee recommends for consideration of the LIC is one based on installation of micro-processors at the larger Branch Offices and mini-computers at the Divisional Offices. The micro-processors at the branch offices will attend to the work relating to premium billing and premium and commission accounting, and will also replace the policy and the loan ledgers at the branch level. A consolidated data of the policy would be available on the floppy disc or the magnetic tape attachment to the micro-processor. The new system will replace the multiple file system obtaining at present where records of the policy are spread over a number of files such as premium ledger, loan ledger, premium master card and demand receipt cards, valuation master cards, adrema plates, etc., by a single consolidated record maintained on the magnetic tape or floppy disc. The same consolidated record of the policy will also be available on the mini-computer at the Divisional Office which will exercise automatic control on all the operations of the Branch Offices. The mini-computer will also act as a servicing medium for the smaller branches which will not be in a position to instal a micro-processor and for the still smaller Development-cum-Servicing centre in the rural area. The smaller Branch Offices will continue to maintain individual policy ledgers but all premium and commission billing work will be handled by the Divisional office. The Development-cum-Servicing centres will not maintain any policy ledgers or other records but they will still be able to render essential services to the policyholders on the basis of updated status cards suplied by the Divisional Office.

15.27 Some of the important advantages of the new system in improving the service to the policyholders are indicated below :

(i) Apart from being more reliable and regular, the premium notices would be more in the nature of a statement of account and will include particulars of loan and interest dues, other outstanding dues like "X-charges", outstanding deposits, etc.

(ii) It will make it easier for the LIC to change the present system of preparing receipts in advance along with the premium notices, leading to a substantial saving in cost.

(iii) It will enable the LIC to take automatic loan foreclosure action in cases where such foreclosure becomes necessary in accordance with the conditions of the loan bond.

(iv) It will enable the LIC to exercise stricter controls on all agency commission payments including bonus commission payments and also enable the LIC to effect a change over in the commission payment system on the lines recommended by the Committee or in any other manner.

(v) It will ensure timely issue of maturity intimations and thus help expeditious settlement of maturity claims.

(vi) It will also help considerably in improving the servicing of SSS business and reducing substantially the cost of its servicing.

(vii) It will eliminate duplication of functions and records between the Branch offices and the Divisional offices, which still obtains to a great extent, by providing automatic controls on branch operations.

(viii) It will make it possible for the proposed small development-cum-servicing offices in the rural centres to provide most of the essential services.

(ix) As we have pointed out in Chapter X, the financial control systems in the LIC are not at all working effectively leading to increasing mistakes involving losses to the LIC and also opening up possibilities of large scale frauds. A change over in the data processing system will help considerably in tightening up the financial controls and thus preventing losses.

15.28 The Committee is satisfied that such a change over would not reduce employment opportunities in the LIC. As the Committee has pointed out in an earlier section, as the LIC is now functioning, life insurance has ceased to be viable as a saving medium and unless urgent steps are taken to restore its economic viability, the business is bound to be grievously affected with serious effect on the employment opportunities in the LIC. On the other hand, if the LIC is enabled to restore the economic liability of life insurance as a saving medium, and also to improve its services to the policyholders, it would result in increased business, with consequent increase in employment opportunities.

15.29 The Committee would again like to emphasise that unless the change is implemented at an early date, there is a serious danger of a complete breakdown in the existing data processing system with very serious consequences on its service to the policyholders as well as on its overall financial working.

CHAPTER XVI

EXPENSES OF MANAGEMENT

16.1 In Chapter VIII, we had arrived at the conclusion that the remedy for the high level of expenses of management has to be found in tackling the problem of expenses under the two major heads *viz.* (i) administrative staff salaries and (ii) development officers' salaries and other development costs.

16.2 As was noted in that Chapter, the most important head of expenses is administrative staff salaries. It was also noted that during an inflationary period staff salaries will inevitably increase more rapidly than the premium per policy in force, and to prevent the cost of servicing becoming burdensome to the policyholder, it would be necessary to improve the productivity of the staff so that the same staff can service a larger number of policies in force. The Committee, therefore, recommends that the LIC should continually review : (i) its administrative procedures, (ii) its data processing techniques, (iii) its methods of organising work, and (iv) its general personnel policies as affecting staff attitudes and motivations, so as to improve the overall productivity of the staff and to enable it to control effectively the number of staff required to service its business.

16.3 The Committee also recommends that decentralisation of servicing functions to Branch Offices should be completed soon. This should be accompanied by introduction of a more efficient data processing system, to which a reference has been made in Chapter XV, for ensuring effective control on the functioning of the Branch Offices. This would also eliminate duplication of work and records between Branch Offices and Divisional Offices, which exists at present, and would thus help in reducing costs.

16.4 In respect of the other major head of expenses, namely, development officials' salaries and other development costs, the changes already suggested in Chapter XIV in the pattern of field organisation involving elimination of one tier between the agent and the Branch, and the suggestions made for professionalisation of the agency organisation would help in reducing the number of Development Officers required by the LIC and thus help in reducing the total costs under this head.

16.5 As regards agent's commission, for reasons already given in Chapter XIV, the Committee is not in favour of any basic change in the existing commission pattern. The Committee, however, is of the view that the change suggested by it namely linking payment of commission to the agent's obligation to render certain services to the policyholders, would help in avoiding payment of renewal commission to a number of non-functioning agents, and thus help in reducing the total outgo under the head of commission. Further, as the Committee had already pointed out in Chapter X paragraph 10.17 controls on payment of commission to agents are not working satisfactorily at present and a number of cases of excess payments and payments where none are due are being reported. The Committee is convinced that introduction of a more efficient data processing system will ensure stricter control on commission payments and thus help in reducing the cost under this head.

16.6 The Committee further recommends that the LIC should undertake, on a continuing basis, a cost benefit analysis of various services rendered to the policyholders. Where it is found that the cost of a particular service has over the years increased substantially and it is not a contractual obligation and is availed of only by a small minority of policyholders, the LIC may consider whether it is essential to continue this service, and, if so, whether any specific fee can be charged for such service. We may point out that the idea of prescribing a special charge for certain non-contractual services is not a new one. For instance, the LIC does charge a fee for alterations in policies. We may also point out that the LIC had also discontinued some services such as issue of bonus intimations, and in a number of Divisional Offices, issue of loan interest notices. Of course the Committee would like to point out that when the LIC changes over to the improved data processing system it will be possible to reintroduce some of these services without any extra burden on the LIC. Instances of some of the services for which special charge can be considered are given below :—

(i) For certain types of alterations in policy contracts, the LIC now charges either a quotation fee of Rs. 5 or an alteration fee of the same amount. These charges were fixed at a time when the actual cost of these operations was low. The LIC should reexamine the fees now being charged in the light of the actual direct costs involved and consider whether and to what extent the existing fees should be increased.

(ii) At present, the practice is to insist on age proof being submitted along with the proposal. However, in a number of cases this is not being done. There are also, a large number of old policies where the age has not been proved and admitted. When proof of age is received after issue of the policy and it transpires that the age originally given is wrong, a considerable amount of work is involved in endorsing the policy for appropriate changes and collecting or refunding the difference. In all such cases it would be justifiable to charge a fee, the amount of which can be decided on the basis of an analysis of the unit cost of this operation.

(iii) In certain types of cases the LIC permits an existing policy to be substituted by a new policy under the married Women's Property Act. At present, the LIC charges only a nominal fee of Rs. 5 plus the actual policy stamp charges for giving effect to such a change. Considering the amount of work involved in giving effect to such a change, the fee charged by the LIC would appear to be inadequate and the LIC should consider increasing the fee suitably.

(iv) At present, a policyholder is allowed to have his policy records transferred from one Branch or Division to another on his changing his residence. The work and cost involved in effecting the transfer are substantial. The LIC should, therefore, consider charging an appropriate fee for such transfers of policies. In this connection it may be noted that the policyholder has the option to remit his premium by cheque to the original branch and the LIC accepts all outstation cheques at par. Therefore, a policyholder who has a bank account will in practice suffer no inconvenience even if the policy records are not transferred.

16.7 Suggestions made in the previous para are only by way of illustrations and are not intended to be exhaustive. Decisions should be taken by the LIC after examining all aspects of the problem. In general, the LIC should undertake detailed cost benefit analysis of all such servicing operations to enable it to control the costs of policy servicing and to preserve equity between different groups of policyholders.

16.8 The Committee recommends consideration of the following further suggestions :—

(i) Cost of servicing a policy with half yearly mode of payment is substantially higher than that of a policy with yearly mode and the cost of servicing a policy with quarterly or monthly mode is higher still. In the Committee's view, the present rebate for mode does not reflect adequately the difference in cost of servicing of policies with different modes of payment of premiums. The Committee, therefore, suggests that the rebate for yearly mode, which at present is Re. 0.75 per Rs. 1.000 sum assured, should be inceased to at least Re. 1 per Rs. 1,000 sum assured and suitable extras charged where premiums are paid quarterly or monthly.

(ii) The cost of servicing depends on the number of policies serviced. It is, therefore, in the interest of the LIC that a policyholder insuring for a large sum is persuaded to take out a single policy for that sum and not split it up into a number of policies for smaller sums. For this purpose, the LIC is already allowing a rebate of Re. 1 per Rs. 1,000 sum assured for policies of Rs. 25,000 or more. The result of this is that a policyholder insuring for Rs. 1 lakh and over, is advised by the agent to take out several policies of Rs. 25,000 each. The Committee, therefore, suggests allowing higher rebates for polices of Rs. 50,000 to Rs. 1 lakh.

(iii) At present, the LIC is charging interest at 7.5% for late payment of premium. As the LIC is today earning a gross rate of interest of over 7.5% on its existing investments and about 8.9% on its new investments, the Committee recommends that the rate of interest charged for late payment of premium should be increased to a minimum of 9%. The Committee has also noted from an analysis of the Internal Audit reports that there is a considerable laxity in many of the offices of the LIC in collection of interest for late payments. The Committee, therefore, recommends a stricter enforcement of the rules regarding collection of late fees in all cases.

(iv) At present, the LIC is required to affix on each policy a stamp of a value depending on the amount of the policy. This task is tedious, time consuming and in addition involves keeping control on the stock of stamps. The LIC has, therefore, taken up with the Government a proposal that it may be permitted paying a consolidated stamp duty and exempted from individual stamping. The proposal is still pending with Government. There is another matter which bears on the rate of stamp duty itself. Now stamp duty is levied on Group Insurance policies on the same basis as on individual long term life insurance policies, that is, on the sum assured. As Group insurance provides only year to year risk cover at a very low rate, the stamp duty bears heavily on the Scheme. Group insurance policies are like General Insurance policies where the cover is from year to year and the LIC has represented to Government to change the duty on group insurance policies to bring them on par with general insurance policies. This proposal is also still under the consideration of the Government. The Committee recommends that the proposals of the LIC should be considered favourably and appropriate action taken early.

16.9 Apart from the above suggestions the Committee recommends that the LIC should undertake on a continuing basis a study of the unit cost incurred by the branch and the divisional offices for the various operations required to be undertaken in the normal course of servicing separately for each office. The

Committee has noted that there are large unexplained differences in the expense ratios of the various divisions. This study would, therefore, enable the LIC to investigate into the reasons for the wide differences and take appropriate corrective action wherever it is found that in certain offices unit cost of particular operation is unduly high. The study will also help in evolving simpler procedures based on practices of offices with low unit cost which can then be adopted by other offices.

16.10 Finally, the Committee would like to reiterate the urgent need for control on the expenses of management by keeping a watch on the trend of expenses and the level of expenditure of all the Divisional and Branch Offices. For reasons already stated in Chapter VIII, the Committee is of the view that the adjusted renewal expense ratio may be accepted as a practical guide to judge the trend in the level of expenses of management of the LIC and that all efforts should be made to bring this ratio down to 12.5% or less.

CHAPTER XVII

INVESTMENT

17.1 In Chapter XII, we have pointed out how life insurance in India has become non-viable as a saving medium a major reason being the comparatively low yield on its investments. In spite of this, the LIC has so far been able to mobilise large amounts of savings which have been available to Government for its various plans and for other socially oriented projects. The annual accretions to the LIC Funds now exceed Rs. 700 crores. As mentioned earlier, such mobilisation has been possible hitherto mainly due to the high pressure salesmanship of the LIC's field force on the one hand and the lack of awareness of other options among the public on the other. This situation is not likely to continue and unless early steps are taken to make life insurance viable as a saving medium, we are afraid that the LIC will no longer be able to play its vital role in mobilisation of savings.

17.2 In the United Kingdom, life insurance has still retained its competitive edge as a saving medium, because of the opportunities available to the U.K. Insurance companies of investing in equities and real properties, which are able to give a much higher "yield". The concept of "yield" takes into account not only the current income on the investment but also the expected capital gains or losses. The U.K. insurers are able to maximise the "yield" on their investments by a judicious selection of investments spread over a wide range. In India, opportunities for investment in equities are extremely limited and it is, therefore, not possible for the LIC to invest any appreciable proportion of its funds in equities even if the statutory restrictions are removed.

17.3 At present, the major avenues of long term investments in India are Government securities and term loans to State Governments and to public and private sector institutions for their development projects. As these investments do not provide any hedge against inflation, the only way the long term investors can protect themselves against the effect of inflation, is by introducing the concept of a variable rate of interest, a concept which has already been introduced by the LIC in respect of its mortgage loans and loans to State Electricity Boards (*vide* Para 9.37). It has to be noted that, at present, the rates of interest available to the public on short term investments like Five Year Bank deposits or Seven Year National Savings, are higher than the return available to the LIC on its investments. Apart from this, the advantage of such short term investment is that the investor will be looking up his funds only for a short period and if the current inflationary trends continue and interest rates rise, he will be able to re-invest his money at higher rates of interest. Apart from these avenues of investment, a number of companies, which attract short term deposits, give the benefit of increased rates of interest to the existing depositors when they increase the rate of interest on new deposits. Similar benefit was also given by the Banks and National Savings deposits in Post Offices in the past. The Committee, therefore, recommends that the Government should review its policy insofar as the LIC is concerned regarding rates of interest on Goverment and approved securities and on long term loans for private and public sector projects and consider allowing a variable rate of interest linked to a suitable index on all such long term financial investments, where the possibility of any capital gain to offset the effect of inflation is not there. The nature of the linkage will inevitably have to be different for different forms of financial investments and is a matter to be decided by the Government and the Reserve Bank.

17.4 Apart from the general issue considered in the previous paragraph, the Committee would also like to emphasise the necessity for improving the overall yield on the life insurance fund. As the Committee has already pointed out, the traditional individual life insurance business, by its nature, involves a relatively high level of selling and administrative expenditure. The accepted measure of the level of expenses of the LIC is the renewal expense ratio and the lowest level of renewal expense ratio the LIC had achieved was about 12.5%. Even if this is accepted as the maximum limit for expenses for the LIC, this level of expense ratio would still be equivalent to a reduction in the gross yield by about 1⅞% for a 20 year endowment policy, which can be taken as the average term. A further 0.6% is taken away by income-tax and the Government share of surplus. Thus, if the LIC is to be enabled to compete with other savings media, the gross yield on its investment should be at least 2.5% higher than that on other comparable media. Today, an individual is permitted to invest in Public Provident Fund on which he will be getting a tax free yield of 7½% and obtain the same relief from income-tax as on life insurance premia. Therefore, if the yield to the policyholder on his investments in savings linked life insurance policies is to be comparable to the investment in Public Provident Fund the gross yield on the life insurance fund should be at least 10%. At present the LIC is able to obtain the gross yield of about 8.9% on the average on its new investments. It would, therefore, be necessary to change the pattern of investment of the LIC in such a manner that the LIC is enabled to earn at least 1.1% more on its total investments to enable it to compete with other savings media like Public Provident Fund.

17.5 In the light of the above considerations, the Committee submits the following recommendations for consideration of the Government:—

(i) At present, the LIC is required to invest about 50% of its total investments in Government and other approved marketable securities. The Committee has noted that approved trust funds like provident funds and gratuity funds are required to invest only 40% of their total investments in such securities. The Committee, therefore, recommends that for the LIC also this percentage should be reduced to 40%, 20% in Government Securities and 20% in other approved marketable securities.

(ii) In respect of the 25% of the investible funds which at present are required to be invested in socially oriented projects, different rates of interest are offered on loans to Government, loans which are guaranteed by Government and loans which are granted to public sector institutions like the State Electricity Board on the security of a mortgage. The Committee is of the view that this distinction is unjustifiable and it recommends that all such loans should be granted at the market rates of interest for such term loans, which also is determined from time to time by the Controller of Capital Issues in case of debentures and by the consortium of financial institutions in case of term loans. At best, a differential of half a per cent may be retained for loans to Government and also to semi-Government institutions, because of the implied Government guarantee.

(iii) As for the LIC's investments in the private corporate sector, the Committee has already noted that the LIC's investments by purchases from the market have been generally satisfactory and the capital appreciation on such investments has enabled the LIC to offset the depreciation on its investments in Government Securities. However, the LIC's experience in the underwriting of equities of new projects has not been satisfactory. The Committee, therefore, recommends that the LIC should restrict its participation in financing of new projects in the corporate sector to term loans and that too after closely examining the financial viability of the project. This should not preclude the LIC considering cases where an existing company, well-managed and successful, goes in for further equity capital for financing an expansion or new project, where equity participation may be considered on individual merits. In short, the LIC should not be viewed as a developmental organisation.

(iv) So far as the balance of the funds is concerned, the Committee recommends that the LIC should consider increasing its investment in the housing field, both residential and commercial housing, subject to the condition that the net return on such investments after taking into consideration the expenses involved, is not less than what is obtainable on comparable investments in the socially oriented sector. The Committee would like to point out that at present large profits are being made by private builders in the field of urban housing and the LIC can provide, with the active help of the State Governments, housing for both commercial and residential purposes on more reasonable terms, but with quite attractive returns.

17.6 What is stated above applies to the ordinary life fund. As regards the special Fund proposed by the Committee to be set up by the LIC for policies which will not be eligible for income-tax relief (Chapter XIII—para 13—15), the Committee has already recommended that the whole of this fund should be placed in a special deposit account with the Government carrying a rate of interest of 2% more than what is at present available on National Savings Certificates of Seven Year term. Here again, the Committee would like to suggest that the rate of interest on such deposits should be variable and as and when the rate if interest on National Savings is changed, a similar change should also be made in the rate of interest available on this fund, subject to a certain minimum rate of interest being guaranteed.

17.7 As regards the ordinary life fund, a suggestion has been made to the Committee that whole of this fund, except for a portion to be retained for loans to policyholders, should be handed over to the Government who would guarantee a reasonable rate of interest on the fund. The Committee is unable to agree with this suggestion because of the following considerations:—

(i) As the Committee had ponnted out earlier, investment of its funds with a view to securing the maximum yield consistent with security is the prime function of the management of life insurance companies and not something subsidiary or extraneous to the main task of securing and administering the insurance business.

(ii) The return to the policyholder depends both on the yield obtained on the life insurance funds and on the level of expenses incurred by the insurer in the sales and administration of life insurance business. These two functions cannot be separated. When a policyholder takes out a with profit policy with the LIC, he looks upon the LIC to ensure that both these functions are efficiently performed so that the policyholder gets a reasonable return on his investment. If one function of investment is to be taken over by the Government, then the Government would also have to accept the responsibility of ensuring that the expenses are kept within a specified limit and if the actual expenses exceed this limit, the difference will have to be met by the Government itself and not by the policy-holders.

(iii) The role of the LIC is to mobilise long term voluntary savings of the people just as the role of the Banks is to mobilise the short term voluntary savings. The short term savings mobilised by the Banks are utilised for providing working finance to industries and commerce and the Banks are left free to handle this work themselves. As the long term savings are mobilised by the LIC, it should be similarly left free to utilise the same for providing long term finance for various development projects both in the public and private sectors.

(iv) If the LIC is to play effectively the role of extending life insurance coverage to rural areas and among the unorganised sector in the urban areas, it will have to establish close liaison with the various State Government agencies. This would be made easier if the LIC is also directly investing in various State Government projects so that a certain community of interest is established between the LIC and the various State Governments. In the absence of such a liaison, the LIC may not be able to get the necessary co-operation from the various State Governments, which is essential for the success of its efforts in extending group insurance as well as individual insurance coverage to the rural areas.

17.8 In the light of the above considerations, the Committee is of the view that the LIC should be allowed to continue the management of its investment function, subject to the modifications in the investment policy suggested by it.

CHAPTER XVIII

MANAGEMENT INFORMATION AND CONTROLS

18.1 In Chapter X we have given detailed information regarding the existing management information and control systems in the LIC and indicated the areas where improvements are necessary. The Committee has noted that the LIC has been making continuous efforts for improving this area of management, so that a close watch can be kept on the performance of the various offices. The main problems in this area are the delays in obtaining the information as well as the unreliability or inadequacy of the information itself. These are due to the defective data processing system.

18.2 As was pointed out in that Chapter, with the present data processing system, the LIC is unable to compile many items of essential information like the number of lives covered through individual assurances and the business in force in various centres, particularly in the rural areas. Again, because of the poor data Processing system, the operating offices are not able to obtain agent-wise, development officer-wise and branch-wise statistics of lapses and it is also not possible to get analysis of lapses according to plan of insurance or month of issue or other similar analysis. Non-availability of such statistics makes any effective preventive or follow-up action in this important area extremely difficult. There are several other areas where timely and accurate information alone will enable the management to take sound decisions. All this reinforces the need for an urgent change over from the existing data processing system based on unit record and adrema machines to the new system recommended by the Committee in Chapter XV.

18.3 A change over to a new data processing system will naturally require careful planning and time for implementation. An immediate beginning must therefore be made in that direction. However, there is one area where immediate action is both imperative and fortunately possible as well. This is in the area of improving the data base for actuarial valuations and mortality investigations. At present all statistics required for this purpose have to be obtained from the punched card files of Valuation Master cards maintained at all the Divisional Offices. The Chief Actuaries of the LIC in their Valuation Reports have during the last ten years repeatedly been pointing out the large extent of inaccuracies in the Valuation Master card Files which are affecting the credibility of the actuarial valuations. Further, inaccuracies in the Valuation Master card Files as well as the inadequacy of the Unit Record machines make mortality investigations equally unreliable. The Committee, therefore, recommends that the LIC should immediately examine the possibility of maintaining purely as a temporary measure the valuation data at the Central Office on the Bombay computer. For this purpose, the existing Valuation Master card and Premium Master card files can be duplicated and transcribed on magnetic tape. A computer programme should be urgently worked out to collate the two master card files, provide internal checks on the accuracy of the data and print out a complete Division-wise list of all policies where the two files do not check or where the internal checks on the computer detect mistakes in data. These lists will then be checked against the original policy ledgers, the correct position ascertained and necessary corrections carried out. On the basis of such purified data, a master file on magnetic tape should be built up at the Central Office. The computerised data in Central Office will be processed for the various ON and OFF movements by getting ON and OFF data in the form of tapes from the various Divisional Offices every month. This centralised data base can be processed for the following jobs :

(i) Actuarial valuations including analysis of surplus ;

(ii) Mortality investigations ;

(iii) Preparation of statistics required for statutory returns.

18.4 Such a change over to a computerised data base for the basic valuation records would also enable the LIC to obtain various statistical statements required for management control purposes and also enable the Chief Actuary to experiment with different methods of valuation and analysis of surplus. The Committee recommends that the LIC should take immediate steps to effect a change over to a computerised data base for the actuarial valuations and mortality investigations. The Committee would, however, like to point out that the step suggested by it is a short term measure till a complete change over to the new data processing system is effected at all the Divisions. When that is done, it will no longer be necessary to have any centralised data at the Central office level and the work can be handled at the Divisional Office itself.

Internal Audit and Inspection Department

18.5 In Chapter X-para 10.17, we have given details of some of the more important aspects noted by the Committee from a study of a number of internal audit reports. This clearly brings out that at present the financial controls within the LIC are not working at all satisfactorily in many areas. Though in many cases the unsatisfactory working of the financial controls can be attributed to the limitations and failures of the existing data processing system, the Committee feels that even under the present system it is both possible and essential to tighten up the existing controls. The Committee, therefore, recommends that the LIC should urgently undertake a detailed examination of the working of the existing financial controls based on a study of the Internal Audit Reports and take appropriate action for strengthening the existing controls.

18.6 The Committee also noted that the follow-up action on the various "major" irregularities pointed out in the Internal Audit Reports is far from satisfactory. The Committee, therefore, suggests that pending consideration of the Committee's recommendation on the changes in its organisational structure, the LIC should consider transfer of the control over Internal Audit function from the Central Office to the Zonal offices. The Committee is of the view that the Zonal Manager being the Chief Executive responsible for exercising supervision over the working of all the offices in the Zone on behalf of the Central Office, should also be the officer responsible for ensuring that corrective action is taken on the defects and irregularities pointed out in the Internal Audit Reports. Responsibility for all corrective action to be taken on the Internal Audit Reports should, threfore, be vested completely in the Zonal Manager.

18.7 The Committee further suggests that in each Zonal Office, an Audit Committee should be constituted consisting of the Zonal Manager and two Members of the Zonal Advisory Board, who would go into all the Internal Audit/Inspection Reports of the various offices of the Zone and indicate the lines on which corrective action should be taken.

Budgetary control

18.8 The Committee is of the view that for budgetary control to be really effective, it should start at the Branch level. The Committee, therefore, recommends that the LIC should urgently consider making the Branch office an accounting unit, so that formulation of financial budgets at the Branch level is facilitated.

18.9 The Committee also recommends that from the point of view of proper financial controls and planning, it is essential that the expenses which relate to the handling of investments, including investments in mortgages and buildings, are debited to the capital or interest or rent account as may be appropriate and not to the expenses of management so that a correct picture of the actual return on the investments of the LIC is obtained. Similar action is necessary regarding rents charged on properties owned and occupied by the LIC. At present, only an "imputed" rent at a nominal rate of 3.5% of the capital costs is charged on all such properties. The Committee suggests that rent at "market" rates should be charged on all such properties, so that the costs incurred under this head are correctly reflected in the revenue account of the LIC.

18.10 At present, the budgetary exercise in the LIC is only in the nature of an accounting exercise with a view to effecting some control on expenditure. Apart from the formulation of the financial budgets, budgetary targets are also fixed in respect of new business and some performance targets are fixed in a few selected areas like claims settlement and deposit adjustment. However, no detailed exercise in the form of performance budget has yet been undertaken though a beginning in this direction was made and broad operational goals were laid down by the LIC in some areas of its operation. The Committee recommends that the LIC should consider introduction of a detailed performance budgeting system covering all the important areas of the LIC's objectives and operations and also arrange for a continuous review to be made of the actual performance in relation to such budget.

CHAPTER XIX

MANAGEMENT OF HUMAN RESOURCES

19.1 In Chapter XI we have made a detailed review of the problems which the LIC has been facing in the area of management of human resources, the steps that have been taken to tackle these problems and the extent to which it has succeeded in achieving its basic objectives in this area. As a result of this review we have come to the conclusion that the LIC has not achieved much success in "involving all the people working in the Corporation to the best of their capability in furthering the interest of the insured public and providing efficient service with courtesy" and "promoting amongst all employees of the Corporation a sense of job satisfaction" which are the two corporate objectives of the LIC in this area. In the Committee's views this is partly due to the general socio-economic environment in the country, partly a result of the continuing industrial unrest in the organisation and partly to a lack of any serious effort on the part of the management to understand and analyse the underlying problems and to develop personnel policies which could help in improving staff morale and attitudes. We shall now deal with the major areas where in the Committee's view corrective action is necessary and also indicate the specific steps which the Government and the LIC should take to improve the situation.

19.2 The major problem exists in the area of wage negotiations and industrial relations. In the detailed review in Chapter XI we have pointed out that the broad conclusion which emerges from the history of wage negotiations between the LIC and its employees' associations is that the present procedure which requires the LIC to obtain prior Government approval for any revision in salary scales and terms of remuneration of its employees has not been working satisfactorily and has led to a more or less continuous industrial strife, leading to frequent work stoppages and work disruption and lowering of the morale of the employees at all levels. The Committee is of the view that the present system under which responsibility for negotiations with its staff Unions is vested in the LIC while all decision making authority involving even minor changes in any term or condition of service is vested in Government is inherently unsound. The Committee accepts the need for having a measure of uniformity in service conditions and wage structures amongst the different public sector institutions. However, in the Committee's view this can best be achieved by Government laying down guidelines in this matter which must be followed by all public sector institutions. The guidelines should be in broad terms so that while ensuring basic uniformity in wage structure, levels of remuneration and other service benefits, it does not affect the freedom of the public sector management to evolve its own personnel policies. Once such guidelines are framed by the Government and issued as directions to all the concerned public sector institutions, the management of the institution should be left free to evolve their own personnel policies and also to conduct negotiations with their staff unions and arrive at specific decisions within the confines of the guidelines laid down by the Government. This will ensure that a level of uniformity is maintained amongst the various public sector institutions and at the same time will still leave enough freedom to the institutions to deal with their own problems and evolve effective personnel policies. It would then be possible to evaluate objectively their performance in the area of management of human resources. The Committee recognises that policies in such an important area cannot be static and will have to change from time to time in the light of the socio-economic environment in the country and socio-economic policies of the Government. It may, therefore, be necessary to change these guidelines from time to time. It will also be necessary for the institutions to modify their personnel policies in terms of such changed guidelines.

19.3 If the Government finds that it is not possible to lay down guidelines on the lines suggested by us, an alternative is to set up common Pay Commissions for all public sector institutions of similar type. For example, one Pay Commission can be set up for all public sector financial institutions like LIC, GIC, Banks, etc., another for public sector trading organisations like the STC, MMTC, etc. Other Commissions may be set up for public sector industrial establishments. The awards of such Commissions, with such modifications as the Government may consider necessary, in the light of its general economic policies, would then be binding on the institutions and the institutions would not be required to conduct separate negotiations with their staff Unions. In any case the Committee is of the view that the present procedure requires a thorough review and recommends that such a review should be undertaken by the Government urgently.

19.4 The second important factor which in the Committee's view considerably affects the progress of the LIC is the frequent changes of the incumbents in the post of the Chairman of the LIC. The Committee would like to point out that the management style of the Chief Executive affects the organisational culture and management motivation in an organisation to a considerable extent. Frequent changes of the chief executive lead to changes in management styles and consequent uncertainties in the management personnel at all levels about the continuity of organisational policies. The Committee has noted that within a short span of 24 years, there have been as many as 11 Chairmen in the LIC. During the last five years since 1975, there have been four changes. Such very frequent changes of chief executive have led to a situation where concentration of the top management has been mainly on dealing with day to day problems and there has been a more or less complete absence of interest in the area of long term planning. There has also been a tendency to avoid hard decisions and adopt soft option whenever faced with difficult organisational problems. The Committee is convinced that for an institution of the size and importance of the LIC, which is required to work on business principles, it is essential to have some continuity in the post of the chief executive. The Committee, therefore, recommends that the post of the Chairman of the LIC should be treated as a tenure post with a fixed term of five years. Where a career officer from within the organisation is selected for the post, which in the Committee's view should be the normal practice, the question of retirement just because he has reached the age of retirement before the completion of the full tenure of appointment should not arise and he should be allowed to complete his full tenure even if this takes him beyond the normal age of retirement. The Committee would like to make it clear that its recommendation of a five year tenure would not affect the right of the Government to change any existing incumbent if it is not satisfied with his overall performance. The Committee would also like to clarify that if a career officer within the LIC is selected for the post at a relatively young age, the Committee's recommendation would not mean that he would be required to retire from service at the end of the tenure period, even though he may not have reached the retirement age. In such a case, if the Government is satisfied that the incumbent has been doing well, his appointment may be extended beyond the five year period till his normal age of retirement. The underlying principle behind the Committee's recommendation is that in normal circumstances the incumbent of the post of the chief executive should not be changed within a period of five years, so that he can take initiative in the matter of long term planning and also see that steps are taken for implementing such plans. It would also ensure removal of uncertainties in the management personnel at all levels about the continuity of organisational policies. What we have stated regarding the post of Chairman of LIC would apply equally to the posts of Chairmen-cum-Managing Directors of the Zonal Corporations, if our recommendation of splitting up the LIC into five independent Zonal Corporations is accepted (vide Chapter XX).

19.5 The Committee would also like to point out that what we have stated regarding frequent changes in the post of Chairman applies equally to senior posts within the organisation. Appendix 59 gives statistics regarding the number of changes in the post of Zonal Managers and Divisional Managers during the last 24 years of the LIC's existence. It will be seen that there are a number of cases where there have been very frequent changes in these posts. The Committee recommends that the LIC should review its policy regarding fixation of minimum and maximum tenure for the post of Divisional Managers and other senior executives and consider the desirability of avoiding frequent changes in these posts so as to ensure continuity in management.

19.6 An important area where a review of the existing procedure is necessary is the appraisal system and promotion policy for class I officers. The Committee has already pointed out in its detailed review in Chapter XI that the present reporting system is not satisfactory. A general impression exists that there is a lack of objectivity in reporting and most of the confidential reports are colourless. The need for a thorough review of the existing system has therefore been recognised for a long time.

19.7 In the Committee's view, the essential characteristics of a satisfactory appraisal system are : (i) It should function as an effective management development tool; (ii) The reporting officers should be trained in the proper use of this tool; (iii) It should find general acceptance among the officer class as a whole. The present system does not satisfy any of the above three criteria. In the following paragraphs we give an outline of what we consider to be a more effective appraisal system.

(i) The entire appraisal system should be re-oriented so as to function as a management development tool. The present concept of the confidential report being mainly meant for considering promotions of officers should be modified.

(ii) At the beginning of the year, each officer's management job description should be clearly outlined and the key result areas (KRA) of the job should be defined. At the same time some measurable time bound objectives pertaining to each KRA should be settled. All this would be done at a meeting between each officer and his immediate superior, who would be his reporting officer. This very process if taken seriously will automatically contribute to management development. The format of the appraisal form will itself institutionalise this process.

(iii) Each reporting officer should sit with his subordinate at the interval of every three months to formally review the past period's progress towards the objectives set at the beginning of the year in each of the KRAs. A simple interim review form may be used by the reporting and reportee officers, to record the result of such reviews, including modification of the objectives set at the beginning of the year where necessary. The circumstances attending the person's performance and the quality of efforts put in should be specifically considered at such meetings.

(iv) Apart from the periodical meetings between the reporting officer and his subordinates, group conferences of all the officers of the department should also be held at periodical intervals to discuss the business performance of the department as a whole. This would not form part of the individual appraisal but would be an important step in the process of management development and motivation.

(v) The annual performance appraisal form should be filled up on the basis of the cumulative interim review forms already compiled according to sub-para (iii) above. The report will deal with the actual achievements against the objectives, both original and modified, for each KRA and describe qualitative means and efforts employed both favourable as well as unfavourable. This performance report, which will be in the form of a self-appraisal by the officer reported upon, with the comments and review of the reporting officer, will be an open report. The performance will be rated by the reporting officer on a five point scale from 'Outstanding' to 'Poor', but this rating will not form part of the open report.

(vi) The second part of the report will give a short list of non-overlapping and unambiguous personality traits. These should also be rated separately for each trait, and taking all the traits together, on a five point scale from 'outstanding' to 'poor'.

(vii) A separate statement should be provided in the appraisal form to clearly specify the job rotation, training and transfer needs of the officer, both as sought by the reportee officer during the interim reviews and also on the basis of the reporting officer's own appraisal of these needs.

(viii) Whenever there are differences between the reporting officer and the reviewer, the personnel department should arrange for discussions between them where the interim review record notes should also be considered. On the basis of such discussions an agreed final rating about each reportee officer should be incorporated in the annual performance appraisal documents.

19.8 What we have described above is only a brief outline of an alternative appraisal system, which we feel would better serve the purpose of an effective management development tool. However, as we have already stated earlier, for effective working of any appraisal system it is necessary that the reporting officers should be properly trained in the use of this tool and there should be a general acceptance among all the officers of the effectiveness of the tool. For this purpose the Committee suggests that the alternative system should be introduced to start with on an experimental basis in one or two selected Divisions. As a first step, there should be a general discussion among all the officers of the selected Divisions about the new approach. There should be a general understanding among officers at all levels about the new performance appraisal system, so that it is accepted as a management development tool which would help all the officers in their own development. The experiment should be inaugurated only after the necessary climate is created for its general understanding and acceptance. On the basis of the actual experience of the working of the new system in the selected Divisions over a period of one or two years a revised system to be applied to all the offices of the LIC can be evolved. The Committee recommends that on the basis of the suggestions made above, as well as the studies which the LIC has itself undertaken in the past, it should take urgent steps for a thorough review of its existing appraisal system.

19.9 As regards promotion policy also, the Committee feels that there is an urgent need for a review. Though for the vast majority of the officers the present promotion procedure, with an improved appraisal system, may provide a satisfactory basis, an ideal promotion policy should also provide for more rapid promotions for the few officers who have outstanding abilities. This alone will ensure that some outstanding officers can reach the top positions of the level of Zonal Managers and above at a reasonably young age. The second aspect of the present promotion procedures, which we feel requires a review, is the fact that at present promotion committees depend only on the confidential reports in deciding about the selection of an officer for promotion. We suggest that besides a study of the confidential reports, interview by the promotion committee should be added as an additional factor, on the basis of which final decisions on promotions are taken. This will provide a corrective factor for any deficiency of the appraisal system as reflected in the confidential report. This is all the more necessary where out of turn selections are being made of officers on the basis of outstanding merit and also in selecting men for key positions like that of Divisional Managers in-charge of Divisions or of Zonal Managers.

19.10 Apart from a review of the appraisal system and promotion policy, the Committee also recommends that the LIC should evolve a properly planned management development programme for its management personnel at all levels so that the existing management personnel are given adequate opportunities for development and future needs of the LIC in various areas are properly identified and steps taken to meet them.

19.11 An important part of a management development programme is an adequate training programme which would prepare the management personnel to prepare for changes—changes in the organisation and changes in their own roles in the organisation. In our review of Chapter XI we have indicated the three main areas where the existing facilities and programmes for training need to be strengthened. These are :—

(i) Training of all employees promoted from Class III and Class II to Class I so as to enable them to fully appreciate the nature of the change in their roles in the organisation and effectively function in their new roles.

(ii) Training of all officers who are being posted as Branch Managers in-charge of Branches for the first time.

(iii) Training of all officers who are being posted as Divisional Managers in-charge of Divisions.

19.12 As far as the first two items are concerned, the Committee feels that the Officers' Training College with its present facilities is not equipped to handle these two assignments adequately. The Committee, therefore, recommends that the LIC should consider setting up of training centres at the Zonal headquarters also. The Committee would particularly emphasize that a comprehensive training for the Branch Managers is absolutely essential if the Branch Offices are to effectively discharge their increased responsibilities in the decentralised set-up. Such training should not only help the officer to acquire basic knowledge of all the administrative and development functions performed at the Branch level, but also help him to imbibe the values and acquire skills in human relationship and management which would enable him to get things done through a co-operative and team effort.

19.13 As regards the training of officers being posted as Divisional Managers, the Committee understands that a new apex institution called the National Insurance Academy is being set up with the support of both the LIC and the GIC with the specific responsibility of evolving senior management development programmes and this academy will be entrusted with the responsibility for organising training programmes for senior executives like Divisional Managers. The Committee recommends that the LIC and GIC should ensure that the academy start functioning effectively at a very early date, so that this urgent task can be taken up without any delay.

19.14 Apart from the general question of management man-power development, it is necessary for the LIC to examine its existing man-power resources, its current and future needs of man-power with specialised knowledge and experience and draw up specific plans for proper utilisation of existing man-power and for meeting the current and future needs. For example, the LIC has a large number of employees who have passed the examinations of the Federation of Insurance Institutes and acquired qualifications which would enable them to handle many specialised jobs within the LIC. The problem before the LIC in respect of these employees is one of reorganising its work methods in such a way that these technically qualified employees are given adequate opportunities to utilise their technical knowledge and expertise in their day to day work and thus get job satisfaction and they are also provided adequate opportunities for growth within the organisation.

19.15 Similiarly, LIC has recruited a large number of Chartered Accountants. Such recruitment is being continued. The current and future needs of qualified accountants in the LIC are thus being satisfactorily met. The problem regarding these employees is to help them acquire general management skills, so that they would have opportunities to rise to higher levels outside their purely technical fields.

19.16 There is, however, one area where the action availability of technically qualified man-power is likely to be substantially less than the present and future requirements of the LIC. This is in respect of actuarially qualified employees. Though at the higher management level there is a fairly large number of actuarially qualified Officers, who had acquired these qualifications before nationalisation because of the opportunities then available for actuaries in India, the number of such officers at the middle and junior management levels has fallen considerably. The number of candidates qualifying in actuarial examinations in India has also fallen considerably in recent years. Appendix 60 Statement 1 gives statistics of the number of LIC employees as well as others qualifying for the Associateship and Fellowship of the Institute of Actuaries in India during the last 20 years. Statement 2 gives the number of Fellows of the Institute in the service of the LIC at the time of nationalisation, the number who qualified between 1957 and 1980, the number who retired from service or died in service, the number who resigned from service during this period and the number at present in service. Statement 3 gives the number of actuaries who will be retiring from the service of the LIC over the next few years. These statistics highlight the fact that the number of qualified actuaries in the service of the LIC has fallen considerably and in the coming years the LIC will find it increasingly difficult to meet its requirements of actuarially qualified personnel at various levels. The Committee's recommendations regarding the spread of Group Insurance business and change in the marketing of Group Gratuity and Group Pension schemes on the basis of the Managed Fund concept will necessitate the posting of actuarially qualified officers in all the Divisions of the Corporation. The Group Insurance department will also require actuarial assistants for undertaking the detailed calculations for premium quotations and also necessary investigations into the mortality experience of the insured schemes. For proper management control of the working of the Divisions, it is also necessary to have qualified actuaries in every Division to conduct mortality and other actuarial investigations. In the light of this, the LIC will be needing a large number of actuaries in the coming years which need it will not be possible for it to meet from the persons who are at present undertaking actuarial studies. The Committee recommends that the LIC should undertake an urgent study of this problem, prepare an estimate of the number of actuaries which would be required for its various offices in the coming two decades and draw up a specific plan and programme, which would enable it to meet these needs.

19.17 The most important problem in the area of management of human resources is how to improve the attitudes and motivation of staff at all levels. The

Committee was informed that one of the major causes responsible for the feeling of a sense of frustration and lack of involvement is the absence of adequate promotional opportunities among Class III personnel in the LIC. A very large proportion of the Class III staff in the LIC have been continuing in the same salary scale for a period of 10 to 15 years or even more irrespective of merit because of lack of promotional opportunities. The situation is very much different in the Banks. Appendix 61 gives the relative strength of Class I Officers and of Class III staff in some of the leading Banks along with similar statistics for the LIC. It also gives the relative strength of Class I staff on the Development side in the LIC and of Development Officers. It will be seen that the ratio of Promotee-Officers to clerical staff in the Banks is as high as 1 : 3.10 while the similar ratio for the LIC is 1 : 10.22 in respect of administrative officers and 1 : 4.66 in respect of Development staff. This clearly brings out that there is a much higher ratio of officers to staff in the Banks than what is obtaining in the LIC. The Committee appreciates that this relatively high ratio of officers to clerical staff in the Banks as compared to the LIC is to some extent due to the difference in the functions performed in the Banks and in the LIC. Even then the Committee feels that the ratio of officers to clerical staff in the LIC is too low for a service organisation and, therefore, recommends that the LIC should review its policies in the matter of relative strength of Officers and Class III staff with a view to providing additional promotional opportunities. The Committee is, of course, aware of the overriding need for controlling the total expenses of management. The Committee has, however, noted that because of the overlapping of salary scales, promotions by themselves would not add materially to the overall costs, provided the total cadre strength of staff is not increased. On the other hand it may, by providing better staff motivation, lead to increased output and ultimate saving in cost.

19.18 As a part of the programme for creating greater promotional oportunities to the clerical staff, the Committee recommends creation of more supervisory posts in the Branch Offices. The Committee has noted that at present according to the LIC's own calculations, the Divisional Offices are over-staffed while there is some under-staffing in the Branch Offices. This imbalance will be increased when the decentralisation of servicing functions to the Branch Offices is completed and duplication of functions between the Branch Offices and the Divisional Offices eliminated. Provision of more promotional opportunities in the Branch Offices would serve the dual purpose of facilitating transfers of excess staff from the Divisions to Branch Offices and improving staff morale by providing increased promotional opportunities to the Class III staff.

19.19 The Committee is also of the view that the recommendation that it is making for splitting up the LIC into five independent Zonal Corporations will by shortening the lines of communication help in creating a sense of identity and of belonging among employees of each of the Corporations. This would thus contribute to an improvement in staff motivation. Further, the Committee's recommendation for complete decentralisation of policyholders' servicing functions to Branch Offices would also be a step in the direction of improving job satisfaction and staff motivation. In small offices like the Branch Offices, if the Branch Manager has the necessary skills to act as a leader of the administrative and development teams and create the necessary team spirit among all the staff, it would help considerably in changing staff attitudes, morale and improve staff productivity.

19.20 Another recommendation of the Committee about the setting up of a number of Development-cum-Servicing Centres in the rural areas with a view to rendering better service to policyholders, will also help in improving the promotional opportunities. As the Committee has recommended, such servicing centres would be manned by one Officer in the Assistant Branch Manager's cadre and one or two employees in the H.G.A's cadre. This proposal will serve the dual purpose of providing additional promotional opportunities to Class III staff and of improving services to the policyholders and ensuring more rapid development of Group and Individual insurance business in the rural areas.

19.21 Generally, the Committee is of the view that if the LIC which has a large reservoir of trained and competent man-power takes steps to reorient its methods of organisation of work and evolve suitable man-power development programmes so that all the employees are given opportunities to utilise their qualifications, knowledge, experience and skills in their day to day work, and also given opportunities for self development, it would go a long way in removing the feeling of frustration at present prevailing among the employees and improving the overall staff morale and staff productivity.

CHAPTER XX

ORGANISATIONAL STRUCTURE

20.1 In Chapter III of Part I of the Report, we have discussed at length the organisational set-up of the LIC and the reasons for preferring a single monopoly Corporation in the initial stage. The discussion which took place in the Parliament when the LIC Bill was on the anvil brought out that although a single Corporation was being preferred "to start with", splitting up of the LIC into a number of autonomous Corporations would not be ruled out if subsequent experience rendered such a course expedient. Later, the Estimates Committee and the Committee on Public Undertakings pointed out what they felt were the inherent defects of a monopoly and suggested the setting up of a number of Corporations in place of the present one. On the other hand the Administrative Reforms Commission and the Morarka Committee strongly advocated the retention of the unitary structure of the Corporation while at the same time recommending abolition of the Zonal Offices and decentralisation of powers and functions to the Divisions and Branches. The Morarka Committee in their report had also stated that while they favoured an unitary structure for the LIC with elimination of one of the tiers of the Zonal Office, "if, after a full trial had been given to the proposal the Government feels that the results that have flown from the implementation have not adequately improved the level of expenses and administrative efficiency of the Corporation, if will, of course, be open to the Government to examine whether the present difficulties of the Corporation are the inherent consequences of the unitary form and consequently capable of removal only by altering the unitary structure of the Corporation, and refashioning as a federal apex Corporation with autonomous Corporations or completely independent competing Corporaions......". Though the Government had then accepted the recommendations of the ARC and the Morarka Committee of retaining the present unitary structure but eliminating one tier, namely, the Zonal Offices, difficulties in implementation of the decision to abolish the Zonal offices made the Government revise its earlier decision and the organisational structure of the LIC has continued unchanged.

20.2 The working of the LIC during the last two decades and over in the various areas of operations has been reviewed at length in Part I of the Report. This review clearly brings out that in spite of large growth in its business and efforts made for improving its service to policyholders and achieving economy in management, it has not been able to fulfil most of its primary objectives. The Committee is convinced that the present unitary structure has been a major factor in inhibiting progress. Some of the major considerations which have led the Committee to arrive at this conclusion are given below :—

(i) The LIC Act had visualised autonomous Zonal offices with only policy making functions vested in the Central Office. In actual practice, however, there has always been a tendency to centralise both executive as well as policy making functions at the Central Office, the Zonal offices having only limited supervisory and co-ordinating functions. This development should not occasion any surprise because the tendency to concentrate power in its own hands is inherent in all apex bodies.

(ii) Practically all the Committees that had gone into the working of the LIC have felt that the present four tier set up is both wasteful and cumbersome. This Committee shares this view. The recommendation of the ARC and of the Morarka Committee to reduce one tier by abolition of the Zonal offices has also not proved workable and after a brief experiment, the Government and the LIC found it necessary to restore the *status quo ante*.

(iii) Because of over centralisation of authority in the Central Office which has endured notwithstanding Shri Deshmukh's confident pronouncement to the contrary the lines of communication have become tenuous and there appears to be lack of identification and a sense of belonging in the management personnel at all levels. The Committee feels that with smaller Corporations it would be possible to build up a sense of belonging firstly because a smaller organisation does promote a feeling of belonging and secondly because shorter lines of communication between different levels give a feeling of participation.

(iv) The Committee feels that if each Zone is made a separate legal entity with its own accounts and other published performance reports, it is likely that greater efforts will be made by the management of the Zones to improve the performance.

20.3 In the light of the above general considerations the Committee has come to the conclusion that it is desirable to split up the LIC into five separate Corporations. The Committee considered the following three alternatives :

(i) The LIC may be split up into five independent Corporations competing with one another throughout the country and each having its own premium rates, policy conditions, bonus rates as well as its own pattern of field organisation, agency commission terms, etc.

(ii) The LIC may be split up similarly but with uniform premium rates, policy conditions, bonus rates, pattern of field organisation and agency commission terms, etc. They would still be competing with each other throughout the country, but the competition would be restricted to the procuration of new business and service to policyholders.

(iii) The LIC may be split up into five independent Zonal Corporations, each Corporation restricting its operation to its present Zonal area. All the Corporations will have uniform premium rates, policy conditions, bonus rates, etc.

20.4 After careful consideration of the three alternatives, the Committee has come to the conclusion that the first two alternatives have to be ruled out for the following reasons :

(i) One of the major factors affecting the growth of individual life insurance business in the country is the high cost of selling and administration which makes life insurance as a savings medium non-viable. This makes it absolutely necessary to ensure that these costs are controlled and reduced to the lowest posible level. Competing Corporations setting up offices throughout the country might add to the cost.

(ii) Initial splitting up of the Corporation will have to be on a zonal basis even if it is decided that the new Corporations will be competing with each other throughout the country. As the different zones are having widely different experience in the matter of expenses of management, lapse rates, rates of mortality, etc., some of the Zonal Corporations will be starting with inherent disadvantages. Their competitive position with other zones will, therefore, be weak which will further adversely affect their actual experience in the matter of expenses of management.

(iii) With the different Corporations competing with each other for business, the cost of procuration of business will increase. This was the experience before nationalisation and the continuing experience of life insurance companies in many countries. Some other unhealthy practices like larger rebates to policyholders, inducement to agents and sale staff to change over for higher remuneration, etc. will creep in.

(iv) If the competing Corporations are to determine premium rates and bonuses on the basis of their own experience, there is a possibility that little effort will be made for extending life insurance coverage into rural areas and to the weaker sections of the community and there will be greater concentration on the affluent sections in whose case development and administrative costs are substantially lower so that the Zonal Corporations are able to declare higher bonuses.

(v) It is argued that only competing Corporations can provide the necessary motivation to improve customer service. Examples of other public sector organisations have shown that competition by itself does not help in improving performance of customer services. Further, in the urban sector, where only such competition would have a meaning, the LIC is already operating through a number of Branch offices. With the complete decentralisation of servicing functions to the Branch offices as recommended by the Committee, each Branch would be competing with the other on the basis of service offered by it. As for the purpose of procuration of business such urban areas are treated as common areas, open to all the Branch offices, the element of competition will exist and it will be open to the policyholder to take out a policy with that Branch and through that agent who offers the best service. There will be no competition only in the matters of premium rates, policy conditions and bonus rates, which type of competition does not exist in the Banking or General Insurance fields where the different public sector units are competing with each other throughout the country.

20.5 In the light of the above considerations, the Committee is not able to accept the proposal for having independent Zonal Corporation competing throughout the country. The Committee recommends that the existing Zonal Offices should be set up as independent, non-competing Corporations with their jurisdiction restricted to their present areas. All these Zonal Corporations will be working on the basis of common premium rates and policy conditions. They will also have a common actuarial valuation and uniform bonus rates will be declared for all the Corporations at least to start with. The salary scales and service conditions applicable to the staff will also be common. The same pattern of field organisation and agency commission terms will apply to all the Corporations.

20.6 The Committee recommends the following broad set up for the Zonal Corporations :

(i) The management of the Zonal Corporation will vest in a Board of Management with the

Chairman-*cum*-Managing Director of the Zonal Corporation as full time executive Chairman. The Board should consist of the Chairman-*cum*-Managing Director, two or more fulltime Functional Directors, a Central Government nominee and not more than 10 Directors selected on the basis of their expertise in related fields such as actuarial, accountancy, law, medicine, personnel management, etc.

(ii) The Central Office of the Zonal Corporation will handle all the functions which are at present being handled by the Central and Zonal Offices of the LIC.

(iii) The two lower tiers of Divisional and Branch offices will continue. However, with the complete decentralisation of servicing functions to the Branch offices, the role and functions of the Divisional Office will undergo a change. The role of the Divisional Office will be supervision and control over the Branch offices, planning for the development of business and organisation and technical guidance in the areas of underwriting and policy servicing. The Divisional Office will also be responsible for actuarial valuations and mortality and other investigations. Further, at least to start with, all administrative work relating to group schemes business will be attended to at the Divisional Office who will also be responsible for giving technical guidance in the matter of group insurance sales in the Branch Offices and the Development-*cum*-Servicing centres.

(iv) The bigger branch offices will perform all servicing functions directly with its own data processing system based on micro-processors. The smaller Branch Offices will also render all essential services to the policyholders but will depend upon the Divisional Office for certain mechanised services such as premium billing, commission billing, premium accounting, etc. The smaller development-*cum*-servicing centres will render limited services to policyholders including premium collections, grant of policy loans, etc. based on policy status cards supplied by the Divisional Office.

(v) The direct servicing bigger Branch Offices which would be having their own data processing systems and the smaller Branch Offices which will be depending upon the Divisional Office for certain mechanised services will both be reporting directly to the Divisional in all matters. The smaller development-*cum*-servicing centres will, however, be part of the Branch Offices in whose area they are set up. The Branch Office will continue to attend to certain functions like development planning and control, new business processing, accounting, etc. in respect of these centres. The accounts of the development-*cum*-servicing offices would be incorporated in the parent branch office accounts.

(vi) It will be necessary to fix certain minimum size in terms of number of policies serviced as well as the actual new business production from the area before a development-*cum*-servicing centre is converted into a full fledged branch office. The LIC should examine this question from the point of view of economic viability and arrive at a policy decision which, of course, can be reviewed from time to time.

20.7 Though all the five Corporations will be working as independent Corporations reporting directly to the Government, in certain areas co-ordination will be essential. As the Committee has already observed, the five Corporations will have to work on the basis of common premium rates and policy conditions and also common bonus rates at least to start with. Further, in the personnel area it is necessary to have common salary scales. One other major area where the Committee feels common functioning may be desirable is in the area of investment. The Committee feels it is necessary to centralise this function to some extent so as to ensure equitable distribution of funds to different States and Regions. For providing such common services and ensuring co-ordination of working between the different Corporations, the Committee recommends that a Central Body to be called the Life Insurance Board should be set up. The Committee would like to make it clear that the role it visualises for the LIB is not that of an apex body controlling and supervising the working of the Zonal Corporations but only that of a co-ordinating body which will also be dealing with certain common functions. It will also provide a forum for discussion of common problems. The LIB will consist of a full time chairman, three technical full time Directors dealing with the functions of investment, actuarial and personnel, and a Member representing the Central Government. The five Chairman-*cum*-Managing Directors of the Zonal Corporations will also be Members of the LIB.

20.8 The three functional areas with which the LIB would deal are Actuarial, Investment and Personnel each in charge of a full time Executive Director. The functions of the LIB in each of these areas are described below :—

(i) *Actuarial*: The Director (Actuarial) will be responsible for preparing plans of insurance and determining premium rates. He will be laying down the basis for actuarial valuations and decide on bonus rates. The detailed actuarial valuations will be conducted by the Zonal Corporations on the basis of instructions given by the Actuarial Director of the LIB. Proposals for introduction of new plans of insurance will be considered by the LIB on the basis of the recommendations made by the individual

Zonal Corporations and the advice of the Director (Actuarial). The Director (Actuarial) will also be responsible for issuing general guidelines in the matter of underwriting of new business as also the technical basis governing group insurance schemes. He will also arrange for conducting mortality and other actuarial investigations by the Zonal Corporations.

(ii) *Investments*: The Director (Investment) will advise the LIB regarding the general policy in the matter of investment of life fund subject to the statutory requirements and guidelines issued by the Government. The LIB will also handle all investments in Government and approved securities as also all investments in the private corporate sector. All decisions regarding investments in the socially oriented State sector would be taken by the LIB but actual investments will be channelised through the Zonal Corporations so that the Zonal Corporations can remain in close touch with the respective State Governments in which such investments are being made. Investments in mortgages and house building activities would be handled completely by the Zonal Corporations but within the budgetary allocations approved by the LIB.

(iii) *Personnel*: The actual functions of the LIB in the area of Personnel Management will depend upon the Government's decision on the Committee's recommendations regarding the method of determining salary scales and service conditions of insurance employees. The Committee has recommended that the Government should lay down broad guidelines in this matter which should apply to all public sector financial institutions and give freedom to the institutions to negotiate with the Unions and arrive at decisions within the confines of the guidelines issued by the Government. If this recommendation is accepted by the Government, the Committee recommends that the Zonal Corporations should be left completely free to negotiate their own pay scales and service conditions with their staff unions on the basis of the guidelines issued by the Government. In this case it may not be necessary to vest any personnel function in the LIB. The Committee has also made an alternative suggestion that a common Pay Commission should be set up for all Public Sector Financial Institutions to decide on their salary scales and service conditions. If this alternative suggestion is accepted by the Government, then again it may not be necessary to have any common machinery at the level of the LIB to deal with this subject. However, if neither of these recommendations is acceptable to Government and if the present policy is to continue, it will be necessary to have appropriate machinery at the LIB level in the personnel area as well. The Committee would, however, like to make it clear that the function of the LIB in the personnel area will be restricted only to determining the common salary scales and service conditions. The functions of manning, man-power planing and management development should be vested completely in the Zonal Corporations. The Zonal Corporations will also have a completely separate cadre of officers and staff at all levels.

20.8 The Committee would again like to emphasize what it has stated earlier that the LIB would be only a co-ordinating body providing certain common services and not a controlling or a supervisory body, so that the general tendency for centralisation which has been apparent in the LIC does not recur and each Zonal Corporation is able to function as a completely independent Unit. Each Zonal Corporation will report directly to the Government and also be directly responsible to the Government for the management of its affairs.

20.9 The recommendation made for splitting up of the LIC and setting up of five independent non-competing Zonal Corporations will involve statutory changes and will take time to implement. However, if the Government takes a decision in principle accepting the recommendation, certain immediate steps can be taken within the existing statutory set-up in the direction visualised. The Committee recommends that in that event immediate steps should be taken to curtail many of the functions of the Central Office and decentralise the same to the Zonal Offices. Some suggestions in this direction are outlined below:—

(i) The Internal Audit and Inspection Department at the Central Office should be disbanded and decentralised to the Zonal Offices. However, to meet the statutory requirements, the Zonal Internal Auditors will submit periodical reports on the audit and inspection of the offices of the Zone to the Executive Committee of the Corporation along with a report from the Zonal Manager of the action taken on these reports.

(ii) The Buildings Department, the Mortgage Department and the Policyholders' Service Department at the Central Office should be abolished and the work transferred to the Zonal Offices. The Zonal Manager's authority in the matter of sanction of building projects and of mortgage loans should be correspondingly increased subject to approval of the Zonal Advisory Board where necessary.

(iii) In respect of the Development and the Accounts Department at the Central Office, the functions and staff should be considerably reduced. All the supervisory and control functions should be transferred to the Zonal Offices. The Central Office Accounts Department will be responsible only for compilation of the annual accounts for the Corporation as a whole and considering and approving basic changes in accounting procedures which will have to remain common as long as the single Corporation exists. Similarly, the Development Department at the Central Office would be concerned only with questions of basic policy relating to the field organisation and all other matters such as performance control and evaluation, sanctions for opening of Branch Offices, etc., would be transferred to the Zonal Offices.

(iv) The Investment Department of the Central Office should involve the Zonal Offices in negotiations with the State Governments relating to investments in socially oriented sectors in the Zonal area.

20.10 The overall effects of the interim steps suggested would be that the functions and staff of the LIC Central Office would be curtailed substantially and the Zonal Offices' functions and authorities would be correspondingly increased.

20.11 With the proposed increases in the functions and authority of the Zonal Office, it would be necessary to strengthen the Zonal Advisory Boards and review their functioning suitably so that their role is made more purposeful and effective. As stated earlier, the Zonal Advisory Boards may be vested with the authority of advising the Zonal Managers in the matter of sanction of mortgage loans, approval of building projects, opening of Branch Offices, follow-up action on Internal Audit Reports, etc.

20.12 As regards the statutory provisions relating to the Policyholders' Councils and Employees' and Agents' Relations Committees, the Committee is of the view that these provisions require to be reviewed. From the evidence given before the Committee, it was evident that the Policyholders' Councils perform practically no useful function and they are retained as a matter of formality to comply with the statutory requirement. As regards the Employees' and Agents' Relations Committees also, the Committee were advised that when they were actually functioning they played no useful role. The Committee would, therefore, recommend the deletion of both these provisions. As regards the general question of employees' participation in management, the matter may be reviewed by the Government in the context of its general policy.

CHAPTER XXI

OTHER RELATED MATTERS

Government Relationship with the LIC

21.1 Section 6(3) of the LIC Act provides that "in the discharge of any of its functions, the LIC shall act so far as may be on business principles". Section 21 of the LIC Act which provides for issue of directions by the Government reads as under :—

"In the discharge of its functions under this 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, and if any question arises whether direction relates to a matter of policy involving public interest, the decision of the Central Government thereon shall be final."

21.2 While discussing the Life Insurance Corporation Bill the question of autonomy of the Corporation was also raised when the then Finance Minister made the following observations :—

"We feel that the Corporation's discretion should not be fettered in any way by definite decisions on a number of problems in regard to which statutory prescription could result in a lack of flexibility, making the already difficult task of the Corporation more difficult."

"We are all agreed that the Corporation is to be an autonomous body run on strictly business lines................. The Corporation's autonomy would be limited only by the directions which Government would give from time to time.........
I think the executive owes it to this House that there should be no fetter on its power of issuing proper policy directives to the Corporation. The Government must retain the right to guide the Corporation as to the lines on which the business of life insurance is to develop, because the issues involved are far wider than what can be encompassed by the specific duties of the Corporation. Now it is not the intention to interfere with the day to day working of the Corporation unless it is found that the Corporation is disposed to proceed along lines which are in conflict with the broad public policies approved by Government. So our approach is very much on the lines suggested by hon'ble members, namely, maximum delegation of powers, conferring of maximum autonomy at all levels and at the same time making arrangements for ensuring an adequate degree of co-ordination."

21.3 The question of Government control over the working of the LIC was examined by the Estimates Committee (1960-61) which made the following recommendations in its report :—

(i) "In administering a public undertaking there has necessarily to be a large measure of consultation between Government and the undertaking concerned. It is also perhaps inevitable that such consultation would include a number of suggestions from the Government to the undertaking. But a clear distinction has to be drawn between suggestions which are really in the nature of instructions to be complied with. The Committee are of opinion that the views of the Government set out in paragraph 35 of the Report lay down the correct principles which should regulate the relationship between an undertaking and the administrative Ministry concerned. When a suggestion is made for consideration, it is open to the undertaking to accept it or not. When, however, the Government issues instructions which are for implementation and not merely for examination, such instructions should appropriately be issued as directions. The Committee suggests that it would be desirable for Government to lay down these principles clearly for guiding the relationship between the public undertakings and concerned Ministries."

(ii) "Any direction issued should also be published in the Annual Reports of the Undertakings as recommended by the Committee in paragraph 26 of their 86th Report (Second Lok Sabha)."

21.4 The Committee on Public Undertakings (1965) also reviewed the relationship between the LIC and the Government and made the following recommendation :—

"While the Committee realise that it may not be possible to lay down every instruction issued to a public undertaking in the shape of a direction, it is at the same time necessary that clear principles should be laid down in writing, specifying the occasions when it should take the form of an instruction rather than a direction. The representative of the Ministry conceded that the principles governing the relationship between the public undertakings and the concerned Ministry which had evolved over a period of time could be codified, if an attempt was made. The Committee, therefore, recommend that the Government should clearly lay down principles for guiding the relationship between the public undertakings and concerned Ministries."

21.5 The Government, while replying to this recommendation stated that "while the relationship between an undertaking and Government should continue to be informal and while the Government would naturally expect its general policy to be accepted by an undertaking without the need for the issue of formal directives, Government should be prepared to issue directives in cases where in the judgement of the undertaking instructions cannot be carried out without detriment to the interest of the undertaking but Government nevertheless feel that such instructions should be carried out in wider public interest or where the Government desires in wider public interest that certain action should be taken by the undertaking which is not indicated by normal commercial consideration."

21.6 The Committee on Public Undertakings (1967-68) also made a comment on this aspect 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 whether written directions would be issued to the undertaking so as to do away with ambiguity and the possibility of recurrence of another Mundra Affair."

21.7 The Working Group constituted by the ARC made the following observations in regard to the relationship between Government and the LIC :—

> "Codification of principles governing relationship with Corporation—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 interest 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."

21.8 The Morarka Committee also examined the relationship between the Government and the LIC and made the following recommendation :—

> "In an undertaking like the Corporation which needs autonomy for efficiency and yet has to function in strategic areas of the economy, within the parameters of social objectives that the Government pursues, it is essential to ensure that the responsibility for any decision that the Government takes or implements is not blurred in a twilight zone of informal and unwritten exchange of ideas. Therefore, in all cases where the Corporation wants to claim that it has acted in pursuance of the preference indicated by the Government, it must be armed with a formal and recorded opinion or sanction of the Government. Also whenever the Corporation has to depart from a practice or procedure prescribed by the Regulations or make departure in respect of matters that are reserved for the prior sanction and approval of Government, it should secure a formal and written approval from the Government."

21.9 It will be seen that the question of the relationship that should obtain between the LIC and the Government has received the most careful consideration at the hands of every Committee that has gone into the working of LIC. The Committee is in general agreement with the recommendation made by the Estimates Committee (1960-61) which is reported in Para 21.3. The Committee realises that a large measure of consultation between the Government and the LIC would be necessary and that it is also inevitable that such consultation would include a number of suggestions from the Government to the LIC. However, a clear distinction has to be drawn between a suggestion made for consideration by the LIC and a suggestion which is really in the nature of an instruction to be complied with. So far as the first category of suggestions is concerned, it would be open to the LIC to accept or not to accept the suggestion after considering it on merits in the light of its own interests. As regards suggestions which are in the nature of instructions, the Committee accepts that all of them need not be issued as directives. However, when such instructions are received, it would still be the duty of the LIC to consider each instruction in the light of its business interests and the practical problems involved in implementing them. If the LIC comes to the conclusion that implementation of the instruction would affect its working adversely, it should write to the Government giving reasons why it feels that it would not be in its interests to carry out the instruction. In such an event, if after giving due consideration to the LIC's observations, the Government comes to the conclusion that in the interest of public policy it is still necessary to direct the LIC to carry out the instruction, the Government should issue necessary directions under Section 21 of the LIC Act. The Committee recommends that the above procedure should be followed both by the Government and the LIC. The Committee trusts that all such suggestions, instructions or directions would relate to matters of policy or on any executive decisions which impinge on matters of public policy and not to matters relating purely to internal administration.

21.10 We have so far considered only the general question of relationship between the Government and the LIC. There are two other aspects of this problem which we feel require special consideration. These are (i) the role of the Government nominee on the LIC Board and (ii) the role of the Bureau of Public Enterprises *vis-a-vis* the LIC.

21.11 The Committee gathered the impression during the course of evidence that a convention appears to have developed that no proposal is passed by the Board of a Public Sector Undertaking unless there is specific concurrence of the Government representative on the Board, even on matters which do not impinge on public policy. If such a situation does really obtain in practice, the Committee feels that it would detract from the responsibility of the Board as a whole and the autonomy of the undertaking as well. The Committee is of the view that there should be a full discussion in the Board on the merits of every proposal before it. The Government nominee may point out to the other members, the implications of any particular proposal as far as it impinges on matters of public policy, so that this aspect is given due consideration by the Board before arriving at a decision. Where any decision of the Board is not found acceptable to the Government, the Government has got the authority first to issue instructions and then if necessary a directive, as already discussed previously. The Committee recommends that guidelines should be issued in the matter of the role of the Government nominee on the Board of Public Sector Undertakings.

21.12 The next question is about the role of the Bureau of Public Enterprises. The Committee is given to understand that financial institutions like LIC, GIC and Banks are outside the purview of the Bureau. However, the Committee was informed that in practice various circulars and instructions issued by the Bureau concerning many matters of general administration are being sent to the LIC through the controlling ministry. If these are meant as suggestions for consideration, the LIC should treat them accordingly and take a decision on the basis of whether acceptance of the suggestion would be in the interest of the LIC or not. However, if the circulars of the Bureau are meant to be instructions, they should be issued directly by the controlling ministry and not by the Bureau, and they should be dealt with in the same manner as other instructions emanating from the Government, as indicated earlier.

Role of the Controller of Insurance

21.13 The Insurance Act 1938, had vested in the Controller of Insurance, the statutory authority appointed under Section 2B of that Act, with wide regulatory powers over insurance companies. When life insurance was nationalised, the question naturally arose as to whether, in the context of the changed conditions, there was still a need for such a regulatory authority. The matter was debated at length in Parliament which answered the question in the affirmative. The provisions of the Insurance Act were made applicable to the LIC with certain modifications which did not detract from the basic approach, namely, that the working of the LIC should regularly be scrutinised by the Controller of Insurance who is the statutory authority under that Act and who is required by statute to have "experience of insurance matters" and "possess actuarial qualifications".

21.14 Unfortunately no attempt seems to have been made to give real effect to this decision with the result that the involvement by the Conroller was formal rather than real. Thus the decision of Parliament that there should be a continuous scrutiny of the working of the LIC by a technically qualified statutory authority has remained a dead letter.

21.15 The Morarka Committee gave thought to this question. They had the benefit of the past experience of the working of the LIC for about a decade. Their recommendation is given below :—

> "It should be the duty of the Controller of Insurance to function as an evaluating Officer who continuously studies the working of the LIC in all its aspects and assesses the economic efficiency of the undertaking and its achievements and failings in terms of the objectives of nationalisation. As the officer responsible for the vigilance and evaluation, he should be charged with the duty to draw the Government's attention to the kind of directives that the Corporation may need from time to time."

Although this recommendation was accepted by the Government, the position continued to remain the same. The Committee is in complete agreement with the recommendation made by the Morarka Committee. The Committee recommends that to enable the Controller of Insurance to discharge his duties under the Act in the manner the Parliament intended him to do, it would be necessary to make the Office of the Controller of Insurance independent of any other wing of the Finance Ministry in regard to its functions as the statutory regulating authority.

21.16 At present the LIC is required to submit its Annual Accounts as well as the report of the Chief Actuary on the valuation of the assets and liabilities of the LIC, in the forms prescribed under the Insurance Act. The Committee recommends that the forms prescribed for submitting the Valuation Reports should be suitably reviewed so that the LIC is enabled to carry out its statutory actuarial valuation by the Bonus Reserve Method for submission to the Controller of Insurance if it so desires.

21.17 While on the subject of actuarial valuation, the Committee would like to refer to the recommendation made by the Committee of Actuaries in their report that the LIC should accept the obligation to return in full the surplus contributed by a policyholder at least when the policy results into a claim. This is all the more necessary because as a result of the investment policy adopted by the LIC under Government directives, the LIC is unable to give an adequate return on the savings entrusted to it by its policyholders. The Committee is of the view that this principle should be accepted by the LIC, to ensure equity between different generations of policyholders.

The Controller of Insurance should be required to satisfy himself that this principle is being adhered to.

21.18 The Committee has noted that while the functions of the LIC are strictly defined by the LIC Act and regulated by the provisions of the LIC Act read with the Insurance Act, there is no such regulation of the life insurance business transacted by the State and Central Government and by the Post Office Insurance Fund. We understand that the Controller of Insurance is consulted by the Post Office Insurance Fund on actuarial matters including its valuation. Some of the State Governments take actuarial advice. The Committee, however, finds that there are no regulations governing transactions of life insurance business by the State authorities and there is no control for ensuring that this business is conducted on sound lines. The Committee, therefore, recommend that the provisions of the Insurance Act should be applied to the Insurance Schemes transacted by the State and Central Governments with suitable modifications, so as to ensure that the schemes are actuarially sound and also that complete statistical information of the schemes is made available to the public.

21.19 The Committee has noted that although under Section 116 of the Insurance Act it is laid down that the Insurance Year Book containing information regarding the industry should be published every year, this is not being done regularly and the last issue of the Insurance Year Book published in 1977 contained information regarding working of the Companies for the year ended 31st December, 1972. The Committee recommends that the practice of publishing the Insurance Year Book should be resumed and the Year Book should contain the Controller's report on the working of LIC and GIC giving his detailed evaluation of their performance in terms of their objectives. The report should also give detailed statistics and information regarding the working of various insurance schemes of the Central and State Governments.

21.20 In another Chapter of the report the Committee has recommended that private pension funds should be allowed to grant pensions directly to their members without resort to the LIC. It is, however, necessary to ensure that these pension funds are run on sound lines by requiring them to undergo periodical actuarial valuations. Such actuarial valuations are also necessary in respect of gratuity funds which are also approved under the Income-tax Rules. The Committee recommends that such reports of actuarial valuations of pension funds and gratuity funds should be required to be submitted to file with the Controller of Insurance and the Controller should also prescribe forms in which the reports should be submitted. The Committee feels that this is necessary to ensure that these funds are run on scientific basis.

21.21 The Committee recommends that the Controller of Insurance should be vested with powers similar to those under Section 22 of the Insurance Act in respect of Valuation of Gratuity and Pension Funds also. This would be appropriate as the Controller is, in addition to his duties under the Insurance Act, also the Actuarial Adviser to the Government of India.

21.22 The Committee would like to emphasise that if the role of the Controller of Insurance is accepted as that of the Government Actuary, who is also responsible for regulation of the entire insurance industry in the country including the Central and State Government run insurance schemes, and evaluation and monitoring of the performance of the LIC and the GIC, it is essential that his office is strengthened by the posting of necessary complement of technically qualified staff.

Valuation surplus and Government's share

21.23 Section 28 of the LIC Act reads as under :

> "If as a result of any investigation undertaken by the Corporation under Section 26 any surplus emerges, ninety-five percent of such surplus or such higher percentage thereof as the Central Government may approve shall be allocated to or reserved for the life insurance policyholders of the Corporation and after meeting the liabilities of the Corporation, if any, which may arise under Section 9, the remainder shall be paid to the Central Government or, if that Government so directs, be utilised for such purposes and in such manner as that Government may determine."

This section clearly envisages that even more than 95% of the valuation surplus can be allocated to policyholders subject to the approval of the Government and that the remainder may be paid to the Central Government or be utilised for such purposes as Government may determine. However, it would appear that so far the Government had not exercised its power of approving allocation of more than 95% of surplus to the policyholders or utilisation of the balance of 5% for any special purposes.

21.24 The Committee has noted that even before nationalisation, leading insurance companies used to allocate more than 95% of the valuation surplus to the policyholders. The "Oriental" for instance, the largest life insurance company allocated 97½% to its policyholders. The Committee has also noted that there were many mutual insurance companies in India and elsewhere where the policyholders received benefit of the entire valuation surplus and that Section 6B of the Insurance Act enabled companies "limited by shares" to convert themselves into mutuals. The Committee is, therefore, of the view that there is no justification for the Government taking away such a large share of surplus as 5%. The amount of surplus paid to the Government for the two year period of valuation as at 31st March, 1979 was as much as Rs. 18.65 crores.

21.25 In the light of the background given above, the Committee submits the following recommendation :

(i) As regards the ordinary life insurance fund, the share of surplus to be allocated to the policyholders should be increased from 95% to 97½%.

(ii) Out of the 2½% share of the valuation surplus not more than Rs. 1 crore should be paid over to the Government which would give a 20% return on the paid-up capital of the LIC provided by the Government. The balance should be set apart to constitute a reserve fund which will be utilised for such special schemes for the development of life insurance business for the benefit of rural areas and of economically weaker sections of the community, as may be approved by the Government.

(iii) In the case of the special fund recommended by the Committee for policies which will not be eligible for income-tax relief, as these policies are meant for policyholders from the low income group, the entire surplus should be reserved for and allocated to the policyholders.

21.26 One scheme which would require a subsidy from the special fund referred to in sub-para (ii) above, is the proposal made by the Committee for opening a large number of development-cum-servicing offices in the rural areas. As the Committee had pointed out in para 15.25 of Chapter XV in the initial stages these offices will not be economically viable and would require some subsidy to ensure that the higher expenses do not reduce the benefits available to the policyholders as a whole. The LIC should make a cost benefit study of the working of such offices and submit its proposals for a subsidy from this special fund for approval of the Government.

CHAPTER XXII

CONCLUSION

22.1 We trust that we have covered all our terms of reference. Naturally, we have devoted greater attention to what we believe are the major problems facing the LIC. First is the fact that the LIC's business has remained largely confined to those having a regular income and savings potential, namely, the salaried class and the rich. The LIC has failed generally to extend its business to the class which does not have a regular income, and even less to the large section of the rural population which does not have much savings potential. The second problem is the fact that the gap between what a policyholder gets on his savings invested in life insurance and what he can earn in other forms of financial savings, has widened over the years so much so that life insurance has ceased to be a viable savings medium.

22.2 We have tried to meet these two problems by a two-pronged approach. First, we have recommended measures to reduce the costs of providing insurance cover. For instance, the salaried class can be provided insurance cover at minimum cost by linking it compulsorily to all provident funds. For the unorganised sectors without a regular income, we have recommended that the LIC must reach these classes through group term insurance. Second, we have recommended a number of measures designed to improve the return to the policyholders so that savings-linked life insurance continues to be not only a viable but an attractive savings medium. This includes introduction of a special fund for policies meant for low income groups which will not be eligible for income-tax relief but on the investments of which a higher return will be available. We trust that our recommendations will enable the LIC to provide protection to all families against the risk of death of their earning members and at the same time continue to play a vital role in the mobilisation of savings.

22.3 The operations of the LIC have expended enormously and with the inadequacies and obsolescence of its existing data processing system, it is facing serious problems in the areas of financial control and policyholders' service. In our view, unless immediate steps are taken for installing an improved data processing system, there is a serious danger of a complete breakdown of the financial controls and a further deterioration in the services to the policyholders. Further, it seems to us that the time has come to consider formation of five independent non-competing Corporations in the place of a single organisation.

22.4 We earnestly hope that Government will consider our report early and initiate necessary action expeditiously.

22.5 The Committee expresses its deep appreciatio and gratefulness to the LIC management for the whole hearted co-operation, help and assistance that it ha received throughout. The Committee would like t express special thanks to Shri J. Matthan, forme Chairman, Shri J. R. Joshi, present Chairman an Shri A. S. Gupta, Managing Director. The Committe also wishes to place on record its thanks to the Head of the Departments and other Officers at the Centr Office who readily made themselves available fo discussions and provided the required data and infor mation. The Committee would like to express i appreciation for the cooperation extended to it by th Zonal Managers, Divisional Managers and Branc Managers of the LIC during its sittings.

22.6 The Committee would like to place on recor its thanks to the other Officers of the LIC, Membe of the LIC, Zonal Advisory Board Members, Stat Government Officials, representatives of various Cham bers of Commerce, representatives of Employee Associations and Agents' Federation and individua for their valuable evidence before the Committee.

22.7 The Committee is grateful to Shri A. Sr nivasan, the Secretary of the Committee for his devote and tireless assistance which rendered our task easie Our thanks are also due to the Officers and other sta of the Secretariat and in particular, Shri K. R. Raja gopalan, Assistant Secretary, who deserves specia appreciation.

Sd/-
(Era Sezhiyan)
Chairman

Sd/-
(V. M. Dandekar)
Member

Sd/-
(A. Rajagopalan)
Member

Sd/-
(S. K. Chakraborty)
Member

Sd/-
(D. P. Singh)
Member

Sd/-
(R. M. Mehta)
Member

Sd/-
(S. Ramanathan)
Member

Bombay,
26th September, 1980.

PART III

SUMMARY OF

MAIN CONCLUSIONS/RECOMMENDATIONS

PART III

SUMMARY OF MAIN CONCLUSIONS AND RECOMMENDATIONS

Serial No.	Reference to Para No.	Summary of Conclusions/Recommendations
(1)	(2)	(3)
		Development of Life Insurance Business
1	13.1	From the analysis of some of the important issues affecting life insurance business, the following broad conclusions emerge:— (i) The cost of providing life insurance through individual life insurance policies is high and beyond the means of a large section of the population both in urban and rural areas. (ii) In pursuance of one of its basic objectives, namely, mobilisation of savings through life insurance, the LIC has been concentrating its efforts mainly on that section of the population which has a regular income and savings potential. The obligatory linking of life insurance to savings inherent in the conventional individual assurance plans and the LIC's concentration on this type of business have together had the effect of denying life insurance cover to the vast section of the people who do not have a regular income and whose savings potential is low. (iii) As a result of the above, only about 10% of the insurable male lives in the country have been provided cover against death. Even among those covered, the concentration has hitherto been on the salary earning classes and persons in the higher income groups who take out life insurance mainly because of the tax relief available. The coverage of persons in rural areas and of those employed in the unorganised sector in the urban areas is meagre. (iv) Though a beginning has been made by the LIC in providing insurance cover against death at reasonable cost through the group term insurance plan, such coverage has again been confined mainly to the salary earning classes and very little progress is noticeable in extending this type of cover to the rural areas and to the unorganised sector in the urban areas. (v) Because of the relatively low yield on the life fund and the high level of expenses, life insurance has ceased to be a viable savings medium and this is the reason why the share of life insurance in domestic savings has been declining. (vi) Life insurance in India can still be a viable savings medium, as it is in U.K., provided the LIC is enabled to improve substantially the yield on its investments and to control effectively its expenses of management.
2	13.3	Group term insurance is the best method of providing life insurance protection to large numbers at a low cost, as it avoids the cost of individual selling and individual policy administration. Also, as it precludes individual selection, it is possible to provide insurance cover to large numbers who would not be eligible for insurance under individual insurance plans. Therefore, the best way to ensure that life insurance is spread much more widely and in particular in the rural areas and among the socially and economically backward classes is through a wider spread of group term insurance. At present the LIC's Group Term Insurance business is confined mainly to salaried classes as it is easier to deal with them as a group. It is, however, necessary to extend this business to other classes as well. The LIC should, therefore, adopt as the principal plank in its development programme, promotion of group term insurance extensively to the people in rural areas and to the unorganised sectors in the urban areas.

(1)	(2)	(3)
3	13.6	An agency through which life insurance coverage can be extended to the rural people is the Central Co-operative Bank or the Regional Rural Bank. All these Banks advance short term loans to farmers for their agricultural needs. Insurance cover could provide a collateral security for the Bank loan and the cost of insurance can be combined with the interest charged by the Bank. The group policy can be issued to the Bank itself covering all persons to whom loans have been granted, the insurance cover being the amount of the loan. The Committee recommends that the LIC should consult the Reserve Bank and explore the possibility of making such group insurance compulsory for all farm loans granted.
4	13.8	The Committee recommends that the LIC should lay down every year definite targets regarding the number of lives to be covered through group schemes in the rural areas and in the unorganised urban sector by each Division and create the necessary organisational framework for achieving them.
5	13.9	A large proportion of lives insured under individual assurances as well as under group schemes belong to the salaried class. The Committee is of the view that the best way of providing life insurance cover at minimum cost to them would be through a compulsory insurance scheme. The Committee has noted that some form of compulsory insurance already exists for this class under the Deposit Linked Insurance Schemes, which is a part of the Employees' Provident Fund Scheme. However, the risk cover offered under this Scheme is low. The Committee, therefore, recommends that a compulsory insurance scheme which will provide a cover equal to 2½ times the annual salary of the employee subject to a maximum of Rs. 50,000 should be introduced for all employees covered through various Provident Fund Schemes.
6	13.10	As regards salaried employees who are not covered by a Provident Fund, another approach for providing a compulsory insurance cover can be considered. The LIC has already submitted a proposal to the Gujarat State Government to provide, as a social security measure, some basic insurance cover to employees of Shops and Establishments with less than 10 employees. The proposal is to make a small beginning. The premium would be only Re. 1 per month of which 50 Paise would be paid by the employee and 50 Paise by the employer. The amount of contribution would be collected by the Municipal Corporation along with the Registration Fees under the Shops and Establishments Act. All the records necessary for the purpose of insurance would be available with the authorities administering the Shops and Establishments Act and the same authorities can be authorised to pay the death claims. The Committee understands that the Gujarat Government has accepted the proposal and has decided to make it operative in the four cities of the State with Municipal Corporation. The Committee recommends that other State Governments should also be approached for introducing similar schemes.
7	13.11	Besides the compulsory insurance scheme suggested for all salary earners contributing to a Provident Fund, the Committee recommends that the LIC should continue its efforts to extend Group Insurance coverage linked with savings to the salary earning classes through its Group Term-*cum*-Savings Scheme. Under this scheme the LIC is at present allowing accumulation of the contributions at 6% only. It should be noted that the LIC is currently earning on its new investments a rate of interest of over 8%. If the funds pertaining to such group scheme are invested separately and if a rate of interest 1/2% to 1% less than the actual rate earned on the LIC's funds, depending on the size of the group, is allowed, the scheme will prove more attractive than at present. The Committee is of the view that the difference between the interest actually earned and the interest allowed on the accumulations of contribution as suggested would be adequate to meet the expenses of administration of the Schemes.
8	13.12	The Committee is informed that under its existing Group Term-*cum*-Savings Schemes the maximum amount of cover that the LIC allows is Rs. 12,000 and that it has recently decided that under all new group schemes, the cover should be restricted to Rs. 10,000 only. The Committee is of the view that even the present limit of Rs. 12,000 is too low and that the limit should be increased to Rs. 50,000 which is the maximum limit suggested for the proposed compulsory insurance scheme ....The Committee is convinced that the Group Term-*cum*-Savings Scheme re-designed on the lines suggested would be found attractive by a large number of employee groups and will help the LIC both in spreading insurance coverage and in mobilisation of savings at minimum cost.

(1)	(2)	(3)
9	13.13	The Committee appreciates that introduction of compulsory insurance schemes and wider extension of Group Term-*cum*-Savings Schemes for salaried employees may affect LIC's direct business adversely as currently a very large proportion of its business is being secured from salaried employees. The Committee, however, feels that there is enough potential in the country for development of life insurance business and if to an extent the potential from salary earning class is reduced, it would stimulate the LIC to concentrate on other classes who have till now been relatively neglected, and thus help in greater spread of life insurance business in the country as a whole. The Committee also believes that even after introduction of compulsory insurance schemes and extension of Group Term-*cum*-Savings Schemes to large sections of salaried employees, there will still be scope for selling individual savings linked life insurance policies to the salaried class, provided steps are taken to make life insurance a viable savings medium.
10	13.15	In considering life insurance as a savings medium the difference in the return (taking into account the tax reliefs obtainable) obtained by those in the higher income brackets and by those who pay little or no tax has to be considered. This difference in the return obviously involves serious lack of equity. The Committee would, therefore, like to recommend an alternative approach on the lines of the suggestion made in the report of the Committee of Actuaries which involves establishment of a separate fund for policies on which no income-tax relief would be available and on which the Government would allow a substantially higher rate of interest. The broad outlines of the plan are given hereunder:— (i) Only one type of policy will be issued under this Fund which will be Endowment with Profits Policy for terms 15, 20 and 25 years and maturing not beyond age 60. (ii) The maximum amount of annual premium that can be paid under all policies taken under this plan by an individual would be Rs. 1,000. The proponent would be required to give details in the proposal form, of policies already taken out by him under this plan and the amount of premium he is paying under such policies. He should also be required to give a declaration that if the information given is false or inaccurate and he had, in fact, taken out other policies under this plan, any premium paid in excess of Rs. 1,000 per annum under such policies would stand forfeited and the sum assured would be reduced correspondingly. (iii) Premiums paid under these policies would not be eligible for any income-tax relief. This will by itself ensure that such a policy will be mainly availed of by persons who are not liable for high rates of income-tax. (iv) This fund will be invested in a special Deposit Account as directed by the Government. The rate of interest on this fund should be at least 2% higher than the rate of interest on 7 Year National Savings Certificates where the current rate of interest is 10.75% compound. The 2% difference in yield is to cover outgo by way of expenses of management so that the net yield obtained by the policyholder is the same as on investments in National Savings. (v) In determining the LIC's liability for income-tax, the surplus of this fund would be excluded from the total surplus. (vi) The entire surplus of this fund disclosed by periodical actuarial valuations should be available for distribution to the policyholders and no share will be reserved for the Government. (vii) A separate account of this fund should be maintained and all premiums and other income relating to this fund should be accounted for separately. All expenses should be allocated between the Ordinary Life Fund and this Fund in proportion to the respective premium income of the two funds.
11	13.16	Various suggestions have been made to the Committee for introduction of new plans of insurance to meet the needs of the rural population. ....After considering the various suggestions received, the Committee recommends examination of the following two suggestions for special plans:— (i) As the rural population do not have regular income, any special plan for rural population should permit variations in premium from year to year. To meet this, particular problem, the Committee suggests that the LIC should consider issuing

(1)	(2)	(3)
		single premium Endowment policies under which the risk cover would be double the amount payable on maturity. The cost of servicing such policy would be small. As the full premium is paid in one instalment and would be available for immediate investment, it should be possible to assume a much higher rate of interest in the calculation of premium than under the ordinary Endowment plan. A variation of this plan would be to have a single policy contract, with a Pass Book issued to the policyholder, under which option would be given to the policyholder to pay additional premium at any time and obtain additional cover merely by way of an endorsement in the Pass Book. As both the original cover as well as additional covers would be on the basis of single premium contracts; it may be possible to issue all such policies on non-medical basis, subject of course to certain limits on the maximum sum assured. To ensure that agents take interest in persuading the policyholders to go in for periodical additions to such policies, commission at reasonable rates should be paid to the agent each time an additional cover is availed of. It should be possible to work out a suitable scheme on the above lines which would permit considerable flexibility and still be simple to administer.
		(ii) In rural areas there are often periods which may extend from one to three years when the policyholder is unable to pay the premium because of drought or other natural calamities. The LIC should, therefore, consider issuing an ordinary endowment policy under which a small term insurance premium would be collected along with the first premium which would provide risk cover for a period up to three years in case the policyholder is unable to pay, the premium for some time after two years' premia have been paid. Any time within the three years' period during which risk cover is provided without payment of the normal annual premium, the policyholder will have the option to pay off the arrears of premium with interest for continuation of the policy beyond the three-year period. Risk premium already paid would then again become available for covering further defaults in future. Though the risk premium would increase with the age, as the amount at risk will go on reducing with the duration of the policy, it should be possible to determine, at the outset, the amount of risk premium to be collected along with the first premium which could provide risk cover for defaults in payment of premium up to three years throughout the term of the policy.
12.	13.18	There is one other plan which the Committee feels the LIC ought to introduce and that is a level premium term insurance plan. The Committee has noted that the Committee of Actuaries had recommended introduction of such a plan. The Committee understands that the LIC has not yet taken any decision on this recommendation. As a monopoly organisation, it is the LIC's obligation to provide all types of life insurance cover which are actuarially sound and are generally offered by insurers in other countries. The Committee, therefore, recommends that the LIC should introduce this scheme.
13	13.20	The Committee is strongly of the view that the present restriction on the operation of approved Pension Funds is not at all justified and all approved Pension Funds should be given freedom from the provisions of the LIC Act, as was the case before nationalisation. At the same time, the LIC should itself re-examine its methods of operating its pension schemes and should urgently consider introduction of the managed fund concept which is recommended by the Committee of Actuaries in their report, so that they are able to offer terms which are competitive with those which privately managed pension funds can give to their members. ......The Committee, therefore, recommends that:—
		(i) The LIC Act should be suitably amended, so that exemption is granted to all Pension Funds from the operation of the LIC Act, on par with the exemption granted to the Funds existing as on 1-9-1956 under Section 44(f) of the LIC Act, subject to their working being supervised by the Controller of Insurance; and
		(ii) The LIC should urgently re-examine its present pattern of working of Pension Schemes and introduce the managed fund concept, so that it is able to offer terms which are competitive with those that can be offered to their members by privately managed Pension Funds.
		Marketing Organisation and Development Planning
14	14.4	We believe that if life insurance business is to grow on healthy lines a strong agency organisation consisting of trained professional agents should be the corner-stone of the LIC's marketing organisation.

(1)	(2)	(3)
15	14.5	There should be a pre-recruitment training and test before an agent is appointed. The LIC should devise appropriate aptitude tests as well as tests for the basic knowledge required by an agent and selection should be made on the basis of such tests and after interview by the Branch Manager, who should be made responsible for proper selection of agents. He should ensure that only such persons as are likely to continue in the insurance agency career are recruited and in no case a "Benami" is given an agency.
16	14.7	The Committee is of the view that renewal commission should be viewed as payment for services required to be rendered and not as a deferred compensation for just selling a policy. It is, therefore, necessary to ensure that agents render essential services to policyholders. Though the Committee appreciates that there would be practical difficulties in strictly enforcing any such rule, it suggests laying down some broad criteria for this purpose such as follows:— (i) The agent should be required to maintain certain essential records which should be periodically verified by the Branch Manager. (ii) Whenever there is default in payment of premiums the agent should be required to give the reasons for non-payment. The suggestions made above are only illustrative. The Committee is of the view that it would be possible for the LIC to evolve on the basis of practical experience, methods of ensuring that agents do maintain contacts with policyholders and render essential services to them to entitle them to payment of renewal commission.
17	14.8	To enable the agent to render these services, proper post-recruitment training is essential. The Committee recommends that the training should be at three levels. The first will be the pre-recruitment training, which will be given by the Development Officer who recruits the agent and which would give him basic knowledge of life insurance plans and selling techniques to enable him to start working as an agent. The second stage is the post recruitment training given by trained instructors covering all aspects of policy servicing and giving more detailed guidance in selling techniques. This stage would also include field training by the Development Officer through joint calls on prospects. Servicing of "orphaned policies", that is policies where the original agent has ceased to work as an agent, can also form part of such field training. The third will be advanced training of a high standard for professional agents, provided through special courses designed by the Federation of Insurance Institutes leading to the grant of a diploma on passing an examination. Agents who have obtained the diploma should receive recognition as professional agents and holding of the diploma should after a transition period, be made a condition for membership of various clubs.
18	14.9	At present the LIC classifies its agents into three categories—inactive, active and qualified agents. None of these classifications gives any indication as to whether the agent is working effectively throughout the year. The Committee, therefore, recommends that a new classification of "effective agents" be introduced the criterion being that the agent insures a minimum of 2 lives for a sum assured of Rs. 10,000 every month for at least 10 months in the year and his total business during the year is not less than 25 lives and a sum assured of Rs. 2 lakhs. Efforts of the Development Officials should be concentrated on increasing the number of such "effective" agents from year to year.
19	14.10	After careful consideration, the Committee has come to the conclusion that if the LIC is to get the right type of person to work as agents particularly in the rural areas and untapped segments of urban areas, it would be necessary to retain the existing levels of agency commission. The Committee also feels that any re-scheduling of commission rates between first year and renewal would not be of great practical utility.
20	14.11	As the Committee is of the view that renewal commission should be considered as payment for services required to be rendered by the agent and not deferred compensation for selling of life insurance policies, it is necessary that the present rule regarding continuation of renewal commission after termination of agency should also be modified. The Committee recommends that continuation of renewal commission after cessation of the agency should be allowed only if the agent has worked for at least 15 years out of which for at least 10 years he should have completed the minimum qualifying business required in accordance with the Agents' Regulations.

(1)	(2)	(3)
21	14.12	As regards payment of "hereditary" commission, the Committee is of the view that there is no justification for payment of commission after the death of an agent. However, to give protection to the families of agents who die during their agency career, a more generous term insurance benefit should be allowed. The Committee recommends that the present term insurance scheme for agents may be modified to cover all agents who have completed the minimum qualifying business for a period of at least five years and the quantum of cover fixed at five times the renewal commission earned by the agent in the agency year preceding his death.
22	14.13	In order to bring down the high incidence of early lapses certain changes are necessary in the agents' commission schedule. The Committee recommends that commission on first year's premium should be paid only on receipt of the full first year's premium. Further, bonus commission should be based on the first year's premia after deducting therefrom the premia on policies which have lapsed during the year in question without acquiring surrender value. The Committee realises that such a change in the method of payment of bonus commission may be difficult to implement with the existing data processing machines and that it will be possible to give effect to it only after the existing data processing system is replaced by a more versatile system as recommended by us.
23	14.14	Regarding Development Officers the Committee recommends that their functions should be redefined. At present, though the Development Officer is expected to recruit, train, motivate and supervise the agents, his work is appraised mainly on the basis of the sum assured and premium income secured through his organisation. This has resulted in the neglect of the essential function of the Development Officer, namely creation of a stable agency organisation. The Committee, therefore, recommends that the Development Officer's functions should be clearly defined as that of recruitment and training of agents and supervision of the working of the agents recruited by him. It should be his responsibility to see that the right type of persons are chosen as agents and given pre-recruitment training before appointment and they are given detailed training, guidance and motivation in the field after recruitment so that they develop into "effective" agents. The work of a Development Officer should be appraised solely on the basis of his success in developing an organisation of "effective" agents. His targets should be fixed in terms of the number of agents to be recruited by him, the proportion of recruited agents to be made "effective" and the increase in the number of "effective" agents.
24	14.14	The Committee accepts that for employees whose work will be completely in the field, a scheme of incentives and disincentives should constitute an essential part of their remuneration. However, the incentives and disincentives should be linked to the performance in creating an "effective" agency organisation and not to "cost ratio".
25	14.14	The Committee recommends that all agents who have worked as "effective" agents for a period of at least 3 years and who are in a position to work on their own should be detached from the Development Officer and made direct agents. This, however, will not affect the appraisal of the Development Officer as his work is to be judged mainly on the basis of the new agents he is able to recruit and make "effective".
26	14.15	The cadre of Assistant Branch Manager (Development) should be treated as a selection grade for the Development Officers and not as an intermediary between the Development Officer and Branch Manager. In the urban areas the ABM(D) will look after all agents who have been made direct. It will be his responsibility to see that the direct agents continue to remain "effective" and their productivity continues to increase. In the rural areas where a Development Officer is in exclusive charge of a certain area, it may not be practicable to detach from the Development Officer, agents who have worked as "effective" agents for three years. However, in such areas where a Development Officer has been able to create a fairly large organisation of "effective" agents, he should be considered for promotion to the cadre of Assistant Branch Manager (Development). After such promotion also, he will continue to look after his whole area and it will be his responsibility to see that whenever any gaps occur in the agency organisation by termination of an existing agent, the vacancy is filled by recruitment of a new agent.

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27	14.20	The Committee makes the following recommendations with regard to the marketing organisation for the expansion of the group scheme business and its administration:— (i) The decision already taken by the LIC to set up full-fledged Group and Superannuation Department in all the Divisions should be implemented at an early date. (ii) In each Branch office, particularly in the rural areas, at least one Officer from the cadre of Assistant Branch Manager (Development) and one Higher Grade Assistant should be given thorough training in the sale and administration of group insurance business so that they are able to initiate and conduct negotiations for the sale of group business under the overall guidance of the Divisional Office. (iii) The Committee recommends that the officer and staff posted in the proposed development-cum-servicing centres should also be given training in the special problems of development of group business in the rural areas, so that they can take the initiative in developing group business in these areas. (iv) Though group schemes should continue to be canvassed mainly by the officials, professional agents who have received specialised training in this behalf and passed a prescribed test may be allowed to play a limited role in selling this business. They should, however, be restricted to rural areas and to the unorganised sector in the urban areas. They may also be allowed to play a limited role in the sale of group gratuity schemes and pension schemes with large employers in the urban areas. The Commission to the agent will, however, be restricted to a small percentage which will not add materially to the cost of group cover. (v) A scheme of incentives should be introduced for officers in charge of group business for outstanding performance in the development of such business. However, the scale of incentives should be so fixed that it does not add materially to the cost of the group cover.
28	5.16	From a review of the operations of the LIC in the area of Development planning, the following conclusions emerge:— (i) Though the LIC realised the need for planning based on market survey and statistics relating to the economic potential of the area and its manuals provided for the same in practice these were not implemented. Instead the easier method of fixing *ad hoc* targets of new business in terms of sum assured was adopted. (ii) While a large number of agents were recruited year after year, almost an equal number had to be terminated as they failed to complete the minimum business guarantee. These were merely spotters with no sustained interest in the agency work. Consequently growth of a stable and professional agency force was inhibited. (iii) In the earlier years a large number of development officers were recruited without any regard for their aptitude. The performance of most of them was poor, the remuneration paid to them exceeded in some cases even the premium income brought by them. (iv) The stress on new business sum assured has led to an organisational culture where success was measured solely by new business sum assured, and other aspects of organisational functioning were virtually ignored. (v) Since volume of new business was the major yardstick for measuring the progress, the entire organisation gears itself to fulfil the target set before it during the closing period of the accounting year. Heavy new business in the last month of the accounting year has been in evidence even during the years before nationalisation and the LIC is no exception. There was heavy concentration of business in December when the accounting year ended in December and now, when the accounting year ends in March, the concentration has shifted to March. This has resulted in (a) delays in the adjustment of amounts received towards premium, (b) delays in the issuing of policies (c) non-issue of premium notices, particularly in the case of quarterly and half-yearly mode of premium and the consequential lapsation, revivals, etc., etc.

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29	14.21	The LIC should fix targets every year for the number of lives to be covered through group insurance schemes in the rural areas and in the unorganised sector in the urban areas. To start with, such targets may be fixed for the Division as a whole. Later it may be possible to fix targets Branch-wise as well. Separate targets may also be fixed for the number of lives to be covered and the amount of savings to be mobilised through group term-cum-savings plan and through group gratuity schemes and group pension schemes. The work of the Development Officials concerned with this business should get recognition at all-India levels through competitions and awards. In its internal and external publicity, increasing stress should be paid by the LIC of the role of these schemes in extending insurance coverage.
30	14.22	As regards planning for development of individual life insurance business. the basic planning should be in terms of growth of organisation as represented by the number of "effective" agents. Planning should start with locating all the centres in the rural areas which have the potential for supporting an "effective" agent, which may be termed an "agency block". The plan would take into consideration the number of such blocks where "effective" agents are already working and the number of blocks which lack such agents. The aim of the plan should be to ensure that the proportion of agency blocks where there are "effective" agents should steadily increase.
31	14.23	As regards urban areas, the Committee has noted that at present there is no effective planning to ensure that the agency organisation covers all important sectors of the urban centre. The Branches are at present located on the basis of availability of premises and convenience of the Development personnel. As, till recently, the City Branch Offices were not handling any service to policyholders, the convenience of the policyholders did not arise. Further, in the recruitment of agents no efforts are made to see that all the important sectors of the population are covered. The Committee suggests that the LIC should undertake a complete review of its present policy in the matter of location of Branch offices and recruitment of agents in the larger cities. It should take steps to disperse the Branch Offices over the city with a view to locating the Branches near the policyholders' place of work or residence. It should also plan its agents' recruitment in such a manner that all important sectors classified on the basis of geographical location, economic activity or community-wise are covered.
32	14.24	As regards overall targets for the Branches, Divisions and the LIC as a whole, the Committee recommends that these targets should be fixed not in terms of new business, but in terms of the increase in the business in force as represented by the number of lives covered, sum assured and premium income and also in terms of the increase in the number of "effective" agents.
33	14.25	One of the terms of reference of the Committee is to assess the potential for growth of life insurance particularly in the rural areas and suggest steps for accelerating the development of business. The existence of a vast potential for development of life insurance business is obvious from the fact that only 10% of the insurable population has so far been covered by the LIC and 90% still remains to be covered. The main reason for the LIC's failure in extending the coverage to the rural areas and to the weaker sections of the community has been its concentration on savings linked individual insurance business which is beyond the reach of large sections of the community. The Committee has, therefore, recommended a wider spread of group insurance business which would enable the LIC to extend the coverage of life insurance to those neglected sections. As for the potential of life insurance as a means of mobilising savings, this depends on restoring viability of life insurance as a savings medium. The Committee has, therefore, concentrated its attention on the steps to be taken to make life insurance viable as a savings medium in the face of other competing savings media. If the recommendations made by the Committee in both these areas are accepted and early action taken thereon, the Committee is convinced that the LIC will be able to extend the coverage of life insurance at a much faster rate than at present and thus tap the potential for life insurance in the country, which is indeed vast, in an increasing measure.
		Service to Policyholders
34	15.2	The main problems in the area of underwriting and issue of policies is the delay in issue of policies particularly in respect of proposals completed in the peak month of March. Such delays have serious adverse consequences on the other aspects of policy servicing

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		as well. The Committee expects that if the concept of "effective" agent and the change in emphasis in fixation of targets from new business to increase in the business in force are accepted, they should go a long way in ensuring a more even spread of business. Meanwhile, the LIC should consider ways of ensuring expeditious issue of policies.
35	15.3	Preparation of advance receipts involves considerable amount of work and cost. Further, control over them at the branch offices is also not quite satisfactory and instances have been reported where receipts have been misused and premium collections misappropriated. A suggestion has been made that instead of preparing receipts in advance the premium notice form itself should contain a small counterpart which could serve as a receipt. The branch office which is responsible for receiving premiums and issuing receipts should be supplied with Cash Register Machines which would endorse receipts of premium on the counterpart of the notice and simultaneously print out the details of the receipt on a scroll which would serve the purpose of a cash book. Such a system, it has been represented, would not only reduce considerably the work-load at the cash counter but would also provide stricter control on cash collections. The Committee recommends that the LIC should introduce such an alternative system on an experimental basis in one of its Divisions so that, on the basis of actual experience, it can decide whether the system is workable and if so consider its extension to all the Offices.
36	15.4	The Committee recommends that in all important rural centres where a full-fledged branch office would not be economically viable, the LIC should open small offices which may be termed Development-*cum*-Servicing Centres. Such offices should have a small complement of staff consisting of an Officer-in-charge in the cadre of ABM, with one or two assistants in the HGA's cadre. These offices would be responsible for development of business as well as collection of premium and rendering of certain essential services to policyholders.
37	15.5	The Committee believes that one of the main causes of the large proportion of collections going into deposit is the lack of contact between the agent and the policyholder after sale. If the Committee's recommendations on the agents role in the service to the policyholders are accepted and agent's help is sought in ensuring that premiums are paid in time and with full particulars and also in obtaining the necessary requirements for clearance of deposits, it should be possible for the LIC to reduce the amounts of collections going into deposit.
38	15.6	To improve the LIC's performance in regard to grant of policy loans, action will be required in the following areas:— (i) Completion of decentralisation of policy servicing functions to branch offices, including settlement of all policy loans, (ii) Extending the decentralisation programme to city branch offices, (iii) Reorganisation of the work relating to servicing of SSS business.
39	15.7	A large proportion of applications for policy loans are for very small amounts particularly under SSS policies. Since this work entails fairly high administrative cost, the Committee recommends that apart from raising the minimum amount of loan that could be sanctioned under a policy from Rs. 150 to Rs. 250, no loan should be granted within three years of a previous loan and not more than three loans in all during the currency of a policy.
40	15.8	As loans are availed of by only a section of policyholders, equity demands that the net rate of interest obtained by the LIC on its policy loans, that is, after allowing for administrative costs for servicing such loans, is not lower than what is obtained on its investments generally. The Committee recommends that the LIC should immediately undertake a study of the unit cost of the operation involved and revise the rate of interest accordingly.
41	15.9	The LIC has shown a substantial improvement in the matter of claim settlement during the last ten years, and its performance compares favourably with that of leading Indian companies before nationalisation and even of U.S. insurance companies today.

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42	15.10	The two major problems in the area of maturity claims are firstly to ensure that maturity intimations are sent in time and are accurate and secondly that the follow-up by the field staff of maturity claims remaining outstanding for more than three months is made more effective. As regards the first, the problem is due mainly to the defective data processing system. As regards the second, the Committee recommends that the LIC should make a thorough review of its present scheme of servicing of outstanding claims by its field staff through issue of claim particular sheets (CPS) and take all possible steps to make the scheme more effective . The action taken on CPS and the number of outstanding claims settled through such follow-up action should be suitably included as one of the indices in appraisal of performance of the development officials.
43	15.11	As regards death claims, two major areas where improvements are necessary are firstly with regard to investigation of early claims and secondly in dealing with repudiation of claims.........considerable delay still occurs in investigation of early claims and also in taking decisions quickly. To reduce these delays to the minimum, the present machinery for claims investigation will have to be strengthened and the decision making process speeded up. According to the procedure laid down by the LIC the investigation can be entrusted to field officials and wherever necessary to members of the staff specially trained for the purpose. In practice the work seems to be entrusted to the former category only. The Committee recommends that the LIC reviews the present system, ascertains reasons for the delays and evolves necessary machinery as well as sanctions to ensure that the time limit it has laid down for completing the investigation is not exceeded and decisions are taken without delay.
44	15.12	We recommend that a committee consisting of a Managing Director of the LIC, the Controller of Insurance and an Actuary not currently in the service of the LIC should go into all the cases of repudiated claims where the courts have decided against the LIC or where the LIC has decided to compromise the case. In the light of a review of these cases, the said Committee should make specific recommendations regarding the policy to be followed in the matter of repudiation of claims.
45	15.13	The Committee notes that under Section 47A of the Insurance Act a provision already exists for referring disputes regarding claims upto Rs. 2000 to the Controller of Insurance. The Committee recommends that this section may be amended to increase the limit to Rs. 25,000 sum assured.
46	15.14	The Committee notes that currently the LIC pays interest at the rate of 6% for delay in settlement of claims, where the dealy is attributable to the LIC only. The Committee recommends that the rate of interest for such delayed payment of claims should be the same as the rate the LIC charges for delays in payment of premia.
47	15.15	Though the procedure laid down for dealing with complaints are generally satisfactory, in actual practice they are not proving effective. The Committee recommends that the LIC should find out the reasons for this and take appropriate steps to see that the existing machinery is made more effective.
48	15.16	The Salary Savings Schemes provides the salaried class the most convenient method of payment of premium. The scheme is, therefore, becoming increasingly popular among this class. However, in actual working it has thrown up a number of administrative problems and as a result the service to the policyholders is far from satisfactory.
49	15.17	The Committee recommends stricter enforcement of the conditions laid down by the LIC at the time of introduction of a salary savings scheme with a new employer. The responsibility should be fixed on the Divisional Manager/Branch Manager to see that all instructions are strictly complied with. Further, in respect of existing salary savings scheme, if it transpires that the employer is unable to comply with the conditions prescribed, the LIC should consider withdrawal of the scheme after giving due notice.
50	15.18	The Committee further recommends that the LIC must exercise strict control on the timely remittance of the premium deductions by the employer (in respect of policies under salary savings scheme) and whenever there is delay in remittance of premium by the employer interest at the rate usually charged on bank borrowing for working capital should be collected.

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51	15.19	Under the SSS as it is operated at present, after issue of the policy, the agent has practically no role in servicing. Therefore, there appears to be no justification for payment of renewal commission to the agent. The Committee recommends that commission under SSS should be restricted to the first three years. Such commission should also be paid only after the full year's premium is paid in each of the three years.
52	15.20	The Committee also suggests consideration of another approach which is to restrict canvassing of policies under SSS in respect of each Paying Authority to a selected professional agent who will be responsible for both selling and servicing the policies. Entitlement to commission would then be conditional on the agent ensuring that premiums are remitted by the authority in time, with necessary supporting reconciliation statements. Such an arrangement would improve the administration of SSS business and also make the operation of commission settlement much simpler.
53	15.21	The Committee recommands that the LIC should undertake a detailed study of the cost of administration of SSS policies and if it is established that it is substantially higher than on ordinary policies, the extra charge for monthly payment should be made applicable to salary savings scheme policies also.
54	15.22	The Committee recommends that the minimum amount of instalment of premium under SSS should be fixed at, say, Rs. 10 per month.
55	15.23	As regards, payment of commission on the existing policies under SSS, the Committee recommends that the payment should be released on yearly basis after receipt of the whole year's premium.
56	15.24	The Committee recommends that the LIC should pursue its policy of decentralisation of servicing functions to branch offices and ensure full coverage of all mofussil and city branch offices with a time bound programme.
57	15.25	The Committee also recommends that the LIC should open a number of Development-*cum*-servicing centres in the more important rural blocks where it does not have a Branch office and where the present potential for business is not enough to support a full-fledged branch office. These offices besides looking after development of business and agency organisation will also attend to certain essential servicing functions like collection of premium. This would help considerably in improving service facilities in rural areas and also help in spreading life insurance coverage both through individual assurances and group schemes to the rural areas. The Committee recommends that the LIC should draw up a definite programme for opening such offices, so that over a ten year period there is at least one such office in each Community Development Block. The Committee appreciates that opening of a lrage number of such small offices may increase the overall costs of administration at least initially. As this step is suggested in pursuance of the LIC's social objective of spreading life insurance business in rural areas, the Committee recommends that a part of these costs should be reimbursed by the Government from the share of valuation surplus at present being allotted to it.
58	7.63	Due to the inherent limitations of unit record-*cum*-adrema based data processing system, as also due to the increasing frequency of the breakdowns of the unit record machines, there is an increasing deterioration in the standard of service now being rendered to the policyholders as also in the financial and other controls on the LIC's various servicing operations. Some of these are listed below:— (i) Because of the inaccuracies in the premium master card and adrema files, omissions in isssue of premium notices and preparation of premium receipts are becoming more frequent leading to serious complaints from the policyholders. (ii) The work of issue of first default notices has to be handled manually because of the inadequacy of the present data processing system. Having regard to the volume of work, manual handling of this job is becoming increasingly difficult and in many of the offices this work is not being attended to at all. (iii) The premium posting on policy ledger sheets has been discontinued in some of the Divisional Offices as a result of decentralisation and the Divisional Office has to entirely depend on Branch records to know the status of the policy. This involves some risk as the Branch Office records can be easily tampered with. Also if the

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records at the Branch Office are lost in any natural calamity like fire or flood, there is no alternative source to fall back upon. Under the unit record system, it is not possible to maintain premium payment particulars in the machine card files. The consequence is that even with the complete decentralisation of servicing responsibility to the Branch Offices, the Divisional Office will either have to continue with the premium postings on policy ledgers involving considerable amount of duplication of work or alternatively to discontinue the same and face the risks referred to above.

(iv) The Commission billing system also is becoming increasingly unreliable. Adequate controls are not exercised in stopping payment of commission to terminated agents and there is a possibility of diversion of such commission to other agents by a tampering with unit record card files. Further, reconciliation of monthly commission payments with premium collections, as also verifying the accuracy of commission paid by sorting the payment by policy year or commission year controls basis, which are the controls envisaged on commission payment under the eixsting Machine Department Manual procedures is becoming increasingly difficult and such reconciliation has been discontinued in most of the Divisional Offices. This again increases the risks of wrong payment of commission.

(v) It will not be possible under the present unit record system to provide for any future changes in commission rate pattern or commission payment procedures.

(vi) Settlement of bonus commission to agents is at present done manually at the Branch Office and there is practically no control on such payments. In the interest of adequate financial control, it is necessary to mechanise this work but it is not possible to do so on the present unit record system. Further, if the bonus commission procedure is to be changed on the lines suggested by us these changes cannot be given effect to in the unit record system or even on the present manual system.

(vii) Due to lack of proper controls on updating card files the list of maturities, survival benefit cases under anticipated endowment plan and other automatic changes to be incorporated in the policies are becoming increasingly unreliable. Many omissions are noticed in the lists prepared by the machine department, leading to inefficient service to policyholders, and delays in the matter of settlement of maturity claims and survival benefits under anticipated endowment policies.

(viii) At present the machine departments are not able to generate timely and meaningful statistics about policy lapsation such as agent, development officer or Branch-wise lapse statements, analysis of lapses according to plan of policy, mode of payment of premium, month of issue of policy, etc. In the absence of such statistics it becomes difficult to decide upon appropriate policies to prevent or minimise lapsation or to take appropriate follow-up action for revival of lapsed policies.

(ix) Though the Machine Department manual of the LIC visualises mechanisation of a number of jobs like policy deposit accounting, loan accounting and foreclosure action, etc., most of the Divisional Offices do not find it possible to undertake these jobs on the machines because of the inadequacy of machines. As handling these jobs manually is very difficult because of the large volume of work requiring to be handled, these jobs are either not being done at all or are being done very inadequately.

(x) Because of the inadequacy of the present data processing system, salary savings scheme servicing has become extremely unsatisfactory as well as uneconomic.

(xi) Above all, the increasing failures of financial controls arising out of the inadequacies of the existing data processing system are opening up a fertile ground for possible frauds.

59 7.64 It will be seen that the existing unit record machines as well as the whole data processing system of the LIC have become totally obsolete, which is a major cause for the serious deterioration in the standard of policyholders' servicing in the LIC. The deterioration in the functioning of the data processing system is of such serious magnitude, that unless very urgent action is taken to replace the existing system by a more modern and reliable system, the LIC may have to face a complete breakdown in its data processing system

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		in the not too distant future with very serious consequences on its service to policyholders as well as on its overall financial working.
60	15.26	The Committee strongly recommends that the LIC should arrange for a complete change over from the existing data processing system based on the Unit Record and Adrema machines to a versatile and modern system as early as possible. The system that the Committee recommends for consideration of the LIC is one based on installation of micro-processors at the larger Branch Offices and mini-computers at the Divisional Offices. The micro-processors at the Branch Offices will attend to the work relating to premium billing and premium and commission accounting, and will also replace the policy and the loan ledgers at the branch level. A consolidated data of the policy would be available on the floppy disc or the magnetic tape attachement to the micro-processor. The new system will replace the multiple file system obtaining at present where records of the policy are spread over a number of files such as premium ledger, loan ledger, premium master card and demand receipt cards, valuation master cards, adrema plates, etc., by a single consolidated record maintained on the magnetic tape or floppy disc. The same consolidated record of the policy will also be available on the mini-computer at the Divisional Office which will exercise automatic control on all the operations of the Branch Offices. The mini-computer will also act as a servicing medium for the smaller branches which will not be in a position to install a micro-processor and for the still smaller Development-*cum*-Servicing centre in the rural area. The smaller Branch Offices will continue to maintain individual policy ledgers but all premium and commission billing work will be handled by the Divisional Office. The Development-*cum*-Servicing centres will not maintain any policy ledgers or other records but they will still be able to render essential services to the policyholders on the basis of updated status cards supplied by the Divisional Office.
61	15.27	Some of the important advantages of the new system in improving the service to the policyholders are indicated below :— (i) Apart from being more reliable and regular, the premium notices would be more in the nature of a statement of account and will include particulars of loan and interest dues, other outstanding dues like "X-charges", outstanding deposits, etc. (ii) It will make it easier for the LIC to change the present system of preparing receipts in advance along with the premium notices, leading to substantial saving in cost. (iii) It will enable the LIC to take automatic loan foreclosure action in cases where such foreclosure becomes necessary in accordance with the conditions of loan bond. (iv) It will enable the LIC to exercise stricter controls on all agency commission payments including bonus commission payments and also enable the LIC to effect a change over in the commission payment system on the lines recommended by the Committee or in any other manner. (v) It will ensure timely issue of maturity intimations and thus help expeditious settlement of maturity claims. (vi) It will help considerably in improving the servicing of SSS business and reducing substantially the cost of its servicing. (vii) It will eliminate duplication of functions and records between the Branch Offices and the Divisional Offices, which still obtains to a great extent, and provide automatic controls on branch operations. (viii) It will make it possible for the proposed small Development-*cum*-Servicing offices in the rural centres to provide most of the essential services. (ix) The financial control system in the LIC are not at all working effectively leading to increasing mistakes involving losses to the LIC and also opening up possibilities of large scale frauds. A change over in the data processing system will help considerably in tightening up the financial controls and thus preventing losses.

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62	15.28	The Committee is satisfied that such a change over would not reduce employment opportunities in the LIC... As the LIC is now functioning life insurance has ceased to be viable as a savings medium and unless urgent steps are taken to restore its economic viability, the business is bound to be grievously affected with serious effect on the employment opportunities in the LIC. On the other hand, if the LIC is enabled to restore the economic viability of life insurance as a savings medium, and also to improve its services to the policyholders, it would result in increased business, with consequent increase in employment opportunities.
		Expenses of Management
63	8.14	Taking all the aspects into considerations, it will be readily accepted that if life insurance is to remain as a viable saving medium, it is essential that the level of expenses of the LIC should be brought down to a level substantially lower than the present statutorily prescribed maximum level.
64	8.24	Though the number of staff per lakh of policies in force has been continuously going down, the staff salaries have been rising somewhat steeply. A part of this increase is undoubtedly due to inflationary trend and the continuous increase in the consumer price index. However, the staff salaries have increased far in excess of the rise in the consumer price index.
65	8.30	While expenses on administrative staff salaries per in-force policy has gone up in a proportion higher than the corresponding increases in the consumer price index, the expenses under other major heads have gone up to a much lower extent. If the corresponding increases in the sum assured and premium per in-force policy are also taken into consideration, then it would appear that all other expenses expressed as a percentage of premium have remained more or less steady and if the renewal expense ratio has gone up, it is mainly due to the increases in the administrative staff, staff salaries on the one hand and increases in the development officers' salaries and other development costs on the other. The remedy for the increase in the expense ratio will, therefore, have to be found in tackling the problem of expenses under those two heads.
66	16.2	During an inflationary period staff salaries will inevitably increase more rapidly than the premium per policy in-force, and to prevent the cost of servicing becoming burden some to the policyholder, it would be necessary to improve the productivity of the staff so that the same staff can service a larger number of policies in force. The Committee. therefore, recommends that the LIC should continually review :— (i) its administrative procedures, (ii) its data processing techniques, (iii) its methods of organising work, and (iv) its general personnel policies as affecting staff attitudes and motivations, so as to improve the overall productivity of the staff and to enable it to control effectively the number of staff required to service its business.
67	16.3	The Committee also recommends that decentralisation of servicing functions to Branch Offices should be completed soon. This should be accompanied by introduction of a more efficient data processing system for ensuring effective control on the functioning of the Branch Offices. This would also eliminate duplication of work and records between Branch Offices and Divisional Offices, which exists at present, and would thus help in reducing costs.
68	16.4	In respect of the other major head of expenses, namely, development officers' salaries and other development costs, the changes suggested in the pattern of field organisation involving elimination of one tier between the agent and the Branch, and the suggestions made for professionalisation of the agency organisation would help in reducing the number of Development Officers required by the LIC and thus help in reducing the total costs under this head.
69	16.5	As regards agent's commission......the Committee is of the view that the change suggested by it namely linking payment of commission to the agent's obligation to render certain services to the policyholders, would help in avoiding payment of renewal commission to a number of non-functioning agents, and thus help in reducing the total outgo

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		under the head of commission. Further, controls on payment of commission to agents are not working satisfactorily at present and a number of cases of excess payments and payments where none are due are being reported. The Committee is convinced that introduction of a more efficient data processing system will ensure stricter control on commission payments and thus help in reducing the cost under this head.
70	16.6	The Committee further recommends that the LIC should undertake, on a continuing basis, a cost benefit analysis of various services rendered to the policyholders. Where it is found that the cost of a particular service has over the years increased substantially and it is not a contractual obligation and is availed of only by a small minority of policyholders, the LIC may consider whether it is essential to continue this service and, if so, whether any specific fee can be charged for such service. Instances of some of the services for which special charge can be considered are given below :— (i) For certain types of alterations in policy contracts, the LIC now charges either a quotation fee of Rs. 5 or an alteration fee of the same amount. These charges were fixed at a time when the actual cost of these operations was low. The LIC should re-examine the fees now being charged in the light of the actual direct costs involved and consider whether and to what extent the existing fees should be increased. (ii) At present, the practice is to insist on age proof being submitted along with the proposal. However, in a number of cases this is not being done. There are also a large number of old policies where the age has not been proved and admitted. When proof of age is received after issue of the policy and it transpires that the age originally given is wrong, a considerable amount of work is involved in endorsing the policy for appropriate changes and collecting or refunding the difference. In all such cases it would be justifiable to charge a fee, the amount of which can be decided on the basis of an analysis of the unit cost of this operation. (iii) In certain types of cases the LIC permits an existing policy to be substituted by a new policy under the Married Women's Property Act. At present, the LIC charges only a nominal fee of Rs. 5 plus the actual policy stamp charges for giving effect to such a change. Considering the amount of work involved in giving effect to such a change, the fee charged by the LIC would appear to be inadequate and the LIC should consider increasing the fee suitably. (iv) At present, a policyholder is allowed to have his policy records transferred from one Branch or Division to another on his changing his residence. The work and cost involved in effecting the transfer are substantial. The LIC should, therefore, consider charging an appropriate fee for such transfers of policies. In this connection it may be noted that the policyholders has the option to remit his premium by cheque to the original branch and the LIC accepts all outstation cheques at par. Therefore, a policyholder who has a bank account will in practice suffer no inconvenience even if the policy records are not transferred.
71	16.7	Suggestions made under para 16.6 are only by way of illustrations and are not intended to be exhaustive. Decisions should be taken by the LIC after examining all aspects of the problem. In general, the LIC should undertake detailed cost benefit analysis of all such servicing operations to enable it to control the costs of policy servicing and to preserve equity between different groups of policyholders.
72	16.8	The Committee recommends consideration of the following further suggestions :— (i) Cost of servicing a policy with half yearly mode of payment is substantially higher than that of a policy with yearly mode and the cost of servicing a policy with quarterly or monthly mode is higher still. In the Committee's view, the present rebate for mode does not reflect adequately the difference in cost of servicing of policies with different modes of payment of premiums. The Committee, therefore, suggests that the rebate for yearly mode, which at present is Re. 0.75 per Rs. 1000 sum assured, should be increased to at least Re. 1 per Rs. 1000 sum assured and suitable extras charged where premiums are paid quarterly or monthly.

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		(ii) The cost of servicing depends on the number of policies serviced. It is, therefore, in the interest of the LIC that a policyholder insuring for a large sum is persuaded to take out a single policy for that sum and not split it up into a number of policies for smaller sums. For this purpose, the LIC is already allowing a rebate of Re.1 per Rs. 1000 sum assured for policies of Rs. 25,000 or more. The result of this is that a policyholder insuring for Rs. 1 lakh and over, is advised by the agent to take out several policies of Rs. 25,000 each. The Committee, therefore, suggests allowing higher rebates for policies of Rs. 50,000 to Rs. 1 lakh.
		(iii) At present, the LIC is charging interest at 7.5% for late payment of premium. As the LIC is today earning a gross rate of interest of over 7.5% on its existing investments and about 8.9% on its new investments, the Committee recommends that the rate of interest charged for late payment of premium should be increased to a minimum of 9%. The Committee has also noted from an analysis of the Internal Audit reports that there is a considerable amount of laxity in many of the offices of the LIC in collection of interest for late payments. The Committee, therefore, recommends a stricter enforcement of the rules regarding collection of late fees in all cases.
		(iv) At present, the LIC is required to affix on each policy a stamp of a value depending on the amount of the policy. This task is tedious, time consuming and in addition involves keeping control on the stock of stamps. The LIC has, therefore, taken up with the Government a proposal that it may be permitted to pay a consolidated stamp duty and exempted from individual stamping. The proposal is still pending with Government. There is another matter which bears on the rate of stamp duty itself. Now stamp duty is levied on Group Insurance policies on the same basis as on individual long term life insurance policies, that is, on the sum assured. As Group insurance provides only year to year risk cover at a very low rate, the stamp duty bears heavily on the scheme. Group insurance policies are like General Insurance policies where the cover is from year to year and the LIC has represented to Government to change the duty on group insurance policies to bring them on par with General insurance policies. This proposal is also still under the consideration of the Government. The Committee recommends that the proposals of the LIC should be considered favourably and appropriate action taken early.
73	16.9	Apart from the above suggestions the Committee recommends that the LIC should undertake on a continuing basis a study of the unit cost incurred by the branch and the divisional offices for the various operations required to be undertaken in the normal course of servicing separately for each office. The Committee has noted that there are large unexplained differences in the expenses ratios of the various divisions. This study would, therefore, enable the LIC to investigate into the reasons for the wide differences and take appropriate corrective action wherever it is found that in certain offices unit cost of particular operation is unduly high. The study will also help in evolving simpler procedures based on practices of offices with low unit cost which can then be adopted by other offices.
74	8.10	Section 40B of the Insurance Act itself provides that in prescribing the limit on the expenses of management "regard shall be had to the size and age of the insurer and to the provision generally made for expenses of management in the premium rates of insurers". .... On the assumption underlying these premium rates and taking the average sum assured per policy and average premium per policy both in respect of new business and business in force on the basis of the actual distribution of business in the year 1978-79, the limit on the renewal expense ratio on the basis that it does not exceed the provisions in the premiums, works out to about 12.13%. From the point of view of size and age, the LIC must be considered as a giant insurer and that too with the advantage of monopoly. The limit on the expenses of the LIC should, therefore, be nearer to 12% and in any case substantially lower than 15%.
	16.10	The Committee would like to reiterate the urgent need for control on the expenses of management by keeping a watch on the trend of expenses and the level of expenditure of all the Divisional and Branch Offices. The Committee is of the view that the adjusted renewal expense ratio may be accepted as a practical guide to judge the trend in the level of expenses of management of the LIC and that all efforts should be made to bring this ratio down to 12.5% or less.

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		Investment
75	9.12	The Committee feels that the statutory framework laid down for investment of life insurance funds is not in conformity with the basic principles that should govern the investment of life insurance funds........and also the objectives accepted by the Corporation relating to investment of its funds. In recent years, the LIC has had to face severe competition from other savings media such as Bank Deposits, Company Deposits, Unit Trust and National Savings. By its very nature, life insurance bsuiness will involve a higher level of selling and administrative costs than other savings media. Therefore, if life insurance business has to compete with other savings media, the return on the investments of life insurance funds has to be higher than that available on other savings media.
76	17.1	The LIC has so far been able to mobilise large amounts of savings which have been available to Government for its various plans and for other socially oriented projects. The annual accretions to the LIC Funds now exceed Rs. 700 crores. Such mobilisation has been possible hither to mainly due to the high pressure salesmanship of the LIC's field force on the one hand and the lack of awareness of other options among the public on the other. This situation is not likley to continue and unless early steps are taken to make life insurance viable as a savings medium, we are afraid that the LIC will no longer be able to play its vital role in mobilisation of savings.
77	17.3	At present, the major avenues of long term investments in India are Government securities .and term loans to State Governments and to public and private sector institutions for their development projects. As these investments do not provide any hedge against inflation, the only way the long term investors can protect themselves against the effect of inflation, is by introducing the concept of a variable rate of interest, a concept which has already been introduced by the LIC in respect of its mortgage loans and loans to State Electricity Boards. The Committee, therefore, recommends that the Government should review its policy insofar as the LIC is concerned regarding rates of interest on Government and approved securities and on long term loans for private and public sector projects and consider allowing a variable rate of interest linked to a suitable index on all such long term financial investments, where the possibility of any capital gain to offset the effect of inflation is not there. The nature of the linkage will inevitably have to be different for different forms of financial investments and is a matter to be decided by the Government and the Reserve Bank.
78	17.4	If the yield to the policyholder on his investments in savings linked life insurance policies is to be comparable to the investment in Public Provident Fund the gross yield on the life insurance fund should be at least 10%. At present the LIC is able to obtain a gross yield of about 8.9% on the average on its new investments. It would, therefore, be necessary to change the pattern of investment of the LIC in such a manner that the LIC is enabled to earn at least 1.1% more on its total investments to enable it to compete with other savings media like Public Provident Fund.
79	17.5	The Committee submits the following recommendations for consideration of the Government:—— (i) At present, The LIC is required to invest about 50% of its total investments in Government and other approved marketable securities. The Committee has noted that approved trust funds like provident funds and gratuity funds are required to invest only 40% of their total investments in such securities. The Committee, therefore, recommends that for the LIC also this percentage should be reduced to 40%, 20% in Government Securities and 20% in other approved marketable securities. (ii) In respect of the 25% of the investible funds which at present are required to be invested in socially oriented projects, different rates of interest are offered on loans to Government, loans which are guaranteed by Government and loans which are granted to public sector institutions like the State Electricity Board on the security of a mortgage. The Committee is of the view that this distinction is unjustifiable and it recommends that all such loans should be granted at the market rates of interest for such term loans, which also is determined from time to time by the Controller of Capital Issues in case of debentures and by the consortium of financial institutions in case of term loans. At best, a differential of half a per cent may be

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		retained for loans to Government, and also to semi-Government institutions, because of the implied Government guarantee.
		(iii) As for the LIC's investments in the private corporate sector, the Committee has already noted that the LIC's investments by purchases from the market have been generally very satisfactory and the capital appreciation on such investments has enabled the LIC to offset the depreciation on its investments in Government Securities. However, the LIC's experience in underwriting of equities of new projects has not been satisfactory. The Committee, therefore, recommends that the LIC should restrict its participation in financing of new projects in the corporate sector to term loans and that too after closely examining the financial viability of the project. This should not preclude the LIC considering cases where an existing company, well-managed and successful, goes in for further equity capital for financing an expansion or new projects where equity participation may be considered on individual merits. In short, the LIC should not be viewed as a developmental organisation.
		(iv) So far as the balance of the funds is concerned, the Committee recommends that the LIC should consider increasing its investment in the housing field, both residential and commercial housing, subject to the condition that the net return on such investments after taking into consideration the expenses involved, is not less than what is obtainable on comparable investments in the socially oriented sector.
80	17.6	As regards the special Fund proposed by the Committee to be set up by the LIC for policies which will not be eligible for income-tax relief, the Committee recommends that the whole of this fund should be placed in a special deposit account with the Government carrying a rate of interest of 2% more than what is at present available on National Savings Certificates of Seven Year term. Here again, the Committee would like to suggest that the rate of interest on such deposits should be variable and as and when the rate of interest on National Savings is changed, a similar change should also be made in the rate of interest available on this fund, subject to a certain minimum rate of interest being guaranteed.
81	17.7	As regards the ordinary life fund, a suggestion has been made to the Committee that whole of this fund, except for a portion to be retained for loans to policyholders, should be handed over to the Government who would guarantee a reasonable rate of interest on the fund. The Commitee is unable to agree with this suggestion because of various considerations discussed in the report. The Committee is of the view that the LIC should be allowed to continue the management of its investment function, subject to the modifications in the investment policy suggested by it.
		Management Information and Controls
82	18.1	The Committee has noted that the LIC has been making continuous efforts for improving its management information and control system, so that a close watch can be kept on the performance of the various offices. The main problems in this area are the delays in obtaining the information as well as the unreliability or inadequacy of the information itself. These are due to the defective data processing system.
83	18.2	With the present data processing system, the LIC is unable to compile many items of essential information like the number of lives covered through individual assurances and the business in force in various centres, particularly in the rural areas. Again, because of the poor data processing system, the operating offices are not able to obtain agent-wise, development officerwise and branch-wise statistics of lapses and it is also not possible to get analysis of lapses according to plan of insurance or month of issue or other similar analysis. Non-availability of such statistics makes any effective, preventive or follow-up action in this important area extremely difficult.
84	18.3	A change over to a new data processing system as recommended by the Committee will naturally require careful planning and time for implementation. An immediate beginning must therefore be made in that direction. However, there is one area where immediate action is both imperative and fortunately possible as well. This is in the area of improving the data base for actuarial valuations and mortality investigations..... The Chief Actuaries of the LIC in their Valuation Reports have during the last ten years repeatedly been pointing out the large extent of inaccuracies in the Valuation Master

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		Card Files which is affecting the credibility of the actuarial valuations.... The Committee recommends that the LIC should immediately examine the possibility of maintaining, purely as a temporary measure, the valuation data at the Central Office on the Bombay computer.
85	18.4	Such a change over to a computerised data base for the basic valuation records would also enable the LIC to obtain various statistical statements required for management control purposes and also enable the Chief Actuary to experiment with different methods of valuation and analysis of surplus. The Committee recommends that the LIC should take immediate steps to effect a change over to a computerised data base for the actuarial valuations and mortality investigations.
86	18.5	At present the financial controls within the LIC are not working at all satisfactorily in many areas. Though in many cases the unsatisfactory working of the financial controls can be attributed to limitations and failures of the existing data processing system, the Committee feels that even under the present system it is both possible and essential to tighten up the existing controls. The Committee, therefore, recommends that the LIC should urgently undertake a detailed examination of the working of the existing financial controls based on a study of the Internal Audit Reports and take appropriate action for strengthening the existing controls.
87	18.6	The Committee is of the view that the Zonal Manager being the Chief Executive responsible for exercising supervision over the working of all the offices in the Zone on behalf of the Central Office, should be the officer responsible for ensuring that corrective action is taken on the defects and irregularities pointed out in the Internal Audit Reports. Responsibility for all corrective action to be taken on the Internal Audit Reports should, therefore, be vested completely in the Zonal Manager.
88	18.7	The Committee further suggests that in each Zonal Office, an Audit Committee should be constituted consisting of the Zonal Manager and two Members of the Zonal Advisory Board which would go into all the Internal Audit/Inspection Reports of the various offices of the Zone and indicate the lines on which corrective action should be taken.
89	18.8	The Committee is of the view that for budgetary control to be really effective, it should start at the Branch level. The Committee, therefore, recommends that the LIC should urgently consider making the Branch office an accounting unit, so that formulation of financial budgets at the Branch level is facilitated.
90	18.9	The Committee also recommends that from the point of view of proper financial controls and planning, it is essential that the expenses which relate to the handling of investments, including investments in mortgages and buildings, are debited to the capital or interest or rent account as may be appropriate and not to the expenses of management so that a correct picture of the actual return on the investments of the LIC is obtained.
91	18.9	The Committee further suggests that rent at "market" rates should be charged on all properties (owned and occupied by the LIC), so that the costs incurred are correctly reflected in the revenue account of the LIC.
92	18.10	The Committee recommends that the LIC should consider introduction of a detailed performance budgeting system covering all the important areas of the LIC's objectives and operations and also arrange for a continuous review to be made of the actual performance in relation to such budget.
		Management of Human Resources
93	19.1	We have come to the conclusion that the LIC has not achieved much success in "involving all the people working in the Corporation to the best of their capability in furthering the interest of the insured public and providing efficient service with courtesy" and "promoting amongst all employees of the Corporation a sense of job satisfaction" which are the two corporate objectives of the LIC in the area of management or human resources. In the Committee's views this is partly due to the general socio-economic environment in the country, partly a result of the continuing industrial unrest in the organisation and partly to a lack of any serious effort on the part of the management to understand and analyse the underlying problems and to develop personnel policies which could help in improving staff morale and attitudes.

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94	19.2	The Committee is of the view that the present system under which responsibility for negotiations with its staff Unions is vested in the LIC while all decision making authority involving even minor changes in any of the terms and conditions of service is vested in Government is inherently unsound. The Committee accepts the need for having a measure of uniformity in service conditions and wage structures amongst the different public sector institutions. However, in the Committee's view this can best be achieved by Government laying down guidelines in this matter to be followed by all public sector institutions. The guidelines should be in broad terms so that while ensuring basic uniformity in wage structure, levels or remuneration and other service benefits, they do not affect the freedom of the public sector management to evolve its own personnel policies. Once such guidelines are framed by the Government and issued as directions to all the concerned public sector institutions, the management of the institution should be left free to evolve their own personnel policies and also to conduct negotiations with their staff unions and arrive at specific decisions within the confines of the guidelines. This will ensure that a level of uniformity is maintained amongst the various public sector institutions and at the same time will still leave enough freedom to the institutions to deal with their own problems and evolve effective personnel policies. It would then to possible to evaluate objectively their performance in the area of management of human resources.
95	19.3	If the Government finds that it is not possible to lay down guidelines on the lines suggested by us, an alternative is to set up common Pay Commissions for all public sector institutions of similar type. The awards of such Commissions, with such modifications as the Government may consider necessary in the light of its general economic policies, would then be binding on the institutions and the institutions would not be required to conduct separate negotiations with their staff unions.
96	19.4	The Committee is convinced that for an institution of the size and importance of the LIC, which is required to work on business principles, it is essential to have some continuity in the post of the chief executive. The Committee, therefore, recommends that the post of the Chairman of the LIC should be treated as a tenure post with a fixed term of five years. ....What we have stated regarding the post of Chairman of LIC would apply equally to the posts of Chairman-cum-Managing Directors of the Zonal Corporations, if our recommendation of splitting up the LIC into five independent Zonal Corporations is accepted.
97	19.5	The Committee recommends that the LIC should review its policy regarding fixation of minimum and maximum periods for posting of Divisional Managers and other senior executives at a particular station and consider the desirability of avoiding frequent changes in these posts so as to ensure continuity in management.
98	19.6	An important area where a review of the existing procedure is necessary is the appraisal system and promotion policy for class I officers. The present reporting system is not satisfactory. A General impression exists that there is a lack of objectivity in reporting and most of the confidential reports are colourless. The need for a thorough review of the existing system has, therefore, been recognised for a long time.
99	19.8	The Committee recommends that on the basis of the detailed suggestions made in the report as well as the studies which the LIC has itself undertaken in the past, it should take urgent steps for a thorough review of its existing appraisal system.
100	19.9	As regards promotion policy also, the Committee feels that there is an urgent need for a review....An ideal promotion policy should also provide for more rapid promotions for the few officers who have outstanding abilities. This alone will ensure that some outstanding officers can reach the top positions of the level of Zonal Managers and above at a reasonably young age....We suggest that besides a study of the confidential reports, interview by the promotion committee should be added as an additional factor, on the basis of which final decisions on promotions are taken. This will provide a corrective factor for any deficiency of the appraisal system as reflected in the confidential report.
101	19.10	The Committee also recommends that the LIC should evolve a properly planned management development programme for its management personnel at all levels so that the existing management personnel are given adequate opportunities for development and future needs of the LIC in various areas are properly identified and steps taken to meet them.

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102	19.11	An important part of a management development programme is an adequate training programme which would prepare the management personnel for changes in the organisation and in their own roles in the organisation. In our review we have indicated the three main areas where the existing facilities and programmes for training need to be strengthened. These are :— (i) Training of all employees promoted from Class III and Class II to Class I so as to enable them to fully appreciate the nature of the change in their roles in the organisation and effectively function in their new roles. (ii) Training of all officers who are being posted as Branch Managers in-charge of Branches for the first time. (iii) Training of all officers who are being posted as Divisional Managers in-charge of Divisions.
103	19.12	As far as the first two items of para 19.11 are concerned, the Committee feels that the Officers' Training College with its present facilities is not equipped to handle these two assignments adequately. The Committee, therefore, recommends that the LIC should consider setting up of training centres at the Zonal headquarters also.
104	19.13	As regards the training of officers being posted as Divisional Managers, the Committee understands that a new apex institution called the National Insurance Academy is being set up with the support of both the LIC and the GIC with the specific responsibility of evolving senior management development programmes and this academy will be entrusted with the responsibility for organising training programmes for senior executives like Divisional Managers. The Committee recommends that the LIC and GIC should ensure that the academy starts functioning effectively at a very early date, so that this urgent task can be taken up without any delay.
105	19.14	Apart from the general question of management development, it is necessary for the LIC to examine its existing man-power resources, its current and future needs of man-power with specialised knowledge and experience and draw up specific plans for proper utilisation of existing man-power and for meeting its current and future needs.
106	19.16	There is, however, one area where the actual availability of technically qualified man-power is likely to be substantially less than the present and future requirements of the LIC. This is in respect of actuarially qualified employees. The Committee recommends that the LIC should undertake an urgent study of this problem, prepare an estimate of the number of actuaries which would be required for its various offices in the coming two decades and draw up a specific plan and programme, which would enable it to meet these needs.
107	19.17	The most important problem in the area of management of human resources is how to improve the attitudes and motivation of staff at all levels. The Committee was informed that one of the major causes responsible for the feeling of a sense of frustration and lack of involvement is the absence of adequate promotional opportunities among Class III personnel in the LIC. The Committee feels that the ratio of officers to Class III staff is too low for a service organisation, and, therefore, recommends that the LIC should review its policies in the matter of relative strength of Officers and Class III staff with a view to providing additional promotional opportunities.
108	19.19	The Committee is of the view that splitting up the LIC into five independent Zonal Corporations as recommended in Chapter XX will by shortening the lines of communication help in creating a sense of identity and of belonging among employees of each of the Corporations. This would thus contribute to an improvement in staff motivation.
109	19.19	Further, the Committee's recommendation for complete decentralisation of policyholders' servicing functions to Branch Offices would also be a step in the direction of improving job satisfaction and staff motivation.
110	19.21	Generally, the Committee is of the view that if the LIC which has a large reservoir of trained and competent man-power takes steps to reorient its methods of organisation of work and evolve suitable man-power development programmes so that all the employees are given opportunities to utilise their qualifications, knowledge, experience and skills in their day to day work, and also given opportunities for self development, it would go

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		a long way in removing the feeling of frustration at present prevailing among the employees and improving the overall staff morale and staff productivity.
		Organisational Structure
111	20.2	In spite of large growth in its business, efforts made for improving its service to policy-holders and achieving economy in management, the LIC has not been able to fulfil most of its primary objectives. The Committee is convinced that the present unitary structure has been a major factor in inhibiting progress. Some of the major considerations which have led the Committee to arrive at this conclusion are given below :—
		(i) The LIC Act had visualised autonomous Zonal Offices with only policy making functions vested in the Central Office. In actual practice, however, there has always been a tendency to centralise both executive as well as policy making functions at the Central Office, the Zonal Offices having only limited supervisory and co-ordinating functions. This development should not occasion any surprise because the tendency to concentrate power in its own hands is inherent in all apex bodies.
		(ii) Practically all the Committees that had gone into the working of the LIC have felt that the present four tier set up is both wasteful and combersome. This Committee shares this view. The recommendation of the ARC and of the Morarka Committee to reduce one tier by abolition of the Zonal Offices has also not proved workable and after a brief experiment, the Government and the LIC found it necessary to restore the *status quo ante*.
		(iii) Because of overcentralisation of authority in the Central Office, which has endured not withstanding Shri Deshmukh's confident pronouncement to the contrary, the lines of communication have become tenous and there appears to be lack of identification and a sense of belonging in the management personnel at all levels. The Committee feels that with smaller Corporations it would be possible to build up a sense of belonging firstly because a smaller organisation does promote a feeling of belonging and secondly because shorter lines of communication between different levels give a feeling of participation.
		(iv) The Committee feels that if each Zone is made a separate legal entity with its own accounts and other published performance reports it is likely that greater efforts will be made by the management of the Zones to improve the performance.
112	20.3	In the light of the general considerations contained in para 20.2 the Committee has come to the conclusion that it is desirable to split up the LIC into five separate Corporations.
113	20.5	The Committee recommends that the existing Zonal Offices should be set up as independent, non-competing Corporations with their jurisdiction restricted to their present areas. All these Zonal Corporations will be working on the basis of common premium rates and policy conditions. They will also have a common actuarial valuation and uniform bonus rates will be declared for all the Corporations at least to start with.
114	20.6	The Committee recommends the following broad set up for the Zonal Corporations :—
		(i) The management of the Zonal Corporation will vest in a Board of Management with the Chairman-*cum*-Managing Director of the Zonal Corporation as full time executive Chairman. The Board should consist of the Chairman-*cum*-Managing Director, two or more full time Functional Directors, a Central Government nominee and not more than 10 Directors selected on the basis of their expertise in related fields such as actuarial, accountancy, law, medicine, personnel management etc.
		(ii) The Central Office of the Zonal Corporation will handle all the functions which are at present being handled by the Central and Zonal Offices of the LIC.
		(iii) The two lower tiers of Divisional and Branch Offices will continue. However, with the complete decentralisation of servicing functions to the Branch offices, the role and functions of the Divisional Office will undergo a change. The role

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		of the Divisional Office will be supervision and control over the Branch Offices, planning for the development of business and organisation and technical guidance in the areas of underwriting and policy servicing.
		(iv) The bigger branch offices will perform all servicing functions directly with their own data processing systems based on micro-processors. The smaller Branch Offices will also render all essential services to the policyholders but will depend upon the Divisional office for certain mechanised services. The smaller Development-*cum*-Servicing centres wlll render limited services too policyholders.
115	20.7	Though all the five Corporations will be working as independent Corporations reporting directly to the Government, in certain areas co-ordination will be essential....For providing such common services and ensuring co-ordination of working between the different Corporations, the Committee recommends that a Central Body to be called the Life Insurance Board (LIB) should be set up. The role it visualises for the LIB is not that of an apex body controlling and supervising the working of the Zonal Corporations but only that of a co-ordinating body which will also be dealing with certain common functions. It will also provide a forum for discussion of common problems. The LIB will consist of a full time Chairman, three technical full time Directors dealing with the functions of investments actuarial and personnel and a Member representing the Central Government. The five Chairman-*cum*-Managing Directors of the Zonal Corporations will also be Members of the LIB.
116	20.7	The LIB will handle all investments in Government and approved securities as also all investments in the private corporate sector. All decisions regarding investments in the socially oriented State sector would be taken by the LIB but actual investments will be channelised through the Zonal Corporations so that the Zonal Corporations can remain in close touch with the respective State Governments in which such investments are being made. Investments in mortgages and house building activities would be handled completely by the Zonal Corporations but within the budgetary allocations approved by the LIB.
117	20.8	The Committee would like to emphasize that the LIB would be only a co-ordinating body providing certain common services and not a controlling or a supervisory body, so that the general tendency for centralisation which has been apparent in the LIC does not recur and each Zonal Corporation is able to function as a completely independent unit. Each Zonal Corporation will report directly to the Government and also be directly responsible to the Government for the management of its affairs.
118	20.9	The recommendation made involving splitting up of the LIC and setting up of five independent non-competing Zonal Corporations will involve statutory changes, and will take time to implement. However, if the Government takes a decision in principle accepting the recommendation, certain immediate steps can be taken within the existing statutory set-up in the direction visualised. The Committee recommends that in that event immediate steps should be taken to curtail many of the functions of the Central Office and decentralise the same to the Zonal Offices.
	20.10	The overall effects of the interim steps suggested would be that the functions and staff of the LIC Central Office would be curtailed substantially and the Zonal Offices' functions and authorities would be correspondingly increased.
119	20.11	With the proposed increases in the functions and authority of the Zonal Office, it would be necessary to strengthen the Zonal Advisory Boards and review their functioning suitably so that their role is made more purposeful and effective.
120	20.12	As regards the statutory provisions relating to the Policyholders' Councils and Employees' and Agents' Relations Committees, the Committee is of the view that these provisions require to be reviewed.
		The Committee would recommend the deletion of both these provisions. As regards the general question of employees' participation in management, the matter may be reviewed by the Government in the context of its general policy.

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		Other Related Matters
		(Government's relationship with the LIC. Role of the Controller of Insurance and Government's share of Valuation surplus).
121	21.9	The question of the relationship that should obtain between the LIC and the Government has received the most careful consideration at the hands of every Committee that has gone into the working of the LIC. The Committee is in general agreement with the recommendation made by the Estimates Committee (1960-61). The Committee realises that a large measure of consultation between the Government and the LIC would be necessary and that it is also inevitable that such consultation would include a number of suggestions from the Government to the LIC. However, a clear distinction has to be drawn between a suggestion made for consideration by the LIC and a suggestion which is really in the nature of an instruction to be complied with. So far as the first category of suggestions is concerned, it would be open to the LIC to accept or not to accept the suggestion after considering it on merit in the light of its own interests. As regards suggestions which are in the nature of instructions, the Committee accepts that all of them need not be issued as directives. However, when such instructions are received, it would still be the duty of the LIC to consider each instruction in the light of its business interests and the practical problems involved in implementing them. If the LIC comes to the conclusion that implementation of the instruction would affect its working adversely, it should write to the Government giving reasons why it feels that it would not be in its interests to carry out the instruction. In such an event, if after giving due consideration to the LIC's observations, the Government comes to the conclusion that in the interest of public policy it is still necessary to direct the LIC to carry out the instruction, the Government should issue necessary directions under Sec. 21 of the LIC Act. The Committee recommends that the above procedure should be followed both by the Government and the LIC. The Committee trusts that all such suggestions, instructions or directions would relate to matters of policy or on any executive decisions which impinge on matters of public policy and not to matters relating purely to internal administration.
122	21.11	The Committee gathered the impression during the course of evidence that a convention appears to have developed that no proposal is passed by the Board of a Public Sector Undertaking unless there is specific concurrence of the Government representative on the Board, even on matters which do not impinge on public policy. If such a situation does really obtain in practice, the Committee feels that it would detract from the responsibility of the Board as a whole and the autonomy of the undertaking as well. The Committee is of the view that there should be a full discussion in the Board on the merits of every proposal before it.
		The Government nominee may point out to the other members, the implications of any particular proposal as far as it impinges on matters of public policy so that this aspect is given due consideration by the Board before arriving at a decision. Where any decision of the Board is not found acceptable to the Government, the Government has got the authority first to issue instructions and then if necessary a directive, as already discussed previously. The Committee recommends that guidelines should be issued in the matter of the role of the Government nominee on the Board of Public Sector Undertakings.
123	21.12	The Committee is given to understand that financial institutions like LIC, GIC and Banks are outside the purview of the Bureau of Public Enterprises. However, the Committee was informed that in practice various circulars and instructions issued by the Bureau concerning many matters of general administration are being sent to the LIC through the controlling ministry. If these are meant as suggestions for consideration, the LIC should treat them accordingly and take a decision on the basis of whether acceptance of the suggestion would be in the interest of the LIC or not. However, if the circulars of the Bureau are meant to be instructions, they should be issued directly by the controlling ministry and not by the Bureau, and they should be dealt with in the same manner as other instructions emanating from the Government, as indicated earlier.

(1)	(2)	(3)
124	21.15	The Morarka Committee gave thought to the question of continuous scrutiny of the working of the LIC by the Controller of Insurance who is the statutory authority under the Insurance Act 1938. Their recommendation is given below:— "It should be the duty of the Controller of Insurance to function as an evaluating Officer who continuously studies the working of the LIC in all its aspects and assesses the economic efficiency of the undertaking and its achievements and failing in terms of the objectives of nationalisation. As the officer responsible for the vigilance and evaluation, he should be charged with the duty to draw the Government's attention to the kind of directives that the Corporation may need from time to time." Although this recommendation was accepted by the Government, the position continued to remain the same. The Committee is in complete agreement with the recommendation made by the Morarka Committee.
125	21.15	The Committee recommends that to enable the Controller of Insurance to discharge his duties under the Act in the manner the Parliament intended him to do, it would be necessary to make the Office of the Controller of Insurance independent of any other wing of the Finance Ministry in regard to its functions as the statutory regulating authority.
126	21.16	At present the LIC is required to submit its Annual Accounts as well as the report of the Chief Actuary on the valuation of the assets and liabilities of the LIC, in the forms prescribed under the Insurance Act. The Committee recommends that the forms prescribed for submitting the Valuation Reports should be suitably reviewed so that the LIC is enabled to carry out its statutory actuarial valuation by the Bonus Reserve Method for submission to the Controller of Insurance if it so desires.
127	21.17	On the subject of actuarial valuation, the Committee would like to refer to the recommendation made by the Committee of Actuaries in their report that the LIC should accept the obligation to return in full the surplus contributed by a policyholder at least when the policy results into a claim. The Committee is of the view that this principle should be accepted by the LIC, to ensure equity between different generations of policyholders. The Controller of Insurance should be required to satisfy himself that this principle is being adhered to.
128	21.18	The Committee has noted that while the functions of the LIC are strictly defined by the LIC Act and regulated by the provisions of the LIC Act read with the Insurance Act, there is no such regulation of the life insurance business transacted by the State and Central Governments and by the Post Office Insurance Fund. The Committee, therefore, recommends that the provisions of the Insurance Act should be applied to the Insurance Schemes transacted by the State and Central Governments with suitable modifications, so as to ensure that the schemes are actuarially sound and also that complete statistical information of the schemes is made available to the public.
129	21.19	The Committee recommends that the practice of publishing the Insurance Year Book should be resumed and the Year Book should contain the Controller's report on the working of LIC and GIC giving his detailed evaluation of their performance is terms of their objectives. The report should also give detailed statistics and information regarding the working of various insurance schemes of the Central and State Governments.
130	21.20	The Committee recommends that reports of actuarial valuations of private pension funds and gratuity funds should be required to be submitted to the Controller of Insurance and the Controller should also prescribe forms in which the reports should be submitted. The Committee feels that this is necessary to ensure that these funds are run on scientific basis.
131	21.21	The Committee recommends that the Controller of Insurance should be vested with powers similar to those under Section 22 of the Insurance Act in respect of Valuation of Gratuity and Pension Funds also. This would be appropriate as the Controller is, in addition to his duties under the Insurance Act, also the Actuarial Adviser to the Government of India.

(1)	(2)	(3)
132	21.22	The Committee would like to emphasise that if the role of the Controller of Insurance is accepted as that of the Government Actuary, who is also responsible for regulation of the entire insurance industry in the country including the Central and State Government run insurance schemes, and evaluation and monitoring of the performance of the LIC and the GIC, it is essential that his office is strengthened by the posting of necessary complement of technically qualified staff.
133	21.24	The Committee has noted that even before nationalisation, leading insurance companies used to allocate more than 95% of the valuation surplus to the policyholders. The "Oriental" for instance, the largest life insurance company allocated 97½% to its policyholders. The Committee has also noted that there were many mutual insurance companies in India and elsewhere where the policyholders received benefit of the entire valuation surplus and that Section 6B of the Insurance Act enabled companies "limited by shares" to convert themselves into mutuals. The Committee is, therefore, of the view that there is no justification for the Government taking away such a large share of surplus as 5%.
134	21.25	In the Light of the background given in para 21.24 the Committee submits the following recommendation:— (i) As regards the ordinary life insurance fund, the share of surplus to be allocated to the policyholders should be increased from 95% to 97½%. (ii) Out of the 2½% share of the valuation surplus not more than Rs. 1 crore should be paid over to the Government which would give a 20% return on the paid-up capital of the LIC provided by the Government. The balance should be set apart to constitute a reserve fund which will be utilised for such special schemes for the development of life insurance business for the benefit of rural areas and of economically weaker sections of the community, as may be approved by the Government. (iii) In the case of the special fund recommended by the Committee for policies which will not be eligible for income-tax relief; as these policies are meant for policyholders from the low income group, the entire surplus should be reserved for and allocated to the policyholders.
135	21.26	One scheme which would require a subsidy from the special fund referred to in sub-para (ii) of para 21.25 is the proposal made by the Committee for opening a large number of development-*cum*-servicing offices in the rural areas. In the initial stages these offices will not be economically viable and would require some subsidy to ensure that the higher expenses do not reduce the benefits available to the policyholders as a whole. The LIC should make a cost benefit study of the working of such offices and submit its proposals for a subsidy from this special fund for approval of the Government.

PART IV

APPENDICES

GOVERNMENT OF INDIA

REPORT

OF

THE COMMITTEE TO REVIEW THE WORKING OF L.I.C.

PART IV——APPENDICES

Contents

APPENDIX 1

(Chapter I—Para 1.2)

(To be published in Part I Section 1 of the Gazette of India Extraordinary dated the 18th May, 1979)

GOVERNMENT OF INDIA

MINISTRY OF FINANCE

(DEPARTMENT OF ECONOMIC AFFAIRS)

New Delhi, the 18th May, 1979

RESOLUTION

Since the establishment of the Life Insurance Corporation of India in 1956, there have been vast changes in the economic scene and national priorities. Increasing emphasis is now being laid on rural development, removal of unemployment and provision of essential social services. With the growth of life insurances, expectations in respect of the service and benefits to the policyholders have gone up considerably and demands have been made for more economic management, better return and improvement in the service to policyholders and reorientation of the investment policy. Suggestions have also been made for changes in the organisational set-up of the Corporation for achieving the desired objectives. It is necessary that the life insurance industry's structure, business operation and investment policy are geared to meet the changing requirements of the national economy and the insuring public. The Government have, therefore, decided to appoint a high-level Committee to review the Corporation's working in all major aspects and to suggest measures for improvement.

The Committee will consist of the following:—

Chairman:

Shri Era Sezhiyan, Member, Rajya Sabha.

Members:

1. Prof. V. M. Dandekar,
Gokhale Institute of Politics & Economics,
Pune, & Director, Indian School of Political Economy, Lonavala.
2. Shri A. Rajagopalan,
Former Chairman of the General Insurance Corporation of India,
Bombay.
3. Dr. S. K. Chakravarty,
Professor of Financial Management,
Indian Institute of Management,
Calcutta.
4. Dr. D. P. Singh, Vice-Chancellor,
Rajendra Agricultural University,
Patna (Bihar).
5. Shri R. M. Mehta,
Former Managing Director,
Life Insurance Corporation of India,
Bombay.
6. Shri S. Ramanathan,
Additional Secretary,
Department of Economic Affairs,
Ministry of Finance.

2. Shri A. Srinivasan, Executive Director, Life Insurance Corporation, will act as Secretary of the Committee.

3. The terms of reference of the Committee will be as follows:—

(a) to review the progress of life insurance since nationalisation, to assess the potential for its growth, particularly in the rural areas, and to suggest steps for accelerating the development of the business;

(b) to examine the organisation of the Corporation at different levels including the set up of the field force and to suggest such changes as may lead to greater efficiency and economy in operation;

(c) to recommend measures for improving the quality of service to policyholders;

(d) to examine the existing pattern of investments of the Life Fund and to suggest such changes, as may be considered necessary, for improving the return on the investments consistent with the safety of the capital and the national priorities; and

(e) to make any other recommendations which will contribute to more effective management of life insurance business.

4. The headquarters of the Committee will be at Bombay. The Secretarial services will be provided by the Life Insurance Corporation of India.

5. The Committee will devise its own procedure and may call for such information and take such evidence as it may consider necessary.

6. The Committee will submit its report within six months.

Sd/-
(Manmohan Singh)
Secretary to the Government of India.

F.No.98(3)-Ins.II/78 New Delhi, the 18th May, 1979.

ORDER: Ordered that a copy of the Resolution be communicated to all concerned.

Ordered also that the Resolution be published in the Gazette of India for general information.

Sd/-
(Manmohan Singh)
Secretary to the Government of India.

(Chapter I—para 1-10)

GOVERNMENT OF INDIA, MINISTRY OF FINANCE
COMMITTEE TO REVIEW THE WORKING OF LIC

Yogakshema Jeevan Bima Marg. P.B. 252, Bombay-400 021

Dear Policyholder,

The Committee greatly values the policyholders' views. It is requested that you may kindly return the Questionnaire duly completed in the enclosed self-addressed envelope. No postal stamps are required to be affixed. Your free and frank opinion will be appreciated. Disclosure of respondent's identity is not necessary.

QUESTIONNAIRE FORM FOR POLICYHOLDERS

Please place the mark 'X' in the cage provided against the respective item as is applicable to you:

1. Your occupation:
   - Govt. Service ☐
   - Self Employed Profession ☐
   - Public Sector ☐
   - Agriculturist ☐
   - Business ☐
   - Student ☐
   - Other Private Service/Factory ☐
   - Any other Category ☐

2. Sex:
   - Male ☐
   - Female ☐

3. Age Group:
   - 20-30 ☐
   - 31-40 ☐
   - 41-50 ☐
   - 51-60 ☐
   - Over 60 ☐

4. Educational attainments:
   - Graduate ☐
   - Under graduate ☐
   - Matric/Secondary ☐
   - Middle School ☐
   - Primary School ☐
   - No formal schooling ☐

5. Income Range (Per annum):
   - Upto 3000 ☐
   - 3001-5000 ☐
   - 5001-10000 ☐
   - 10001-15000 ☐
   - 15001-20000 ☐
   - 20001-30000 ☐
   - Over 30000 ☐

6. (a) Existing Life Insurance:

   (i) No. of Policies

   1 ☐ 2 ☐ 3 ☐

   4 ☐ 5 ☐ Over 5 ☐

   (ii) Total Sum assured of all the Policies

   - Rs. 1000 ☐
   - Rs. 2000-3000 ☐
   - Rs. 4000-5000 ☐
   - Rs. 5000-10000 ☐
   - Rs. 10000-20000 ☐
   - Rs. Over-20000 ☐

(iii) How premiums paid?

Monthly deduction from salary	[ ]	Direct monthly remittance	[ ]
Quarterly	[ ]	Half Yearly	[ ]
Yearly	[ ]	Authorisation to Banks	[ ]

6. (b) Are you receiving

	Regularly	Not regularly	No	Any other remarks
(i) Premium Notices	[ ]	[ ]	[ ]	
(ii) Premium Receipts	[ ]	[ ]	[ ]	
(iii) Default Notices	[ ]	[ ]	[ ]	

7. Does the agent who has arranged for your insurance meet you periodically to provide required services in connection with your policies?

Yes [ ] No [ ]

8. Whom do you normally approach for your enquiries in connection with your policies?

Agent [ ] Development Officer [ ]

Branch Office [ ] Divl. Office [ ]

9. Are you satisfied with the service rendered by the Agent?

Yes [ ] Partly [ ] No [ ]

10. What is your personal experience with regard to the response from the LIC Branch, Divl. office in connection with the servicing of your policies? (In the absence of experience relating to some of the items, the corresponding cages in the row need not be filled in)

	Prompt	Slight delay	Inordinate delay	Any other remarks
i) Attending to any change of address.	[ ]	[ ]	[ ]	
ii) Attending to any request for change of mode of payment or other alterations.	[ ]	[ ]	[ ]	
iii) Attending to any sanction of loan.	[ ]	[ ]	[ ]	
iv) Attending to any request for transfer of records.	[ ]	[ ]	[ ]	
v) Attending to any request for conversion of Policies from Salary Scheme to Ordinary Scheme or vice versa	[ ]	[ ]	[ ]	
Vi) Attending to any request for change of Nomination or Assignment.	[ ]	[ ]	[ ]	
vii) Attending to any revival of your policies.	[ ]	[ ]	[ ]	
viii) Attending to settlement of any anticipated Endowment instalment claim.	[ ]	[ ]	[ ]	
ix) Attending to settlement of maturity claim under any of your policies.	[ ]	[ ]	[ ]	

11 Have you any suggestions to offer regarding the working of the LIC? If so, please state the same in brief.

S/63 M of Fin/80—23

भारत सरकार वित्त मंत्रालय
जीवन बीमा निगम कार्य समीक्षा समिती
'योगक्षेम' जीवन बीमा मार्ग पो. बा. 252 बम्बई 400 021

प्रिय बीमाधारी,

समिति बीमाधारकों के विचारों को अत्यंत महत्व पूर्ण मानती है। आपसे अनुरोध किया जाता है कि इस प्रश्न समूह को उत्तरित करके संलग्न लिफाफे मे बन्द करके भेज दें। डाक टिकट लगाने की आवश्यकता नहीं है। आपके स्वतंत्र व निःसंकुचित विचारों की सराहना की जावेगी। जवाब दाता को अपना परिचय बताना आवश्यक नहीं है।

<u>बीमाधारियों के लिए प्रश्न प्रत्र</u>

कृपया उस सम्बन्धित विषय-वस्तु के सामने बने चौकोर खाने में आप चिन्ह 'x' लगा दें जो आप पर आयात होते है:—

1. आपका पेशा
   - सरकारी नौकरी ☐ स्वकीय पेशा ☐
   - सार्वजनिक क्षेत्र ☐ खेतीबाड़ी करनेवाला ☐
   - व्यापार ☐ विद्यार्थी ☐
   - अन्य निजी सेवा/कारखाना ☐ कोई अन्य समुदाय ☐
2. जातिलिंग :
   - आदमी ☐ औरत ☐
3. वय समूह :
   - 20–30 ☐ 31–40 ☐
   - 41–50 ☐ 50-60 ☐
   - 60 से ऊपर ☐
4. शैक्षणिक उपलब्धियाँ :
   - स्नातक ☐ इण्टर ☐
   - मैट्रिक/माध्यमिक ☐ माध्यमिक स्कूल ☐
   - प्राथमिक स्कूल ☐ नियमित स्कूल मे नहीं पढ़ा ☐
5. आय वर्ग (वार्षिक)
   - 3000 तक ☐ 3001–5000 ☐
   - 5001-10000 ☐ 10001–15000 ☐
   - 15001–20000 ☐ 20001–30000 ☐
   - 30000 से ऊपर ☐
6. (अ) वर्तमान जीवनबीमा :

   <u>(i) पालिसीयों की संख्या</u>
   - 1 ☐ 2 ☐ 3 ☐
   - 4 ☐ 5 ☐ 5 से ऊपर ☐

   <u>(ii) सभी पालिसियों के बीमे की कुल राशि</u>
   - रु. 1000 ☐ रु. 2000–3000 ☐
   - रु. 4000–5000 ☐ रु. 5000–10000 ☐
   - रु. 10000–20000 ☐ रु. 20000 से ऊपर ☐

(iii) किस्तभुक्तान कैसे होता है? वेतन से मासिक कटौती ☐ सीधे हर माह किस्त भेजना ☐

त्रैमासिक ☐ अर्धवार्षिक ☐

वार्षिक ☐ बैंक को अधिकृत कर देना ☐

6. (ब) क्या आपको निम्नांकित प्राप्त होता है:

	नियमित	अनियमित	नहीं	अन्य टिप्पणी
(i) किस्त भुक्तान की नोटिस	☐	☐	☐	
(ii) किस्त भुक्तान की रसीद	☐	☐	☐	
(iii) बकाया किस्त की नोटिस	☐	☐	☐	

7. जिस अभिकर्ता ने आपके बीमे का प्रबन्ध किया था क्या वह समयपर आप की पालीसी सम्बधी सेवाओं को पूरा करने के लिये आप से मिलते रहते हैं? हाँ ☐ नहीं ☐

8. अपनी पालीसियों सम्बन्धी पूछताछ के लिए आप किसके पास जाते हैं? अभिकर्ता ☐ विकास अधिकारी ☐ शाखा कार्यालय ☐ मंडल कार्यालय ☐

9. क्या आप अभिकर्ता द्वारा दी गयी सेवाओं से संतुष्ट हैं? हां ☐ आंशिक ☐ नहीं ☐

10. आपकी पालीसी सम्बन्धी सेवाओंके विषय में जीवन बीमा निगम की शाखा तथा मण्डल कार्यालय से उत्तर प्राप्ती का आपका निजि अनुभव क्या है? (यदि किसी विषय मे आपका कोई अनुभव न होतो सम्बन्धित विषय के सामने बने खानों को न भरें)

	तत्काल	थोड़ी देर	अत्यधिक विलम्ब	अन्य टिप्पणी
i) पता परिवर्तन सूचना का जवाब देने मे	☐	☐	☐	
ii) भुक्तान विधि मे परिवर्तन या अन्य किसी परिवर्तन हेतु किये गये आग्रह के जवाब में	☐	☐	☐	
iii) पालीसी पर ऋण मंजूर करने में	☐	☐	☐	
iv) अभिलेखों को स्थानान्तरित करने सम्बन्धी किसी आग्रह का जवाब देने में	☐	☐	☐	
v) वेतन बचत योजना की पालीसी को साधारण योजना अथवा इसके विपरीत परिवर्तन सम्बन्धी आपके आग्रह पर ध्यान देने में	☐	☐	☐	
vi) नामांकन या समनुदेशन मे किसी परिवर्तन सम्बन्धी आपकी प्रार्थना पर ध्यान देने में	☐	☐	☐	
vii) आपकी किसी कालातीत पालिसीको पुनर्जिवित करने में	☐	☐	☐	
viii) आपके किसी प्रत्याशित अंशकालिक दावे के भुक्तान में ध्यान देना	☐	☐	☐	
ix) आप की किसी भी पालीसी के अन्तर्गत परिपक्वता दावे के भुक्तान में ध्यान देना	☐	☐	☐	

11. क्या जीवन बीमा निगम की कार्यप्रणाली में आप कोई सुझाव प्रदान करना चाहते है? यदि हाँ, तो कृपया संक्षेप में उसे लिखें।

SPECIAL QUESTIONNAIRE

[Note : (a)(b)(c)(d)(e) refer to the Terms of Reference]

(a) (1) How far in your opinion the LIC has succeeded in extending the benefits of Life Insurance to people in rural and urban areas in the country ?

(2) If you feel that the progress has not been adequate, what measures would you advocate to ensure faster and wider expansion of Life Insurance business particularly in rural areas?

(3) Do you feel that any special types of plans of insurance other than the conventional types like Endowment, and Whole Life issued by the Corporation are necessary to cater to the special needs of the rural masses ? If so, the nature of such plans may also be broadly indicated.

(b) (1) Do you think that the present organisational set-up of the Corporation is capable of fulfilling its objectives and meeting the future developments? If you think that some changes are called for, please give your suggestions.

(2) At the present, the business is secured through Agents who are supervised by Development Officers on the field side. The Development Officers are in turn supervised by officials from Branches. Nearly 40% of the total expenses of management are spent on development of new business which includes salary and other costs of Development Officers and commission to Insurance Agents. Do you suggest any change in this three-tier pattern *viz.* Agent-Development Officer-Branch Official in the interest of economy ?

(3) Have you any suggestions regarding Agency Commission structure ?

(4) There is a statutory limit of 15% on the renewal expense ratio of the LIC. At the time of nationalisation the then Finance Minister had confidently expected the LIC to function well within the statutory limit. The actual renewal expense ratio of the LIC has, however, exceeded the statutory limit in certain years. Would you suggest any steps to contain the expenses within this limit ?

(c) (1) What is your impression regarding the quality of service rendered by the LIC to its policyholder ?

(2) To improve the quality of service, have you any recommendations to make in specific areas such as :

(a) further decentralisation to Branch level;

(b) appointment of trained and professional agents to serve the policyholders;

(c) speedier supply of loan quotations, premium position, etc.;

(d) prompt attention regarding issue of premium receipts, commission payments and claim settlements.

(d). What are your views about the existing pattern of investments of Life Fund ? With a view to enabling LIC to give better return to policyholders, do you think that some changes are necessary for improving the return on the investments consistent with the safety of the capital and the national priorities ?

(e) Have you any other recommendations which in your opinion will contribute to more effective management of life insurance business?

GOVERNMENT OF INDIA
MINISTRY OF FINANCE
COMMITTEE TO REVIEW THE WORKING OF LIC
YOGAKSHEMA, JEEVAN BIMA MARG, P.B. NO. 252, BOMBAY-400 021.

Dear Agent,

The Committee greatly values your views as an agent. It is requested that you may kindly return the Questionnaire duly completed in the enclosed self-addressed envelope. No Postal stamps are required to be affixed. Please place the mark 'X' in the cage provided as is applicable to you. Columns requiring statistical information may be duly filled in. Disclosing of respondent's identity is not necessary.

QUESTIONNAIRE FOR AGENTS

1. Since how many years you have been an Insurance Agent for Life Insurance business? ☐ No. of full years.

2. Age ☐ Years.

3. Sex — Male ☐ Female ☐

4. Whether you spend full time for agency work? — Yes ☐ No ☐

5. How many hours you spend every week for agency work? ☐ hours.

6. Whether you have undergone training for selling insurance business? — Yes ☐ No ☐

7. Are you a Club Member? — Yes ☐ No ☐

   If so, mention which club? — BM's ☐ DM's ☐ ZM's ☐ Chairman's ☐

8. Whether you are a Career Agent, a Direct Agent or attached to a Dev. Officer? — Career Agent ☐ Direct Agent ☐ Attached to a Dev. Officer ☐

9. Please state the nature of help you are getting from your Development Officer — Substantial ☐ To some extent ☐ Not at all ☐

10. Please state the nature of help you are getting from the Branch — Substantial ☐ To some extent ☐ Not at all ☐

11. Please state (i) No. of policies and (ii) sum assured secured by you during the last 3 agency years.

	First Year	Second Year	Third Year
(i) No. of Policies	______	______	______
(ii) Sum Assured	Rs. ______	______	______

12. Do you maintain proper record of your clients? — Yes ☐ No ☐

13.	How many policies have lapsed according to your records during the l?-t three years?	Yea-	No. of Policies	Sum Assured
		1975-76		
		1976-77		
		1977-78		
14.	What is your experience regardi.., settlement of	Good	Slightly Delayed	Delayed
	(i) First Year Commission?	☐	☐	☐
	(ii) Renewal Commission?	☐	☐	☐
15.	Whether the facilities provided by LIC are adequate to enable you to render satisfactory service to the policyholders?	Yes ☐	Not to full extent ☐	No ☐
16.	What is your experience of servicing of policies after decentralisation of functions to the Branch Offices?	Good ☐	Not so Good ☐	Unsatisfactory ☐
17.	Whether your references to LIC offices are being attended to promptly?	Promptly ☐	With slight delay ☐	Delayed ☐
18.	Whether the policyholders under your agency get satisfactory service from LIC?	Yes ☐	Generally yes ☐	No ☐
19.	Any elaboration to the questions listed above or other suggestions, if any, may be furnished.			

GOVERNMENT OF INDIA

MINISTRY OF FINANCE

COMMITTEE TO REVIEW THE WORKING OF LIC

"Yogakshema", Jeevan Bima Marg,
P. B. No. 252, BOMBAY-400 021

Dear Policyholder,

The Committee greatly values the policyholders' views. It is requested that you may kindly return the Questionnaire duly completed in the enclosed self-addressed envelope. No postal stamps are required to be affixed.

QUESTIONNAIRE FORM FOR POLICYHOLDERS UNDER LAPSED POLICIES

Please place the mark 'X' in the cage provided against the respective item as is applicable to you:

1. Policy No. : .... Date of Commencement...........

2. Your Occupation : Govt. Service ☐ Self-employed profession ☐ Public Sector ☐ Agriculturist ☐ Business ☐ Student ☐ Other private service/factory ☐ Any other Category ☐

3. Sex : Male ☐ Female ☐

4. Age Group : 20-30 ☐ 31-40 ☐ 41-50 ☐ 51-60 ☐ Over 60 ☐

5. Educational attainments : Graduate ☐ Undergraduate ☐ Matric/Secondary ☐ Middle School ☐ Primary School ☐ No formal schooling ☐

6. Income Range (per annum) : Upto Rs. 3000 ☐ Rs. 3001-5000 ☐ Rs. 5001-10000 ☐ Rs. 10001-15000 ☐ Rs. 15001-20000 ☐ Rs. 20001-30000 ☐ Over Rs. 30000 ☐

7. Total number of life insurance policies so far taken :
   i) No. of Policies :
   1 ☐ 2 ☐ 3 ☐ 4 ☐ 5 ☐ Over 5 ☐
   ii) Total Sum Assured :
   Rs. 1000 ☐ Rs. 2000-3000 ☐ Rs. 4000-5000 ☐ Rs. 5000-10000 ☐ Rs. 10000-20000 ☐ Over Rs. 20000 ☐

8. Details about your lapsed policy
   i) Sum assured under the lapsed policy :
   Rs. 1000 ☐ Rs. 2000-3000 ☐ Rs. 4000-5000 ☐ Rs. 5000-10000 ☐ Rs. 10000-20000 ☐ Over Rs. 20000 ☐
   ii) Mode of Payment of premium :
   SSS Monthly ☐ Ordy. Mly. ☐ Qly. ☐ Half-Yly. ☐ Yly. ☐

iii) Period for which premiums paid by you under the Policy before lapsing :

3 Months ☐ 3 to 6 mths ☐ 6 mths to 1 yr. ☐

1 yr. to 2 yrs. ☐ 2 yrs. to 3 yrs. ☐ 3 yrs. to 5 yrs. ☐

Over 5 yrs. ☐

9. Reasons for lapsing the Policy : — Any other remarks

i) Premium Notices not received : ☐

ii) Premium Notices received but overlooked : ☐

iii) Overbuying of insurance cover not commensurate with income due to :

(a) Personal anticipation of increased Income : ☐

(b) Pressurisation by Agent : ☐

iv) Temporary financial difficulties : ☐

v) Domestic difficulties : ☐

vi) Not satisfied with services rendered by LIC : ☐

vii) Diversion for other media of savings : ☐

Any other remarks

10. Was any lapse intimation received of your lapsed policy? : Yes. ☐ No. ☐

11 Any efforts made to get the lapsed policy revived? : Yes. ☐ No. ☐

12 Was any approach made by LIC office through agent/development officer/correspondence to get your policy revived? : Yes. ☐ No. ☐

13. Willingness to get the policy revived even now. : Yes. ☐ No. ☐

14. Any specific suggestions :

APPENDIX 3

(Chapter I.—Para 1.11)

LIST OF PERSONS WHO GAVE EVIDENCE BEFORE THE COMMITTEE

BOMBAY :

1.	Representatives of LIC of India (Class I) Officers' Federation	17-8-79
2.	All India Life Insurance Employees' Association	17-8-79
3.	National Organisation of Insurance Workers	17-8-79
4.	Life Insurance Agents' Federation of India	18-8-79
5.	All India National Life Insurance Employees' Federation	18-8-79

MADRAS:

6.	Representatives of Madras Chambers of Commerce & Industry	5-2-80
7.	Representative of Andhra Chambers of Commerce & Industry	5-2-80
8.	Shri A. Ranganathan, Production Manager, Alkali & Chemical Corporation (India) Ltd., Madras	5-2-80
9.	Shri H. Balarama Rao, Retd. Zonal Manager, LIC Madras	5-2-80
10.	Shri N. V. Nayudu, former Managing Director, L.IC, Coimbatore	5-2-80
11.	Shri Venkatesan, Finance Secretary, Tamil Nadu Government	5-2-80
12.	Shri B. B. Patil Kulkarni, Director, Karnataka State Insurance Deptt., Bangalore	5-2-80
13.	Shri J. C. Swamy, Supdt., Karnataka State Insurance Deptt., Bangalore	5-2-80
14.	Shri M. K. Narayana Chettiar, Director of Kerala State Govt., Deptt. of Insurance, Trivandrum	5-2-80
15.	Shri A. P. Varghese, Branch Manager, Ernakulam, LIC	5-2-80
16.	Shri T. R. Reddy, Branch Manager, LIC, Khammam.	5-2-80
17.	Shri P. Srinivasan, Agent, Chairman's Club Member, Coimbatore	5-2-80
18.	Shri Kiran Raj, Agent, Chairman's Club Member, Bangalore	5-2-80
19.	Shri K. R. Satyam, Member, Policyholders' Council of Madras Divisional Office, Kancheepuram	6-2-80
20.	Shri S. V. Narayanan, Zonal Manager, L.IC, Madras	6-2-80
21.	Shri T. S. Subramaniam, Sr. Divl. Manager, LIC, Madras	6-2-80
22.	Shri A. S. Venkatraman, Sr. Divl. Manager, LIC, Udupi	6-2-80
23.	Representatives of LIC HGA Association	6-2-80

CALCUTTA :

24.	Shri P. M. Sarma, Divisional Manager, LIC, Gauhati	18-2-80
25.	Shri A. K. Datta, Sr. Branch Manager, LIC, Calcutta	18-2-80
26.	Shri K. Mahapatra, Branch Manager, LIC, Bhuvaneshwar	18-2-80
27.	Representatives of the All India Insurance Employees' Association	18-2-80
28.	Shri P. Chattopadhyay, Secretary, Institute of Cost & Works Accountants of India (Zonal Advisory Board Member also)	19-2-80
29.	Shri S. G. Guha, representing Calcutta Management Association	19-2-80
30.	Prof. N. Dutt, Vice-Chancellor, Bidhan Chandra Krishi Vishwa Vidyalaya, Harunghata	19-2-80
31.	Shri Yogen Aier, Retd. Director of Education, Nagaland (Zonal Advisory Board Member)	19-2-80
32.	Shri M. Banerjee, Sr. Divl. Manager, LIC, Calcutta	19-2-80
33.	Shri H. L. Joshi, Sr. Divl. Manager, LIC, Patna	19-2-80
34.	Prof. R. Vaidyanathan, Professor, IIM, Calcutta	19-2-80
35.	Shri A. P. Chatterjee, Member, Calcutta Division Policyholders' Council	19-2-80
36.	Shri S. C. Ghosh, Member, Calcutta Division Policyholders' Council	19-2-80
37.	Shri S. C. Saha, Agent, Chairman's Club Member, LIC, Calcutta	19-2-80
38.	Shri S. K. Datta, Agent, Chairman's Club Member, Calcutta	19-2-80
39.	Shri Kutty, Finance Secretary, West Bengal Govt.	20-2-80
40.	Representatives of Bengal Chamber of Commerce & Industry	20-2-80
41.	Shri V. Dixit, Zonal Manager, LIC, Calcutta	20-2-80
42.	Shri Sunil Mitra, MP	20-2-80

S/63 M of Fin/80—24

KANPUR :

43.	Shri R. Sadagopan, Divl. Manager, LIC, Raipur	7-3-80
44.	Shri P. L. Tandon, Member, Kanpur Division Policyholders' Council, Allahabad	7-3-80
45.	Shri K. B. Aggarwal, Member, Kanpur Division PHS' Council	7-3-80
46.	Shri Deepak Bhargava, Member, Kanpur Division PHS' Council	7-3-80
47.	Shri C. P. Tandon, Agent, Chairman's Club Member, Lucknow	7-3-80
48.	Shri H. C. Tiwari, Divisional Manager, LIC, Meerut	7-3-80
49.	Shri Mela Singh, Sr. Branch Manager, LIC, Bhopal	8-3-80
50.	Shri B. R. Sethi, ADM (G&S), ZO Kanpur	8-3-80
51.	Shri Nihal Chand, Sr. Branch Manager, LIC, Almora	8-3-80

AHMEDABAD :

52.	Representatives of Consumer Education & Research Centre, Ahmedabad	10-4-80
53.	Prof. R. K. Amin	10-4-80
54.	Prof. H. S. Sanghvi, Zonal Advisory Board Member, Rajkot	10-4-80
55.	Shri H. M. Patel, Sr. Branch Manager, LIC, Baroda	10-4-80
56.	Shri R. T. Shah, ADM (G&S), L.I.C.	10-4-80
57.	Shri L. N. Moorthy, Sr. Divl. Manager, LIC, Ahmedabad	10-4-80
58.	Representatives of National Federation of Insurance Field Workers, Ahmedabad	11-4-80
59.	Representatives of Jyoti Sangh, Ahmedabad	11-4-80
60.	Dr. C. Rangarajan, IIM, Ahmedabad	11-4-80
61.	Representatives of Textile Labour Association	11-4-80
62.	Representatives of Self-employed Women's Association	11-4-80
63.	Shri P. G. Mavlankar, M.P.	11-4-80

BOMBAY :

64.	Shri N. C. Krishnan, LIC Board Member	12-4-80
65.	Shri N. R. Raut, Member, Zonal Advisory Board (WZ), Sholapur	12-4-80
66.	Smt. Kumud Pore, Member, Zonal Advisory Board (WZ), Pune	12-4-80
67.	Shri S. D. Srinivasan, former Managing Director, LIC, Bombay	12-4-80
68.	Shri B. D. Pande, former Chairman, LIC, Almora	12-4-80
69.	Dr. P. V. Thacker, Member Policyholders' Council, Bombay	12-4-80
70.	Shri D. S. Mudbidri, Agent, Chairman's Club Member, Bombay	12-4-80
71.	Shri J. C. Shah, Agent, Chairman's Club Member, Bombay	12-4-80
72.	Shri J. H. Ashar, Agent, Chairman's Club Member, Bombay	12-4-80
73.	Shri D. P. Guzdar, former Executive Director, LIC, Bombay	13-4-80
74.	Shri N. Balasubramanian, Zonal Manager, LIC Bombay	13-4-80
75.	Shri R. B. Shah, former Zonal Manager, Bombay	13-4-80
76.	Shri V. N. Bhargava, Sr. Divl. Manager, Bombay	13-4-80
77.	Shri V. P. Prabhu, Br. Manager, LIC, Jalgaon	13-4-80
78.	Shri D. Subramanian, Principal, College of Insurance, Bombay	13-4-80
79.	Shri Venkatesan, Planning Secy. Govt. of Maharashtra, Bombay	13-4-80
80.	Representatives of All India LIC Employees Federation	13-4-80
81.	Representatives of All India National Insce. Federation	13-4-80
82.	Representatives of All India Scheduled Castes, Sch. Tribes & Neo-Buddhists LIC Employees Welfare Association	13-4-80
83.	Representatives of Bombay Chamber of Commerce & Industry	13-4-80

DELHI :

84.	Shri B. R. Jetley, Agent, LIC	17-4-80
85.	Shri R. D. Thapar, former Secretary to Govt. of India, New Delhi	17-4-80
86.	Representatives of the Federation of Indian Chambers of Commerce & Industry	17-4-80
87.	Shri S. Rangarajan, former Chairman, LIC, New Delhi	17-4-80
88.	Shri Mudgal, Sr. Branch Manager, LIC, Alwar	17-4-80
89.	Rani Urmila Devi of Masuda, Ajmer, Zonal Advisory Board Member	17-4-80
90.	Shri M. M. Ahuja, Agent, Chairman's Club Member, New Delhi	17-4-80
91.	Shri Prahlad Singh, Agent, Chairman's Club Member, New Delhi	17-4-80
92.	Shri S. Ranganathan, MP, New Delhi	17-4-80
93	Shri N. M. Singh, Branch Manager, LIC, Srinagar	18-4-80
94.	Shri B. P. Jain, Dy. Labour Commissioner, Delhi	18-4-80
95.	Shri D. C. Gupta, Sr. Divl. Manager, LIC, New Delhi	18-4-80

96.	Brig. Shamsher Singh, former Managing Director, LIC, New Delhi	18-4-80
97.	Dr. A. Ghosal, Head OR Group, Council of Scientific & Industrial Research, New Delhi	18-4-80
98.	Shri L. D. Kataria, Commissioner & Secy. to Haryana Govt., Chandigarh	19-4-80
99.	Representatives of Punjab, Haryana & Delhi Chamber of Commerce & Industry, New Delhi	19-4-80
100.	Lt. Gen. R. A. Loomba, Member, Zonal Advisory Board, N. Delhi	19-4-80
101.	Representatives of Indian Federation of Consumer Organisations, New Delhi	19-4-80
102.	Shri K. C. Pandey, Chief Secy. Govt. of Himachal Pradesh, Simla	19-4-80
103.	Shri S. K. Alok, Finance Secy, Govt. of Himachal Pradesh, Simla	19-4-80
104.	Representatives of National Federation of Insurance Field Workers of India	19-4-80
105.	Shri A. P. Banda, Sr. Divl. Manager, LIC, Chandigarh	19-4-80
106.	Shri R. Narayanan, Zonal Manager, LIC, New Delhi	19-4-80

BOMBAY:

107.	Shri Indrajit Khanna, Special Secy., Planning, Govt. of Rajasthan, Jaipur	17-7-80
108.	Shri Rajagopalan, Chairman, Electricity Board, Rajasthan	17-7-80
109.	Shri J. Matthan, Chairman, LIC	19-7-80
110.	Shri J. R. Joshi, Managing Director, LIC	19-7-80
111.	Shri A. S. Gupta, Managing Director, LIC	19-7-80

APPENDIX 4

(Chapter IV—Para 4.3)

AGENTS' STATISTICS

Giving Proportion of Active Agents & Average Performance per Active Agent

Year	Total on Rolls	Active	% of Active to total Agents	Average performance per active agent	
				No. of Policies	Sum Assured
1957	207373	89000	42.9	9	31067
1958	230604	90000	39.0	10	37494
1959	148255	94000	63.4	12	44435
1960	139821	101600	72.7	12	47900
1961	135890	125000	80.2	12	47900
1962-63 (Fifteen months)	171533	141000	82.2	12	52070
1963-64	174001	143209	82.3	11	48359
1964-65	170381	146207	85.8	10	47191
1965-66	170580	148026	86.8	11	53315
1966-67	166523	144154	86.6	10	52573
1967-68	165555	144304	87.2	10	57883
1968-69	154151	137144	89.0	11	67115
1969-70	146949	132790	90.4	11	73773
1970-71	148214	136578	92.1	12	88997
1971-72	162357	150859	92.9	13	99291
1972-73	169004	154766	91.6	13	111509
1973-74	166455	153334	92.1	13	124743
1974-75	161013	146103	90.7	12	120518
1975-76	155153	144385	93.1	14	145722
1976-77	142048	130621	92.0	16	160413
1977-78	128993	117702	91.2	16	170326
1978-79	117206	107966	92.1	16	190565
1979-80	119001	109180	91.7	19	250164

N.B.:—An Agent who has done some business during the year, irrespective of number of policies or amount, is termed as an "active" agent.

APPENDIX 5

(Chapter IV—Para 4.4)

STRENGTH OF THE AGENCY FORCE

Year	No. of Agents at the beginning of the year	No. recruited during the year	No. who ceased to be agents during the year		No. of Agents at the end of the year
			due to termination of agencies	due to other causes	
1961	1,39,821	59,656	42,929	658	1,55,890
1962-63	1,55,890	87,132	69,195	2,294	1,71,533
1963-64	1,71,533	62,872	58,942	1,462	1,74,001
1964-65	1,74,001	50,465	53,159	926	1,70,381
1965-66	1,70,381	45,851	44,979	673	1,70,580
1966-67	1,70,580	40,782	44,168	671	1,66,523
1967-68	1,66,523	43,182	43,560	590	1,65,555
1968-69	1,65,555	34,009	44,927	486	1,54,151
1969-70	1,54,151	28,283	35,007	478	1,46,949
1970-71	1,46,949	29,599	27,842	492	1,48,214
1971-72	1,48,214	39,176	23,915	1,118	1,62,357
1972-73	1,62,357	32,296	24,818	831	1,69,004
1973-74	1,69,004	42,286	44,006	829	1,66,455
1974-75	1,66,455	46,381	50,888	935	1,61,013
1975-76	1,61,013	42,403	47,493	770	1,55,153
1976-77	1,55,153	37,360	49,491	974	1,42,048
1977-78	1,42,048	31,478	43,548	985	1,28,993
1978-79	1,28,993	30,650	41,854	583	1,17,206

Appendix 6

(Chapter IV—Paragraph 4.4)

PROPORTION OF AGENTS "SURVIVING" AT THE END OF THE SUCCESSIVE YEARS

Year of Recruitment	1st year following the year of recruitment	Proportion Surviving at the end of (%)																		
		2nd year	3rd year	4th year	5th year	6th year	7th year	8th year	9th year	10th year	11th year	12th year	13th year	14th year	15th year	16th year	17th year	18th year	19th year	20th year
1958 or earlier						15	12	11	10	7	7	6	5	5	4	4	4	3	3	3
1959					17	14	13	12	11	11	10	8	7	6	5	5	4	4	4	
1960				21	17	13	12	12	11	11	9	8	7	6	5	5	4	4		
1961			24	19	15	12	11	11	11	9	8	8	6	5	4	4	4			
1962-63		35	24	20	16	12	11	11	10	8	7	6	5	4	4	3				
1963-64	56	39	26	20	15	15	14	13	11	9	7	6	5	4	4					
1964-65	59	41	29	21	20	20	17	14	11	9	8	6	5	5						
1965-65	63	44	26	25	24	21	17	13	10	9	7	5	5							
1966-67	70	40	26	26	25	20	15	11	10	8	7	6								
1967-68	58	40	39	33	26	19	13	11	9	8	7									
1968-69	60	51	40	33	25	17	14	12	10	10										
1969-70	67	57	45	32	23	17	14	14	12											
1970-71	77	62	42	31	27	19	17	15												
1971-72	74	53	40	33	25	21	17													
1972-73	63	42	35	26	23	19														
1973-74	65	47	33	28	23															
1974-75	62	38	29	23																
1975-76	59	37	26																	
1976-77	59	38																		
1977-78	57																			

N.B.:—Up to 1966-67 table based on data received from 18 Divisional Offices.
67-68—23; 68-69—21; 69-70—14; 70-71—22; 71-72—28; 72-73—32;
73-74—32; 74-75—28; 75-76—27; 76-77—35; 1977-78—38 Divisions.

APPENDIX 7

(Chapter IV—Para 4.7)

PROGRESS OF MEMBERSHIP OF AGENTS' CLUBS

DIVISION	1971-72					1975-76					1979-80				
	CM	ZM	DM	BM	Total	CM	ZM	DM	BM	Total	CM	ZM	DM	BM	Total
1	2	3	4	5	6	7	8	9	10	11	12	13	14	15	16
NORTHERN ZONE															
Delhi	2	3	15	80	100	3	7	31	124	165	16	15	57	219	307
Jullundur	1	1	3	79	84	1	2	13	50	66	2	6	27	94	129
Chandigarh	—	2	8	44	54	3	1	11	47	62	4	4	16	81	105
Ajmer	—	1	20	76	97	—	2	8	48	58	2	7	21	69	99
Jaipur	—	—	—	—	—	—	1	10	47	58	—	4	11	60	75
Total	3	7	46	279	335	7	13	73	316	409	24	36	132	523	715
CENTRAL ZONE															
Lucknow	—	2	8	67	77	2	3	13	71	89	7	7	12	82	108
Kanpur	—	1	6	45	52	—	4	9	53	66	4	6	16	86	112
Meerut	—	2	8	64	74	—	4	12	65	81	6	6	18	99	129
Agra	—	—	2	25	27	—	—	14	51	65	—	5	17	62	84
Varanasi	—	2	11	44	57	2	5	14	64	85	7	5	17	88	117
Indore	—	3	6	50	59	1	4	13	57	75	4	2	20	66	92
Jabalpur	—	1	1	23	25	1	—	7	21	29	1	1	9	30	41
Raipur	—	—	6	41	47	—	3	11	37	51	1	5	13	60	79
Total	—	11	48	359	418	6	23	93	419	541	30	37	122	573	762
EASTERN ZONE															
Calcutta	2	2	11	108	123	6	7	35	199	247	16	20	65	331	432
Jalpaiguri	—	—	2	22	24	—	1	5	35	41	1	4	10	46	61
Asansol	—	—	2	24	26	—	2	12	52	66	1	4	19	72	96
Gauhati	—	—	4	23	27	1	1	3	35	40	2	3	16	78	99
Patna	—	—	11	29	40	—	5	20	41	66	6	8	22	63	99
Muzaffarpur	—	—	1	23	24	—	2	6	23	31	1	2	7	28	38
Jamshedpur	—	1	2	33	36	—	3	11	62	76	3	6	29	91	129
Cuttack	—	1	2	27	30	—	1	4	33	38	1	1	16	77	95
Total	2	4	35	289	330	7	22	96	480	605	31	48	184	786	1049
SOUTHERN ZONE															
Bangalore	1	1	17	68	87	2	2	35	117	156	7	14	44	163	228
Udipi	—	—	8	77	85	—	1	16	75	92	2	4	19	89	114
Dharwad	—	—	9	47	56	—	1	14	59	74	2	3	11	82	98
Hyderabad	1	1	9	80	91	1	5	30	113	149	10	18	50	196	274
Visakhapatnam	—	—	—	—	—	—	1	8	43	52	4	1	13	78	96
Masulipatnam	—	3	3	68	74	1	3	9	55	68	3	7	23	103	136
Madras	—	—	9	86	95	5	4	21	109	139	7	6	39	188	240
Thanjavur	—	1	4	27	32	—	2	7	31	40	2	—	7	43	52
Madurai	—	—	4	53	57	—	3	5	58	66	3	4	16	71	94
Coimbatore	—	1	8	64	73	—	1	9	49	59	4	3	13	79	99
Kozhikode	—	—	—	—	—	1	1	6	29	37	2	2	15	73	92
Trivandrum	—	—	4	29	33	—	—	5	30	35	—	4	9	70	83
Total	2	7	75	599	683	10	24	165	768	967	46	66	259	1235	1606

1	2	3	4	5	6	7	8	9	10	11	12	13	14	15	16
WESTERN ZONE															
Rajkot	—	1	4	23	28	2	3	10	66	81	3	4	16	103	126
Ahmedabad	4	3	19	114	140	4	6	35	139	184	7	11	38	171	227
Surat	—	1	9	50	60	—	6	14	78	98	5	8	33	123	169
Bombay	2	15	53	285	355	23	23	100	491	637	51	58	174	752	1035
Satara	—	2	5	30	37	1	—	8	51	60	1	4	11	72	88
Pune	—	1	8	22	31	1	7	19	54	81	11	5	26	101	143
Nasik	1	—	7	34	42	1	2	7	35	45	2	2	23	52	79
Nagpur	—	3	13	68	84	1	6	24	91	122	4	8	36	126	174
Total	7	26	118	626	777	33	53	217	1005	1300	84	100	357	1500	2041
Grand Total	14	55	322	2152	2543	63	135	644	2988	3830	215	287	1054	4617	6173

APPENDIX 8

(Chapter IV—Para 4.25)

DEVELOPMENT OFFICERS, THEIR PERFORMANCE AND COST

Year	No. of Dev. Officers at the end of the year	New Business of Agents Working with Dev. Officers		Average Production per Dev. Officer		Average scheduled First Year premium per Dev. Officer (Thousand)	Average payments to a Dev. Officer	Overall cost ratio of Dev. Officers
		Policies	Sum Assured (Crores)	Policies	Sum Assured (lakhs)			
			Rs.		Rs.	Rs.	Rs.	%
1958	4830	8,98,958	313.95	186	6.5			
1959	5144	10,68,659	385.58	208	7.5			
1960	5754	11,69,157	446.75	203	7.8	29.2	4,980	17.0
1961	7051	13,71,742	549.41	195	7.9	27.4	4,630	16.9
1962-63 (15 months)	8158	16,55,999	673.94	203	8.3	31.5	5,780	18.4
1963-64	8583	15,38,638	633.51	179	7.5	28.1	5,270	18.7
1964-65	8724	13,56,254	629.40	155	7.4	28.0	5,880	21.0
1965-66	8620	14,67,620	720.53	170	8.6	30.5	6,770	22.2
1966-67	8522	13,18,826	687.79	155	8.3	31.5	8,000	25.4
1967-68	8363	13,30,695	753.39	159	9.3	34.2	8,110	23.8
1968-69	8134	13,42,111	821.38	165	10.4	38.2	10,190	26.7
1969-70	7834	12,71,598	878.38	163	11.8	43.3	9,740	22.5
1970-71	7646	14,50,169	1080.79	190	14.1	50.7	12,650	24.3
1971-72	7893	16,99,683	1319.85	216	16.7	61.6	13,890	22.5
1972-73	7911	17,97,062	1512.74	227	19.1	73.7	15,360	20.9
1973-74	8074	18,15,185	1667.95	225	20.7	79.8	17,215	21.6
1974-75	8175	15,81,977	1522.24	194	18.6	77.9	19,861	25.5
1975-76	7698	17,67,606	1816.39	230	23.6	84.2	21,916	26.0
1976-77	7356	18,22,647	1826.58	248	24.8	84.3	25,485	30.2
1977-78	7102	15,83,746	1665.67	223	23.5	100.76	25,822	25.6
1978-79	6929	14,66,149	1649.19	212	23.8	123.31	27,318	22.2

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APPENDIX 9

(Chapter IV—Para 4.29)

STATISTICS OF DIRECT AGENTS

Year	Total No. of Agents	Total No. of Direct Agents	Total Business of Direct Agents S.A. in lacs	% to Total Business	Average Production per Direct Agent: No. of Pols.	Average Production per Direct Agent: Sum Assured Rs.	No. of Direct Agents Branches
1958	230604	12387	2457.16	7	4	19,837	3
1959	148255	7904	3269.00	7	9	41,359	4
1960	139821	7505	3725.77	7	11	49,644	4
1961	155890	8029	4420.23	7	11	55,053	4
1962-63	171533	9538	5029.14	6	11	52,727	6
1963-64	174001	8708	4668.83	6	11	53,615	6
1964-65	170381	8516	4421.51	6	9	51,920	6
1965-66	170580	8486	5047.71	6	10	59,483	6
1966-67	166523	8971	5174.00	6	10	57,675	6
1967-68	165555	8967	5935.38	7	10	66,191	6
1968-69	154151	9199	7401.22	7	12	80,457	7
1969-70	146949	10166	10124.51	9	12	99,592	7
1970-71	148214	11212	13527.65	11	14	1,20,653	7
1971-72	162357	13166	17804.63	11	15	1,35,232	15
1972-73	169223	15454	21242.25	12	14	1,37,455	27
1973-74	166455	15285	24477.99	12	15	1,60,144	37
1974-75	161013	15266	23856.41	13	14	1,56,271	42
1975-76	155153	17417	28752.69	13	14	1,65,084	45
1976-77	142048	14438	26875.42	12	16	1,86,144	49
1977-78	128993	14929	33910.00	17	18	2,27,142	54
1978-79	117206	15182	40821.00	20	19	2,68,877	61

APPENDIX 10

(Chapter IV—Para 4.30)

SUMMARY OF RECOMMENDATIONS OF THE WORKING GROUP ON THE DEVELOPMENT ORGANISATION

Sr. No.	
1	Agents should have the professional skills and attitudes required to enable them to give proper advice and service to their clients and to represent the Corporation in an adequate manner. They should equally be in a position to devote sufficient time to their work.
2	The duties of an agent as spelt out in the (Agents) Regulations are currently adequate and may be reviewed after a lapse of time. However, the agent should be required specifically to maintain contacts with his clients at all times so as to be available for any assistance or guidance.
3	There should be a certain minimal pre-recruitment training before agency appointments are considered. Selection should be based on a detailed interview to test the candidates' aptitude and suitability.
4	Branch Managers should be accountable for proper selection of Agents and Asstt. Branch Managers (D) should personally check on the recruitment activity of Branch Managers. Lady agents should be appointed only after interview by the Asstt. Divisional Manager (D) or Divisional Manager.
5	Training of the agents recruited should primarily be the responsibility of the Development Officer/Agency Supervisor. However, formal training sessions of a fortnight's duration also be arranged to ensure that the agent is adequately equipped for his job.
6	All new agents should initially be appointed on probation and their confirmation should be subject to satisfactory completion of training and passing of tests. Such confirmation should be earned within two years of appointment.
7	The servicing role of the agent should receive due emphasis and in course of time the policyholder should first look to his agent for any service he needs. The training given should inculcate a spirit of service in the agents. In the discharge of their duties in this regard the agents should be encouraged to maintain proper records.
8	An agent should devote a certain minimum time to his agency work to be professionally effective and useful besides being able to make a living from such work. The minimum business guarantee laid down in this regard which helps to ensure this devotion to the profession could be suitably stepped up in course of time.
9	Building up self-reliance in agents is a key-note of training and supervisory activities. To bring this about agents should, after a period of between 5 and 8 years under a Development Officer/Agency Supervisor, be made direct and there should be conscious effort to develop the agents to function independently. Besides building up the agents themselves, this would bring in new blood into the organisation as recruitment is undertaken to replace agents detached and made direct. In the appraisal system covering Development Officers/Agency Supervisors due note should be taken of such progressive detachment of the agency organisation and the successful manner in which agents are brought up to grow in confidence and production. If an agency organisation is released by the exit of a Dev. Officer/Agency Supervisor, re-attachment for a limited period should be considered only if the agents still require close assistance and guidance. Direct agents should carry an added status and be extended certain special facilities.
10	A Development Officer/Agency Supervisor should control an organisation of between 15 and 25 agents, the exact number depending on his own capacity to supervise and guide the agents under him and the area in which he operates. Recruitment activity should be guided by the number to be made up every year having regard to the detachments that may take place from the existing organisation to be made direct. This recruitment should not be indiscriminate and should take into account specific regions or sectors where the agency organisation needs to be strengthened. The Branch Manager should resort to direct recruitment of agents in areas where the Development Officer/Agency Supervisor is not himself directing his activity.
11	The Scheme of Career Agents should be continued with greater vigour. However, the educational standards laid down for recruitment may be reduced to matriculation subject to other rigours of the selection process.
12	Efforts should be made to recruit, train and post Career Agents to specific rural areas where normal recruitment activity is at a handicap.
13	A Scheme for encouraging part-time agents to become whole-timers by the payment of advance against future commission earnings may be tried out as a pilot project in certain select areas.
14	'Benami' Agents should be identified and dealt with either by way of termination or for certain categories of agents, by training the agency holders to be personally more capable agents. Such training should be used as a specific instrument for weeding out 'benamies'.
15	Besides the pre-recruitment and post-recruitment training recommended for new agents, training sessions should be held for the existing agents as well and over a three-year-period all existing agents should be covered. This would prepare the agents to work ultimately as direct agents. As an added encouragement, travelling expenses incurred in attending the training sessions should be borne by the Corporation. Refresher courses should also be arranged and there should be some training sessions held periodically for advanced-level instruction.

The instructional staff should themselves be specially picked and trained for their work and a committee may separately go into the instructional curriculum at various levels of training, the number of trainers required, etc. Besides the instructors specifically charged with agents' training, the supervisory personnel—Branch Managers and Development Officers/Agency Supervisors should themselves realise the importance of training in making the agents self-reliant, productive and professional.

16 Agents' Clubs are a potent instrument in developing agents. The eligibility conditions for membership should ensure that the agents come up to their all-round performance, in their sales, commission earnings and the service they give. Associate membership may be granted to encourage agents to work towards earning full membership.

17 To combat rebating and to help in keeping early lapses down the first year commission rates to agents should be reduced and the difference spread over later years.

18 The strength of the agency organisation should stabilise at a number around 1.5 lakhs over a period of time, with the size of the direct agency growing up within this overall strength.

19 With the measures taken to professionalise the agency force over a period of time, the need would remain for only a smaller cadre of supervisors. To avoid duplication of jobs in a second supervisory tier, the cadres of Development Officers and of Asstt. Branch Managers (D) should be merged to form a single cadre of Agency Supervisors entrusted with duties such as have been specified in the Blue Order for Development Officers, concerned primarily with the manpower building activities of recruitment, training and supervision of agents, to make the latter grow in productivity and professional status.

20 The new cadre of Agency Supervisors may be drawn from eixsting ABMs(D), the cream of existing Development Officers such as can adequately fill the role envisaged for them, by selective recruitment from amongst employees in Class III and by appointments directly from agents. To a small extent recruitment should also be considered from others outside who have the requisite skills, aptitudes and temperament.

21 Adequate training should be provided for those taken up as Agency Supervisors. While ABMs(D) and Development Officers appointed in the new cadre may need only to go through refresher course, for others recruited to the cadre of the duration of training and course content should be varied to meet their respective needs depending on the class from which they are drawn. The progress made during the training course should form part of the personnel records of Agency Supervisors particularly over the period of probation which, in the case of new appointments to the cadre, should run for three years to enable performance to be studied in adequate detail in the discharge of varied responsibilities such as recruitment, training and the day-to-day supervision of agents. There should be a continuous review of activity over the period of probation.

22 The release of annual grade increments to Agency Supervisors should be subject to satisfactory performance of their several duties, with assessments made not only on the volume of new business production but also with respect to the number of agents recruited, trained, made to qualify under the (Agents) Regulations and emerging in course of time as independent and self-reliant direct agents.

Annual plans should be drawn up with respect to each of these activities and there should be a continuous review of performance in relation to the Year's objectives, with periodic reports obtained from the Agency Supervisors and review sessions held with them from time to time.

23 The Agency Supervisors may form a cadre in Class I with a scale of Pay broadly covering the present salary scales of Development Officers and Asstt. Branch Managers (D) with a span of 25 to 30 years extending over sections, the passage from each section to the next higher one being mainly determined on excellence of performance.

Conveyance and telephone facilities should also be available, but beyond payment of a basic conveyance allowance the extension of additional facilities should be based strictly on needs and production.

Incentives should be paid for performance well above the prescribed standards and they should in fact form an integral part of the system of remuneration so that any revision in salary scale or allowances otherwise, considered for Class I Officers, generally do not necessarily have to be extended to the class of Agency Supervisors in a similar extent. The assessments for the payment of incentives should take into account the different aspects of work of an Agency Supervisor, the manner of his performance in the year of review, the contribution he has made in earlier years to building up agents for release to the direct agents organisation as also the area where he is required to work so that there is no inhibitory factor on the development of good men to develop potential areas.

24 While Agency Supervisors should generally be assured of a fairly long tenure at any place of posting so that they could adequately devote themselves to the development of the area and to be the Corporation's representative there, transfers should not be ruled out if it becomes necessary to consider it either to give the Agency Supervisor varied experience in building him up or if it is found that an area is not coming up well enough.

25 Agency Supervisors who show growth potential should be built up to be considered for promotion as Branch Managers but before such promotion is given they should be given some experience of working in the administration as Asstt. Branch Manager (A). Similarly, ABMs(A) who are considered suitable for promotion as Branch Managers should do a spell of field duty either as Agency Supervisor or even as Branch Manager under a Sr. Branch Manager in a large Branch which is soon to be considered for being split up.

Agency Supervisors who are brought to the administrative side temporarily prior to being promoted should continue to enjoy the facility of fast conveyance and residential phone.

26 Over a three-year period of transition the Development Officers should be successively screened for absorption as Agency Supervisors and those who on their performance and other record, fall far short of the standards required should have their services terminated. While an initial screening may eliminate the very poorest of Development Officers, others should be set targets for improvement in a phased manner with further review at yearly intervals. While there should be a firm control on cost over the transitional period, absorption in the cadre of Agency Supervisors should only be on further development of the capacity to recruit and build up agents, to be decided not only by work record but also by a final interview. Special training courses should be arranged to help improve work habits and attitudes and a continuous watch should be maintained on the performance of Development Officers yet to be inducted as Agency Supervisors.

27 Development Officers who achieve a satisfactory level of production and cost by the end of transitional period but are yet not capable of discharging the duties of an Agency Supervisor in an adequate manner may continue in a closed cadre subject to control on the cost of operation. The incentives available to these Development Officers should be on a lower scale than for Agency Supervisors.

28 The selection of instructors for training of Agents and of Agency Supervisors should be made first before the other ABMs(D) are assigned their new role as Agency Supervisors. These ABMs(D) may need to be posted outside Branch H. Quarters, with some shuffling of Development Officers—both those absorbed as Agency Supervisors and others yet under trial—to enable suitable areas and organisation to be provided.

29 The Branch Manager has responsibilities both in the office and in the field. He has to build up the men under him in the field—both Agents and Agency Supervisors—and through them develop and tap fully the potential of the area placed under him. As the Corporation's representative in the area he has also to maintain good public relations.

30 The Assistant Divisional Manager (D), besides assisting the Divisional Manager in exercising general control over the functioning of Branch Offices, is responsible for activities like market research and planning, organisational growth and development of business and public relations/publicity. He has an active role to play.

31 There should be specific Management Development Programmes to ensure that at every level in the office and field supervisory and management personnel are adequately available at all times.

32 For the successful implementation of the various measures suggested, it is essential that these be understood and appreciated by Managers at all levels. In addition, there should be a change in the thinking and culture of the organisation whereby a manager's responsibility with regard to the development of the organisation under him for the ultimate realisation of the Corporation's objectives gets the importance and replaces the present emphasis on short-term new business results.

Appendix 11

(Chapter VI—Para 6.5)

STATEMENT SHOWING NEW BUSINESS IN INDIA, NUMBER OF POLICIES, SUM ASSURED AND FIRST YEAR PREMIUM INCOME

(INDIVIDUAL BUSINESS)

Year	No. of Policies	Sum Assured (In crores of Rs.)	First Year Premium Income (In thousands of Rs.)
1-9-56 to 31-12-56	142801	51.58*	
1957	810738	277.67	137218 (16 months)
1958	954771	339.06	136588
1959	1143387	419.70	176780
1960	1249821	487.84	200679
1961	1461594	593.61	230767
1962-63	1758021	724.23	306930 (15 months)
1963-64	1637737	680.25	288649
1964-65	1435566	673.69	294087
1965-66	1554725	771.10	313582
1966-67	1405994	739.61	320332
1967-68	1423340	812.86	341390
1968-69	1450058	895.60	375512
1969-70	1396547	979.74	413748
1970-71	1612289	1215.63	484050
1971-72	1895875	1498.05	607848
1972-73	2017703	1726.01	722489
1973-74	2047136	1912.87	827580
1974-75	1795590	1760.89	832825
1975-76	2008939	2104.00	948584
1976-77	2052833	2095.40	992775
1977-78	1853780	2004.86	980440
1978-79	1755282	2057.40	1044049
1979-80	2095839	2733.11	1351100

N.B. (1) Figures for years from 1956 to 1960 are inclusive of business secured under G&S as separate figures for these years are not available.

(2) Figures are inclusive of Indian Register Business from Foreign Countries direct.

*Figures for 4 months since Appointed Day (*i.e.* from 1-9-56 to 31-12-56)

Upto 67-68, the premium income includes G&S—First Year Premium Income since the bifurcation is not readily available.

Appendix 12

(Chapter VI—Para 6.5)

STATEMENT SHOWING THE BUSINESS IN FORCE IN INDIA, NUMBER OF POLICIES, SUM ASSURED, PREMIUM INCOME AND LIFE FUND

Year	No. of Policies (in thousands)	Sum Assured (in crores of Rs.)	Premium Income (in thousands of Rs.)	Life Fund (in crores of Rs.)
1957 (16 months)	54,18	1,374	88,65,21	409.55
1958	59,74	1,584	73,62,46	447.90
1959	66,73	1,855	84,92,53	504.75
1960	74,56	2,176	97,55,24	559.13
1961	83,41	2,623	1,12,93,60	628.76
1962-63	92,67	3,051	1,51,05,40	719.56
1963-64	1,01,19	3,458	1,46,72,98	808.36
1964-65	1,06,30	3,766	1,62,25,27	901.61
1965-66	1,14,10	4,282	1,79,76,22	977.56
1966-67	1,19,98	4,593	1,96,98,15	1123.90
1967-68	1,26,43	5,116	2,13,00,95	1260.06
1968-69	1,33,45	5,606	2,30,64,40	1434.47
1969-70	1,39,39	6,226	2,55,18,94	1611.04
1970-71	1,46,93	6,952	2,85,25,66	1825.05
1971-72	1,57,11	8,082	3,29,39,67	2066.55
1972-73	1,67,92	9,204	3,79,36,09	2358.69
1973-74	1,79,43	10,725	4,40,75,87	2704.42
1974-75	1,87,45	11,728	4,92,86,51	3033.79
1975-76	1,96,06	13,248	5,49,29,29	3440.97
1976-77	2,02,75	14,371	6,06,33,74	3952.88
1977-78	2,07,08	15,698	6,57,82,19	4500.70
1978-79	2,11,73	16,743	7,20,81,35	5116.32
1979-80	2,20,39	19,114	8,08,74,00	5818.09

APPENDIX 13

(Chapter VI—Para 6.6)

GROWTH OF BUSINESS UNDER GROUP INSURANCE SCHEMES—(NEW BUSINESS AND BUSINESS IN FORCE)

	TOTAL			GROUP TERM INSURANCE SCHEMES			GROUP GRATUITY SCHEMES			ANNUITY SCHEMES			
	No. of Schemes	No. of Lives	Sum Assured (Crores of Rs.)	No. of Schemes	No. of Lives	Sum Assured (Crores of Rs.)	No. of Schemes	No. of Lives	Sum Assured (Crores of Rs.)	No. of Schemes	No. of Lives	Annuity Per annum (Lakhs of Rs.)	Premium
(1)	(2)	(3)	(4)	(5)	(6)	(7)	(8)	(9)	(10)	(11)	(12)	(13)	(14)
I. NEW BUSINESS													
Year ended													
December, 1957	—	—	3.77	—	—	—	—	—	—	—	—	13.36	
December, 1960	22	—	3.83	—	—	—	—	—	—	16	—	7.45	
March, 1966	33	—	18.19	—	—	—	—	—	—	7	—	17.13	
March, 1970	46	62,414	46.05	—	—	—	—	—	—	7	—	61.19	
March, 1971	69	70,732	78.94	—	—	—	—	—	—	36	1,422	70.21	
March, 1972	186	1,40,338	131.17	—	—	—	—	—	—	33	1,961	77.71	
March, 1973	367	5,97,553	336.29	147	5,20,425	205.29	220	77,128	131.00	85	2,689	111.03	
March, 1974	598	6,66,546	662.14	112	5,78,978	517.90	486	87,568	144.24	40	2,411	106.20	
March, 1975	785	9,40,991	1339.83	130	7,45,569	1053.52	655	1,95,422	286.31	47	2,464	133.21	
March, 1976	1,966	23,02,709	3269.04	95	18,44,546	2552.71	1,871	4,58,163	716.33	48	5,667	160.38	
March, 1977	1,045	6,60,780	3007.21	77	4,52,583	2383.24	968	2,08,197	623.97	57	3,896	190.78	
March, 1978	932	9,73,490	3784.95	95	7,27,797	3020.96	837	2,45,693	763.99	70	5,792	207.58	
March, 1979	897	13,57,889	5077.56	172	12,06,154	4259.47	725	1,51,735	818.09	72	6,232	280.82	
II. BUSINESS IN FORCE													
As on													
31st Dec. 1957	—	—	5.29	—	—	—	—	—	—	—	—	20.95	—
31st Dec. 1960	—	—	7.28	—	—	—	—	—	—	—	—	32.63	1.31
31st March 1966	189	—	47.29	—	—	—	—	—	—	35	—	52.89	2.31
31st March 1970	322	—	77.17	—	—	—	—	—	—	63	—	311.93	5.28
31st March 1971	316	3,10,776	119.26	—	—	—	—	—	—	170	8,078	361.43	6.89
31st March 1972	476	4,39,390	193.82	—	—	—	—	—	—	224	11,452	425.65	9.85
31st March 1973	814	9,47,035	407.13	240	8,46,785	272.05	574	1,00,250	135.08	291	13,030	512.65	10.37
31st March 1974	1,371	15,80,649	754.58	311	13,92,831	534.39	1060	1,87,818	220.19	326	15,071	537.30	14.13
31st March 1975	2,062	23,17,557	1457.07	441	19,34,317	1052.83	1621	3,83,240	404.24	366	16,266	658.89	18.36
31st March 1976	3,967	45,90,061	3496.90	535	37,48,658	2552.71	3432	8,41,403	944.19	416	23,606	764.00	38.96
31st March 1977	4,915	40,53,610	3443.75	574	30,50,245	2390.31	4341	10,03,365	1053.44	453	25,567	902.67	46.96
31st March 1978	5,739	44,40,156	4371.89	614	32,63,518	3015.60	5125	11,76,638	1356.29	496	30,352	1082.95	51.61
31st March 1979	6,504	55,90,020	5801.05	717	43,57,407	4259.77	5787	12,32,613	1541.28	559	34,491	1322.63	54.17

APPENDIX 14

(Chapter VI—Para 6.9)

STATEMENT SHOWING NUMBER OF IN FORCE POLICIES UNDER INDIVIDUAL BUSINESS AND NUMBER OF LIVES UNDER GROUP INSURANCE SCHEME (IN FORCE BUSINESS)

Year	No. of Inforce Policies (Individual business in India) (In thousands)	Group Insurance Business in force	
		No. of Schemes	No. of lives (In thousands)
1957	5418	—	—
1958	5974	—	—
1959	6673	—	—
1960	7456	—	—
1961	8341	—	—
1962-63	9267	—	—
1963-64	10119	—	—
1964-65	10630	—	—
1965-66	11410	—	—
1966-67	11998	—	—
1967-68	12643	—	—
1968-69	13345	—	—
1969-70	13939	322	—
1970-71	14693	316	311
1971-72	15711	476	439
1972-73	16792	814	947
1973-74	17943	1371	1581
1974-75	18745	2062	2318
1975-76	19606	3967	4590
1976-77	20275	4915	4054
1977-78	20708	5739	4440
1978-79	21173	6504	5590
1979-80	22039	7442	5803

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APPENDIX 15

(Chapter VI—Para 6.10)

ANNUAL ADDITION OF NUMBER OF POLICIES INFORCE

Year	Growth (In lakhs)
1958	5.56
1959	6.99
1960	7.83
1961	8.85
1962-63 (15 months)	9.26
1963-64	8.52
1964-65	5.11
1965-66	7.80
1966-67	5.88
1967-68	6.45
1968-69	7.02
1969-70	5.94
1970-71	7.54
1971-72	10.18
1972-73	10.81
1973-74	11.51
1974-75	8.02
1975-76	8.61
1976-77	6.69
1977-78	4.33
1978-79	4.65
1979-80	9.21

APPENDIX 16

(Chapter VI—Para 6.11)

STATISTICS RELATING TO FIRST INSURANCE (BUSINESS IN INDIA)

Year	Total New Business		First Insurance		First Insurance as percentage of total new business	
	No. of Pols. (Lakhs)	Sum Assured (Crores) Rs.	No. of Policies (Lakhs)	Sum Assured (Crores) Rs.	No. of Pols %	Sum Assured %
1961 (15 months)	14.62	593.61	10.24	370.05	70.1	62.3
1962-63	17.58	724.23	12.22	445.98	69.5	61.6
1963-64	16.38	680.25	11.54	430.77	70.5	63.3
1964-65	14.36	673.69	10.43	440.24	72.6	65.3
1965-66	15.55	771.10	10.95	490.15	70.4	63.6
1966-67	14.06	739.61	9.91	463.86	70.5	62.7
1967-68	14.23	812.86	9.85	506.32	69.2	62.2
1968-69	14.50	895.60	9.93	547.64	68.5	61.1
1969-70	13.97	979.74	9.12	583.75	65.3	59.6
1970-71	16.12	1215.63	10.62	725.95	65.9	59.7
1971-72	18.96	1498.50	12.69	916.05	66.9	61.2
1972-73	20.18	1726.01	13.68	1080.49	67.8	63.1
1973-74	20.47	1912.87	13.00	1129.56	63.5	59.1
1974-75	17.96	1760.89	11.50	1064.62	64.0	60.5
1975-76	20.09	2104.00	13.26	1278.42	66.0	60.8
1976-77	20.53	2095.40	13.94	1318.08	67.9	62.9
1977-78	18.54	2004.86	12.05	1187.18	65.0	59.2
1978-79	17.55	2057.40	11.31	1202.01	64.4	58.4
1979-80	20.96	2733.11	13.21	1561.82	63.1	57.8

APPENDIX 17

(Chapter VI—Para 6.21)

DISTRIBUTION OF NEW BUSINESS BETWEEN RURAL & URBAN AREAS

Year	Business From Rural Areas				Business From Urban Areas				Total Business*	
	No. of Pols.	% to total business	Sum Assured (in crores) Rs.	%	No. of Pols.	% to total business	Sum Assured (in crores) Rs.	%	No. of Pols.	Sum Assured (in crores) Rs.
1961 . . .	5,33,576	36.5	182.59	30.8	9,28,018	63.5	411.02	69.2	14,61,594	593.61
Period ending										
31-3-63 . . .	6,76,654	38.5	233.45	32.2	10,81,367	61.5	490.78	67.8	17,58,021	724.23
1963-64 . . .	5,85,143	35.7	209.40	30.8	10,52,551	64.3	470.80	69.2	16,37,694	680.20
1964-65 . . .	5,20,047	36.2	197.84	29.4	9,15,475	63.8	476.78	70.6	14,35,522	673.62
1965-66 . . .	5,57,535	35.9	220.62	28.6	9,97,133	64.1	550.39	71.4	15,54,668	771.01
1966-67 . . .	5,06,695	36.0	217.22	29.4	8,99,253	64.0	522.31	70.6	14,05,948	739.53
1967-68 . . .	5,09,607	35.8	235.46	29.0	9,13,669	64.2	577.28	71.0	14,23,276	812.74
1968-69 . . .	4,77,341	32.9	235.12	26.3	9,72,634	67.1	660.27	73.7	14,49,975	895.39
1969-70 . .	4,61,468	33.0	251.76	25.7	9,35,017	67.0	727.87	74.3	13,96,485	979.63
1970-71 . . .	5,06,992	31.4	296.37	24.4	11,05,238	68.6	919.14	75.6	16,12,230	1215.51
1971-72 . . .	5,99,711	31.6	375.90	25.1	12,96,092	68.4	1122.00	74.9	18,95,803	1497.90
1972-73 . . .	6,43,284	31.9	441.45	25.6	13,74,340	68.1	1284.33	74.4	20,17,624	1725.78
1973-74 . . .	6,42,868	31.4	498.17	26.0	14,04,215	68.6	1414.56	74.0	20,47,083	1912.73
1974-75 . . .	5,72,092	31.9	464.27	26.4	12,23,463	68.1	1296.53	73.6	17,95,555	1760.80
1975-76 . . .	6,50,208	32.4	563.53	26.8	13,58,696	67.6	1540.39	73.2	20,08,904	2103.92
1976-77 . . .	6,85,723	33.4	575.34	27.5	13,67,089	66.6	1519.99	72.5	20,52,812	2095.33
1977-78 . . .	5,71,163	30.8	494.87	24.7	12,82,590	69.2	1519.90	75.3	18,53,753	2004.77
1978-79 . . .	5,15,000	29.3	461.38	22.4	12,40,282	70.7	1596.02	77.6	17,55,282	2057.40
1979-80 . . .	5,76,000	27.5	584.17	21.4	15,19,839	72.5	2148.94	78.6	20,95,839	2733.11

*Total business is exclusive of Indian Registered Policies from Foreign Countries direct.

APPENDIX 18

(Chapter VI—Para 6.25)

STATEMENT SHOWING THE NEW BUSINESS SUM ASSURED AND FIRST YEAR PREMIUM ADJUSTED ACCORDING TO THE CONSUMER PRICE INDEX

Year	Actual New Business (Rupees in Lakhs) S.A.	Actual New Business (Rupees in Lakhs) F.Y.P.	Consumer Price Index (Base—1960 =100)	New Business adjusted at 1960 prices (Rupees in Lakhs) S.A.	New Business adjusted at 1960 prices (Rupees in Lakhs) F.Y.P.	Index No.(1968-69=100) S.A.	Index No.(1968-69=100) F.Y.P.
1968-69	89560	3755	174	51471	2158	100	100
1969-70	97974	4137	177	55352	2337	108	108
1970-71	121563	4841	186	65356	2603	127	121
1971-72	149805	6078	192	78023	3166	152	147
1972-73	172601	7225	207	83382	3490	162	162
1973-74	191287	8276	250	76514	3310	149	153
1974-75	176089	8328	317	55548	2627	108	122
1975-76	210400	9486	313	67220	3031	131	140
1976-77	209540	9928	301	69615	3298	135	153
1977-78	200486	9804	324	61878	3024	120	140
1978-79	205740	10440	331	62157	3154	121	146

APPENDIX 19

(Chapter VI—Para 6.27)

SAVINGS OF HOUSEHOLD SECTOR IN THE FORM OF FINANCIAL ASSETS

(Rs. in crores at current prices)

Year ending	Currency	Bank Deposits	Loans to Companies	Life Insurance Fund		Provident Fund	Claims on Govt.	Corporate and Co-op. Securities	Securities of term lending and other Financial Institutions	U.T.I.	* Other Assets	1/ Total
				LIC	Others							
31-3-1971	344.2	775.9	84.4	214.0	5.9	416.2	58.9	17.0	0.9	14.8	15.9	1948.1
(a)	(17.7)	(39.8)	(4.3)	(11.0)	(0.3)	(21.4)	(3.0)	(0.9)	(—)	(0.8)	(0.8)	
31-3-1972	404.0	1023.9	104.4	241.5	9.7	474.3	(—)1.8	17.8	2.2	12.4	59.2	2347.6
(a)	(17.2)	(43.6)	(4.4)	(10.3)	(0.4)	(20.2)	(—)	(0.8)	(0.1)	(0.5)	(2.5)	
31-3-1973	637.2	1214.4	108.3	292.1	14.7	523.4	80.1	21.9	5.3	18.6	88.2	3004.2
(a)	(21.2)	(40.4)	(3.6)	(9.7)	(0.5)	(17.4)	(2.7)	(0.7)	(0.2)	(0.6)	(3.0)	
31-3-1974	769.3	1510.9	44.9	345.7	9.8	603.0	86.8	(—)5.3	(—)11.0	23.9	253.5	3631.5
(a)	(21.2)	(41.6)	(1.2)	(9.5)	(0.3)	(16.6)	(2.4)	[(—)(0.1)]	[(—)(0.3)]	(0.6)	(7.0)	
31-3-1975	18.4	1653.9	92.3	329.4	14.5	786.6	71.8	58.5	3.9	(—)2.8	375.6	3402.1
(a)	(0.6)	(48.6)	(2.7)	(9.7)	(0.4)	(23.1)	(2.1)	(1.7)	(0.1)	[(—)(0.1)]	(11.1)	
31-3-1976	313.4	2787.4	129.3	407.2	15.0	1070.3	(—)12.9	21.6	6.5	15.9	—	4753.7
(a)	(6.6)	(58.7)	(2.7)	(8.6)	(0.3)	(22.5)	[(—)(0.3)]	(0.5)	(0.1)	(0.3)	(—)	
31-3-1977	1139.8	3920.0	113.5	511.9	12.2	1171.6	19.1	(—)13.2	7.9	20.2	—	
(a)	(16.5)	(56.8)	(1.6)	(7.4)	(0.2)	(17.0)	(0.3)	[(—)(0.2)]	(0.1)	(0.3)	(—)	6905.1

*Represents net position in Trade.

1/Saving (Gross) of Household Sec or in Financial Assets.

(a) Shows percentages of financial assets.

(*Source*: R.B.I.—Report on Currency and Finance)
Vol. II Statistical Statements 1978-79
(Statement : 9)

APPENDIX 20

(Chapter VI—Para 6.30)

STATEMENT OF NEW BUSINESS AND FIRST YEAR PREMIUM INCOME, DIVISIONWISE

(QUINQUENNIAL YEAR)

Divisions	1959 No. of Policies	1959 Sum Assured (in crores) Rs.	1959 First Year premium (in lakhs) Rs.	1963-64 No. of Policies	1963-64 Sum Assured (in crores) Rs.	1963-64 First Year premium (in lakhs) Rs.	1963-64 Increase/Decrease Sum Assured %	1963-64 Increase/Decrease First year premium %	1968-69 No. of Policies	1968-69 Sum Assured (in crores) Rs.	1968-69 First Year premium (in lakhs) Rs.	1968-69 Increase/Decrease Sum Assured %	1968-69 Increase/Decrease First year premium %	1973-74 No. of Policies	1973-74 Sum Assured (in crores) Rs.	1973-74 First Year premium (in lakhs) Rs.	1973-74 Increase/Decrease Sum Assured %	1973-74 Increase/Decrease First Year Premium %	1978-79 No. of Policies	1978-79 Sum Assured (in crores) Rs.	1978-79 First Year Premium (in lakhs) Rs.	1978-79 Increase/Decrease Sum Assured %	1978-79 Increase/Decrease First year Premium %
NORTHERN ZONE																ZO 8.02					ZO 2.79		
Ajmer	33608	12.5	45.64	71448	29.16	104.37	132.9	128.7	55500	32.99	119.73	13.13	14.7	69494	63.77	285.96	93.3	138.8	33441	40.49	355.02	7.2	24.2
Chandigarh	24398	11.01	41.79	38947	18.78	73.79	70.6	76.6	36608	29.23	114.58	55.6	55.3	63112	84.29	408.16	115.5	130.6	54444	88.80	539.65	5.4	32.2
Delhi	34299	18.55	85.33	50772	32.29	147.62	74.1	73.0	42366	39.11	177.02	21.1	19.9	43250	54.44	244.75	86.2	113.6	42599	61.34	341.85	12.7	39.7
Jaipur*	—	—	—	—	—	—	—	—	—	—	—	—	—	—	—	—	—	—	23666	27.89	(included in Ajmer)		
Jullundur	27079	12.01	47.69	46374	22.77	91.85	89.6	92.6	37292	29.22	118.88	28.3	29.4	51852	60.59	257.33	107.4	116.5	43153	63.76	329.09	5.2	27.9
TOTAL	119384	51.09	220.45	207541	103.00	417.63	90.4	89.4	171766	130.55	530.21	26.7	27.0	227838	263.09	1204.22	101.5	127.1	197303	282.28	1568.40	7.3	30.2
CENTRAL ZONE																							
Agra	35162	14.83	57.06	23681	10.15	39.26	—31.6	—31.2	24163	14.67	59.31	44.5	51.1	37951	38.83	150.32	164.7	153.4	31415	37.89	168.17	—2.4	11.9
Indore	21691	8.09	33.07	32290	13.62	55.43	68.4	67.6	29462	18.69	72.81	37.2	31.4	43636	41.90	160.41	124.2	120.3	32919	37.62	179.54	—10.2	11.9
Jabalpur	20102	7.57	30.73	38951	15.52	55.53	105.0	80.7	24165	15.15	62.68	—2.4	12.9	22661	20.83	75.00	37.5	19.7	17928	18.62	94.28	—10.6	25.7
Kanpur	20502	8.34	22.46	31153	14.16	52.28	69.8	132.8	26165	17.59	67.03	24.2	28.2	34879	38.63	144.47	119.6	115.5	34030	45.22	207.95	17.1	43.9
Lucknow	21204	8.45	39.70	33722	14.07	54.77	66.5	38.0	36912	23.71	93.30	68.5	70.3	49349	50.97	178.47	115.0	91.3	39502	46.16	207.65	—9.4	16.4
Meerut*	—	—	—	26245	12.42	47.42	—	—	26471	19.41	82.96	56.3	74.9	46685	54.82	221.49	182.4	167.0	40320	54.02	257.07	—1.5	16.1
Raipur*	—	—	—	—	—	—	—	—	—	—	—	—	—	22106	23.67	95.17	—	—	16481	18.96	97.03	—19.9	2.0
Varanasi	17775	7.20	24.70	32366	13.74	47.75	90.8	93.3	28922	18.75	64.38	36.5	34.8	41634	39.91	146.99	112.9	128.3	44278	52.82	216.43	32.3	47.2
TOTAL	136436	54.48	207.72	218408	93.68	352.44	72.0	69.7	196260	127.97	502.47	36.6	36.6	298901	309.56	1172.32	141.9	133.3	256873	311.81	1428.12	0.7	21.8
EASTERN ZONE																							
Asansol	24020	7.73	30.78	34330	12.01	47.79	55.4	55.3	29174	14.40	52.80	19.9	10.5	39784	27.82	128.87	93.2	144.1	33095	28.37	160.08	2.0	24.2
Calcutta	112614	45.03	194.16	148162	56.50	243.10	25.5	25.2	110561	64.97	305.75	15.0	25.8	134685	116.29	614.25	79.0	100.9	103029	122.37	680.97	5.2	10.9
Cuttack	14374	5.10	17.63	18488	7.18	26.47	40.8	50.1	19998	11.68	36.58	62.7	38.2	34498	35.01	126.41	199.7	245.6	29577	31.54	127.54	—9.9	0.9
Gauhati	41525	11.68	47.40	50128	21.01	94.58	79.9	999.5	34626	17.97	76.79	—14.5	—18.8	52798	40.56	158.65	125.7	106.6	54360	54.72	243.85	34.9	53.7
Jalpaiguri	17937	4.96	20.12	21112	7.83	32.74	57.9	62.7	17430	9.01	33.16	15.1	1.3	29318	19.72	70.66	118.9	113.1	24446	19.37	82.37	—1.8	16.6
Jamshedpur	15235	7.13	28.81	21720	10.35	43.18	45.2	49.9	18625	12.00	50.26	15.9	16.4	31744	29.06	124.42	142.2	147.6	33712	34.04	144.41	17.1	16.1
Muzaffarpur	15797	6.07	22.64	22701	9.81	35.70	61.6	57.7	18172	13.43	42.02	36.9	17.7	24764	24.16	87.93	79.9	109.3	21147	22.59	87.99	—6.5	0.0
Patna	20685	8.45	29.92	23609	10.85	42.73	28.4	42.8	25587	19.05	63.89	75.6	49.5	29487	32.24	127.92	69.2	100.2	23855	29.42	123.78	—8.7	—33.2
TOTAL	262187	96.15	391.46	340250	135.54	566.29	41.0	44.7	274173	162.51	661.25	19.9	16.8	377078	324.86	1439.11	99.9	117.6	323221	342.42	1650.99	5.4	14.7
SOUTHERN ZONE																ZO 0.33					ZO 0.24		
Bangalore	42363	11.52	48.74	53887	20.03	85.59	73.9	75.6	63684	33.07	184.80	65.1	115.9	79031	62.25	286.21	88.2	54.9	60887	72.85	384.31	17.0	34.3
Coimbatore	49434	14.06	52.45	74504	25.56	92.66	81.8	76.7	60445	31.76	100.61	24.3	8.6	42631	37.10	160.14	16.8	59.2	38860	41.68	195.07	12.3	21.8
Dharwar*	—	—	—	—	—	—	—	—	—	—	—	—	—	37720	29.75	98.31	—	—	32929	30.70	119.38	3.2	21.4
Hyderabad	32195	12.44	48.69	52832	25.59	102.21	105.7	109.9	51022	30.58	123.56	19.5	20.9	105107	93.30	356.21	205.1	188.3	82983	98.04	462.55	5.1	29.9
Kozhikode*	—	—	—	—	—	—	—	—	—	—	—	—	—	32429	25.51	61.67	—	—	41483	44.63	220.22	75.0	257.1
Madras	42961	15.31	63.15	69644	27.63	112.01	80.5	77.4	73300	39.57	153.79	43.2	37.3	77170	74.06	323.33	87.2	110.2	76891	90.93	443.96	22.8	37.3
Madurai	49772	17.30	56.59	40597	12.85	51.32	—25.7	—9.3	40306	17.36	57.50	35.1	12.0	45101	33.88	130.03	95.2	126.1	39277	39.19	176.39	15.7	35.7
Masulipatnam	47049	18.66	65.38	49429	21.01	81.11	12.6	24.1	46631	28.89	109.99	37.5	35.6	87227	71.47	298.37	147.4	171.3	39072	39.75	197.44	—44.4	—33.8
Thanjavur*	—	—	—	29511	11.29	37.19	—	—	26348	12.17	41.26	7.8	10.9	29216	21.27	78.86	74.8	91.1	27315	22.16	89.36	4.2	13.3
Trivandrum	43276	12.88	53.13	64003	23.87	96.61	85.3	81.8	36033	20.44	85.14	—14.4	—11.9	41732	43.72	176.02	118.9	106.7	39500	54.86	298.63	25.5	69.7
Udipi	38922	10.84	47.86	54729	18.58	75.31	71.4	57.4	60739	70.76	61.75	65.6	—18.0	47832	36.59	118.42	10.0	91.8	39716	42.26	195.91	15.5	65.4
Visakhapatnam*	—	—	—	—	—	—	—	—	—	—	—	—	—	—	—	—	—	—	26646	24.68	120.90	—	—
TOTAL	345972	113.01	435.99	489136	186.41	734.01	65.0	68.4	458508	244.60	918.40	31.2	25.1	625196	528.90	2087.90	116.2	127.3	545359	601.73	2904.36	13.8	39.1
WESTERN ZONE																							
Ahmedabad	45900	15.67	74.91	61030	24.67	110.23	57.4	47.1	56667	42.56	178.28	72.5	61.7	98402	90.58	415.64	112.8	133.1	63923	66.12	355.44	—27.0	—14.5
Bombay	91201	47.66	231.08	146280	80.74	364.87	69.4	57.9	130619	117.75	520.93	45.8	42.8	179346	198.73	1024.89	68.8	96.7	167468	239.92	1359.74	20.7	32.7
Nagpur	20064	6.52	28.49	34834	12.36	51.50	89.6	80.8	37408	19.75	72.81	59.8	41.4	40393	31.62	139.73	60.1	91.9	413.25	41.76	193.47	32.1	38.5
Nasik	13195	4.02	16.96	17211	7.59	30.38	88.8	79.1	18960	10.34	39.59	36.2	30.3	29508	21.23	86.80	105.3	119.2	23339	22.63	103.79	6.6	19.6
Pune	21157	7.24	32.05	31439	12.80	53.41	76.8	66.6	28213	18.04	72.13	40.9	35.0	45693	36.56	156.80	102.7	117.4	32203	35.37	191.68	—3.3	22.2
Rajkot	21032	6.35	32.59	31553	11.24	49.00	77.0	50.4	20255	14.02	72.01	24.7	47.0	38190	32.23	157.77	129.9	119.1	30518	33.65	195.01	4.4	23.6
Satara	19662	5.70	22.75	29609	10.66	41.60	87.0	82.9	30444	13.74	56.04	28.9	34.7	43198	30.94	122.58	125.2	118.7	31179	26.36	123.32	—14.8	0.6
Surat	18492	6.80	31.57	27566	12.31	58.89	81.0	86.5	26739	18.61	86.16	51.1	46.3	43340	44.43	209.41	138.7	143.0	42527	53.71	266.95	20.9	27.5
Goa	—	—	—	2859	1.50	—	—	—	—	—	—	—	—										
TOTAL	250703	99.96	470.40	382381	173.87	759.88	73.9	61.5	349305	254.81	1097.95	46.6	44.5	518070	486.32	2313.62	90.9	110.7	432482	519.52	2789.40	6.8	20.6

*These are new Divisions created by carving out areas from the existing Divisons.

S/63 M of Fin/80—27

APPENDIX 21

(Chapter VI—Para 6.30)

AVERAGE GROWTH RATE OF NUMBER OF NEW BUSINESS POLICIES, SUM ASSURED AND FIRST YEAR'S PREMIUM INCOME—ZONEWISE

Year	Western Zone	% Increase/ Decrease	Southern Zone	% Increase/ Decrease	Eastern Zone	% Increase/ Decrease	Central Zone	% Increase/ Decrease	Northern Zone	% Increase/ Decrease	Total	% Increase/ Decrease
A. NUMBER OF POLICIES												
1959	250703		345972		262187		136436		119384		114682	
1963-64	382381	8.81	489136	7.17	340250	5.35	218408	9.87	207541	11.69	1637716	8.00
1968-69	349305	—1.78	458508	—1.27	274173	—4.22	196260	—2.11	171766	—3.70	1450012	—2.40
1973-74	518070	8.20	625196	6.40	377078	6.58	298901	8.78	227538	5.78	2047083	7.14
1978-79	432482	—3.54	545359	—2.69	323221	—3.03	256873	—2.78	197303	—2.8	1755238	—3.02
B. SUM ASSURED (IN CRORES)												
1959	99.96		113.01		96.15		54.48		54.09		337.45	
1963-64	173.87	11.71	186.41	10.53	135.54	7.11	93.68	11.45	103.00	13.75	692.50	15.46
1968-69	254.81	7.94	244.60	5.50	162.51	3.70	127.97	6.44	130.55	4.85	920.44	5.86
1973-74	486.32	13.80	528.90	16.68	324.86	14.86	309.56	19.32	263.09	15.04	1912.73	15.75
1978-79	519.52	1.33	610.73	2.61	342.42	1.06	311.82	0.15	282.28	1.42	2057.26	1.47
C. FIRST YEAR'S PREMIUM INCOME (IN LAKHS)												
1959	470.40		435.99		391.46		207.72		220.45		1726.92	
1963-64	759.88	10.07	734.01	10.98	566.29	7.66	352.44	11.15	417.63	13.63	2830.25	10.40
1968-69	1097.95	7.64	918.40	4.58	661.25	3.15	502.47	7.35	530.21	4.89	3710.28	5.56
1973-74	2313.62	16.08	2087.90	17.85	1439.11	16.83	1172.32	18.46	1204.22	17.83	8217.17	17.24
1978-79	2789.40	3.81	2904.36	6.82	1650.99	2.79	1428.12	4.03	1568.40	5.48	10341.27	4.71

APPENDIX 22

(Chapter VI—Para 6.30)

STATEMENT SHOWING PER-CAPITA INSURANCE IN FORCE IN EACH DIVISION AS AT 31-3-1979

Zone	Population in lakhs	S.A. with bonus in crores	Per-capita Insurance in force
		Rs.	Rs.
NORTHERN			
Ajmer } Jaipur }	125.1 } 132.6 }	562.92	218
Chandigarh	158.9	418.04	263
Delhi	57.7	843.08	1461
Jullundur	143.2	461.27	322
CENTRAL			
Agra	138.1	277.62	201
Indore	165.2	308.30	187
Jabalpur	135.0	151.91	113
Kanpur	115.0	315.35	274
Lucknow	278.1	395.36	142
Meerut	140.1	369.11	263
Raipur	116.4	163.75	141
Varanasi	212.1	313.70	148
EASTERN			
Asansol	148.0	246.35	166
Calcutta	221.7	1021.92	461
Cuttack	219.4	223.54	102
Gauhati	195.8	355.21	181
Jalpaiguri	74.2	123.78	167
Jamshedpur	80.2	245.85	307
Muzzaffarpur	241.9	176.70	73
Patna	241.5	209.75	87
SOUTHERN			
Bangalore	108.5	809.77	747
Coimbatore	95.4	337.13	353
Dharwar	57.2	205.01	358
Hyderabad	258.5	668.88	259
Kozhikode	78.5	263.67	336
Madras	177.0	704.27	398
Madurai	112.2	295.21	263
Masulipatnam	85.5	314.64	368
Thanjavur	77.9	174.23	224
Trivandrum	135.5	437.54	323
Udipi	57.5	260.65	453
Visakhapatnam	84.9	220.52	260
WESTERN			
Ahmedabad	119.6	795.01	665
Bombay	103.1	2247.47	2180
Nagpur	116.8	335.52	287
Nasik	61.5	179.31	292
Pune	116.1	343.50	296
Rajkot	83.6	259.19	310
Satara	114.6	225.37	197
Surat	65.1	390.04	599

APPENDIX 23

(Chapter VI—Para 6.31)

PLANWISE DISTRIBUTION OF NEW BUSINESS

Plans	Year Ending 31st March 1979					
	With Profit			Without Profit		
	No. of Policies in '000s	Sum Assured in lakhs	% of Total S.A.	No. of Policies in '000s	Sum Assured in lakhs	% of Total S.A.
		Rs.			Rs.	
1. Whole Life Assurance	1	2,61	0.127	*	42	0.020
2. Whole Life Limited	4	10,51	0.511	*	76	0.037
3. Convertible Whole Life	34	54,78	2.663	1	123	0.060
4. Endowment Assurance	861	732,02	35.580	8	672	0.327
5. Children's Anticipated	7	21,17	1.029	—	—	—
6. Joint Life	4	6,05	0.294	*	6	0.003
7. Multi purpose	3	4,94	0.240	*	4	0.002
8. Anticipated Endowment	651	908,80	44.172	—	—	—
9. Children's Deferred	34	74,28	3.610	—	—	—
10. Centenary Policy	*	18	0.009	—	—	—
11. Special Plans	—	—	—	*	1	—
12. Double Endowment	—	—	—	*	9	0.004
13. Fixed Term	—	—	—	9	832	0.404
14. Educational Annuity	—	—	—	3	289	0.140
15. Pure Endowment	—	—	—	20	1811	0.880
16. Triple Benefit	—	—	—	1	101	0.049
17. Two Year Temporary Assurance	—	—	—	*	30	0.015
18. Convertible Term	—	—	—	*	50	0.024
19. Mortgage Redemption	—	—	—	*	78	0.038
20. Money Back Policy	107	190,89	9.278	—	—	—
21. Cash & Cover	3	6,10	0.296	—	—	—
22. Progressive Protection	3	3,83	0.186	—	—	—
All Plans	17,12	2016,16	97.995	42	41,24	2.004

Notes:—(i) Where the number of policies is less than 500 and/or Sum Assured less than Rs. 50,000 they are indicated by asteriks.
(ii) Items 8 to 10 are only with profit plans, items 11 to 19 are without profit plans.

APPENDIX 24

(Chapter VI—Para 6.33)

DISTRIBUTION OF NEW BUSINESS UNDER FOUR BROAD GROUPS OF PLANS

	Whole Life			Endowment			Anticipated			Others		
Years	No. of Pols. in thousands	S.A. in Lakhs	%	No. of Pols in thousands	S.A. in Lakhs	%	No. of Pols. in thousands	S.A. in Lakhs	%	No. of Pols. in thousands	S.A. in Lakhs	%
		Rs.			Rs.			Rs.			Rs.	
1-1-62—31-3-63	113	7713	10.65	1485	56049	77.39	138	7194	9.93	22	1467	2.03
63-64 . .	91	6175	9.08	1370	52416	77.05	154	7886	11.59	23	1548	2.28
64-65 . .	82	5986	8.88	1189	51279	76.12	143	8408	12.48	22	1695	2.52
65-66 . .	90	6827	8.85	1237	57408	74.45	165	10605	13.75	23	2269	2.95
66-67 . .	76	6129	8.29	1151	54805	74.18	160	10938	14.79	19	2018	2.74
67-68 . .	75	6445	7.93	1134	58225	71.63	194	14094	17.34	20	2522	3.10
68-69 . .	74	6729	7.51	1142	62900	70.24	212	16490	18.41	22	3441	3.84
69-70 . .	70	6900	7.04	1094	67449	68.84	210	18545	18.93	23	5080	5.19
70-71 . .	83	8640	7.11	1252	85087	69.99	256	23881	19.65	21	3956	3.25
71-72 . .	99	10918	7.29	1442	103821	69.30	329	32099	21.43	26	2967	1.98
72-73 . .	99	11823	6.85	1518	118114	68.43	378	39508	22.89	23	3155	1.83
73-74 . .	76	10154	5.32	1587	127137	66.46	360	50501	26.40	24	3489	1.82
74-75 . .	55	7994	4.54	1270	111694	63.43	448	53638	30.46	22	2763	1.57
75-76 . .	60	9249	4.40	1359	123449	58.67	564	74074	35.21	25	3628	1.72
76-77 . .	60	9245	4.41	1279	108389	51.73	676	87273	41.65	37	4633	2.21
77-78 . .	49	7924	3.95	1071	94510	47.14	699	93467	46.62	32	4586	2.29
78-79 . .	40	7031	3.42	919	83243	40.46	758	109969	53.45	37	5497	2.67

APPENDIX 25

(Chapter VI—Para 6.33)

PERCENTAGES OF NEW BUSINESS UNDER WITH PROFIT AND WITHOUT PROFIT PLANS TO TOTAL NEW BUSINESS

Year	With Profit	Without Profit
	%	%
1-1-1962-63 (15 months)	93.31	6.69
1963-64	93.80	6.20
1964-65	93.73	6.27
1965-66	93.71	6.29
1966-67	94.45	5.55
1967-68	94.23	5.77
1968-69	93.56	6.44
1969-70	92.57	7.43
1970-71	94.80	5.20
1971-72	96.45	3.55
1972-73	96.62	3.38
1973-74	96.69	3.31
1974-75	96.88	3.12
1975-76	96.68	3.32
1976-77	97.30	2.70
1977-78	97.63	2.37
1978-79	98.00	2.00
1979-80	98.37	1.63

APPENDIX 26

(Chapter VI—Para 6.38)

PERCENTAGES OF NEW BUSINESS COMPLETED DURING THE MONTHS OF DECEMBER AND MARCH

Year	December	March	Total
	%	%	%
1960	46.8	3.5	50.3
1961	45.6	3.2	48.8
1962-63	28.1	18.6	46.7
1963-64	20.1	19.3	39.4
1964-65	22.9	21.0	43.9
1965-66	21.4	23.7	45.1
1966-67	12.7	24.6	37.3
1967-68	18.2	21.6	39.8
1968-69	18.6	25.0	43.6
1969-70	16.8	28.1	44.9
1970-71	18.5	28.2	46.7
1971-72*	17.8	25.1	42.9
1972-73	17.2	30.5	47.7
1973-74	10.2	34.2	44.4
1974-75	11.3	28.7	40.0
1975-76	16.5	27.0	43.5
1976-77	17.8	22.8	40.6
1977-78	16.2	23.4	39.6
1978-79	5.4	29.1	34.5

*Percentages up to 1970-71 have been worked out on the basis of N.B. inclusive of Group Insurances and thereafter percentages have been worked out on the basis of Individual Insurances only.

APPENDIX 27

(Chapter VI—Para 6.43)

OVERALL NET LAPSE RATIO

Year	Percentage
1966-67	7.4
1967-68	7.0
1968-69	6.3
1969-70	5.9
1970-71	5.2
1971-72	5.0
1972-73	5.3
1973-74	5.3
1974-75	5.4
1975-76	5.4
1976-77	5.3
1977-78	5.4
1978-79	4.6
1979-80	3.8

APPENDIX 28

(Chapter VI—Para 6.43)

PERCENTAGE OF NET LAPSES TO NEW BUSINESS AT MEAN DURATION

Year of Issue	Percentage of net lapses at mean duration				Total of Cols. (2), (3),(4)&(5)
	0	1	2	3	
(1)	(2)	(3)	(4)	(5)	(6)
1965-66	2.0	18.1	10.7	5.4	36.2
1966-67	1.5	17.9	9.5	5.0	33.9
1967-68	1.4	18.7	9.2	5.1	34.4
1968-69	1.5	18.4	9.3	4.1	33.3
1969-70	1.1	15.1	7.7	3.9	27.8
1970-71	0.8	14.9	7.4	4.2	27.3
1971-72	0.9	15.3	7.4	4.3	27.9
1972-73	1.0	14.8	8.9	3.9	28.6
1973-74	0.5	14.3	8.9	3.7	27.4
1974-75	0.6	17.1	8.7	3.7	30.1
1975-76	0.7	17.7	8.2	3.2	29.8
1976-77	0.9	18.7	8.1	2.9	30.6
1977-78	0.9	16.5	7 4		
1978-79	0.8	14.9			
1979-80	0.6				

APPENDIX 29

(Chapter VI—Para 6.45)

LAPSE RATES OF SOME OF THE LEADING INDIAN INSURANCE COMPANIES BEFORE NATIONALISATION

Year	Lapse rate at mean duration 0	1	2	3	Total (0-3)
		ORIENTAL			
1951	1	18	9	7	35
1952	1	18	10	17	46
1953	1	19	16		
1954	1	11			
		HINDUSTAN COOPERATIVE			
1951	3	30	11	3	47
1952	4	31	9	2	46
1953	2	36	8		
1954	1	30			
		NEW INDIA			
1951	9	24	7	—2	38
1952	10	23	9	—2	40
1953	11	29	7		
1954	9	17			
		BOMBAY MUTUAL			
1951	2	16	10	4	32
1952	3	24	11	3	41
1953	6	31	5		
1954	4	17			
		NATIONAL			
1951	3	33	12	3	51
1952	2	31	12	2	47
1953	2	36	11		
1954	2	27			
		UNITED INDIA			
1951	4	21	10	3	38
1952	3	21	9	2	35
1953	3	20	11		
1954	3	15			
		COMBINED EXPERIENCE OF ALL INDIAN INSURERS PRIOR TO NATIONALISATION			
1951	7.3	27.0	9.3	1.6	45.2
1952	7.0	27.3	9.0	2.9	46.2
1953	6.8	28.3	9.8		
1954	5.1	21.3			

Appendix 30

(Chapter VI—Para 6.45)

ANALYSIS OF BUSINESS IN FORCE WITH ON AND OFF MOVEMENTS FOR THREE QUINQUENNIAL PERIODS

		1964—69 (in thousands of Rs.)	1969—74 (in thousands of Rs.)		1974—79 (in thousands of Rs.)
(a) In force as on the beginning of Quinquennium		32633256	52366285		99406952
(b) New Business	(+)	38928423	73323050		100225534
(c) Claims—Death and Maturities	(—)	2393241	3624941		6383821
(d) Balancing factor (other offs and ons)	(—)	16802153	22657442		38896719
(e) In force as at the end of Quinquennium		52366285	99406952		154351946
$\frac{(d)}{(b)} \times 100$		% 43.16	% 30.90	38.81	% 36.88 (Mean)

APPENDIX 31

(Chapter VI—Para 6.52)

DIVISIONWISE STATEMENT OF POLICIES LAPSED AFTER PAYMENT OF FIRST INSTALMENT OF PREMIUM OUT OF NEW BUSINESS OF THE YEAR 1976-77

Division	New Business of the Year 1976-77		Lapses after Payment of First Instalment of Premium			
	No. of Policies	Sum Assured (in Crores)	No. of Policies	%age	Sum Assured (in Creres)	% age
(1)	(2)	(3)	(4)	(5)	(6)	(7)
NORTHERN ZONE						
Ajmer	42125	44.48	9788	23.23	9.72	21.85
Chandigarh	47976	59.72	16233	33.83	16.26	27.22
Delhi	66996	102.65	9569	14.28	11.20	10.91
Jaipur	35084	38.58	9306	26.52	9.76	25.29
Jullundur	45368	61.19	12950	28.54	13.49	22.04
CENTRAL ZONE						
Agra	38725	44.32	10346	26.71	10.62	23.96
Indore	42602	43.48	12280	28.82	10.72	24.65
Jabalpur	22959	21.80	5121	22.30	4.17	19.12
Kanpur	37577	42.71	11412	30.36	10.17	23.81
Lucknow	46943	49.76	11587	24.68	10.48	21.06
Meerut	48252	60.98	14010	29.03	14.55	23.86
Raipur	23595	24.37	5238	22.19	5.56	22.81
Varanasi	47529	48.77	14450	30.40	12.95	26.55
EASTERN ZONE						
Asansol	38051	32.20	4552	11.96	3.77	11.70
Calcutta	111948	175.28	9813	8.76	7.74	6.71
Cuttack	32865	32.75	9424	28.67	9.28	28.33
Gauhati	63458	52.38	13939	21.96	10.43	19.91
Jalpaiguri	29480	20.82	5098	17.29	3.89	18.68
Jamshedpur	31818	30.23	5345	16.79	4.53	14.98
Muzaffarpur	26310	26.57	7485	28.44	7.86	29.58
Patna	31205	34.83	11078	35.50	10.51	30.17
SOUTHERN ZONE						
Bangalore	66673	60.86	8282	12.42	6.93	11.38
Coimbatore	43077	43.34	10608	24.62	8.92	20.58
Dharwar	38593	32.25	7142	18.50	5.41	16.77
Hyderabad	91042	91.51	Not available			
Kozhikode	55531	52.96	12841	23.12	13.05	24.64
Masulipatnam	47144	46.42	11530	24.45	10.94	23.56
Madras	83578	79.67	18244	21.82	14.42	18.09
Madurai	36673	29.16	8273	22.55	5.29	18.14
Thanjavur	33446	25.10	9877	29.53	6.09	24.26
Trivandrum	45941	58.26	11370	24.74	11.82	20.28
Udipi	49760	44.31	10537	21.17	8.56	19.31
Visakhapatnam	34364	26.87	Not available			
WESTERN ZONE						
Ahmedabad	104702	91.65	23041	22.00	16.41	17.90
Bombay	182636	225.04	19827	10.85	20.18	8.96
Nagpur	41742	35.62	6824	16.34	5.76	16.17
Nasik	29587	24.45	5669	19.16	4.52	18.48
Pune	40205	34.80	6067	15.09	4.77	13.70
Rajkot	35627	32.14	8324	23.36	5.65	17.57
Satara	40039	29.01	7958	19.87	5.18	17.85
Surat	41586	44.04	7649	18.39	7.01	15.91

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DIVISIONWISE STATEMENT OF POLICIES LAPSED AFTER PAYMENT OF FIRST INSTALMENT OF PREMIUM OUT OF NEW BUSINESS OF THE YEAR 1975-76

Division	New Business of the Year 1975-76		Lapses After Payment of First Instalment of Premium			
	No. of Policies	Sum Assured (in Crores)	No. of Policies	%age	Sum Assured (in Crores)	%age
(1)	(2)	(3)	(4)	(5)	(6)	(7)
NORTHERN ZONE						
Ajmer	45111	46.44	9830	21.79	9.90	21.32
Chandigarh	47342	58.73	13298	28.08	13.27	22.59
Delhi	63093	94.98	10570	16.75	11.48	12.09
Jaipur	36365	40.80	9272	25.49	10.18	24.95
Jullundur	47830	63.36	12296	25.70	12.48	19.70
CENTRAL ZONE						
Agra	39224	46.24	10814	27.56	11.66	25.22
Indore	40674	45.04	10943	26.90	10.12	22.47
Jabalpur	22260	22.24	5062	22.74	4.11	18.48
Kanpur	39586	46.76	11133	28.12	10.83	23.16
Lucknow	50328	55.76	12845	25.52	11.82	21.20
Meerut	49950	63.81	14035	28.09	16.08	25.20
Raipur	24535	26.77	5472	22.30	6.13	22.90
Varanasi	49607	52.64	10788	21.74	11.00	20.90
EASTERN ZONE						
Asansol	39682	31.39	4645	11.70	3.50	11.15
Calcutta	116250	120.36	6626	5.69	4.96	4.12
Cuttack	34446	35.53	9143	26.54	9.75	27.44
Gauhati	66362	54.04	13859	20.88	10.59	19.60
Jalpaiguri	27338	18.87	7349	26.88	4.44	23.53
Jamshedpur	33543	32.74	4377	13.04	4.29	13.10
Muzaffarpur	26556	28.23	6332	23.84	7.38	26.14
Patna	31323	38.19	10107	32.26	11.41	29.88
SOUTHERN ZONE						
Bangalore	63178	59.24	7564	11.97	6.95	11.73
Coimbatore	39416	42.02	8786	22.29	8.27	19.68
Dharwar	39686	33.08	7604	19.16	6.23	18.83
Hyderabad	88393	89.78	14442	16.33	14.34	15.97
Kozhikode	40106	35.26	13052	32.54	12.38	35.11
Masulipatnam	43658	47.51	11074	25.36	10.83	22.80
Madras	64761	69.20	14065	21.71	14.11	20.39
Madurai	35612	31.88	7616	21.39	5.09	15.97
Thanjavur	28371	24.88	7723	27.22	5.93	23.83
Trivandrum	51215	65.37	8878	17.33	10.85	6.60
Udipi	48214	44.73	9413	19.52	8.34	18.65
Visakhapatnam	37177	29.20	Not available			
WESTERN ZONE						
Ahmedabad	96267	89.02	19300	20.04	15.43	17.33
Bombay	180837	222.32	16773	9.27	17.18	7.73
Nagpur	41271	34.31	5536	13.41	4.71	13.73
Nasik	26890	20.97	4357	16.20	3.43	16.36
Pune	39843	36.82	5502	13.80	4.85	13.17
Rajkot	33341	30.71	6563	19.68	4.58	14.91
Satara	38351	30.82	6699	17.46	4.99	16.19
Surat	40913	43.88	6634	16.21	6.34	14.45

DIVISIONWISE STATEMENT OF POLICIES LAPSED AFTER PAYMENT OF FIRST INSTALMENT OF PREMIUM OUT OF NEW BUSINESS OF THE YEAR 1974-75

Division	New Business of the Year 1974-75		Lapsed after Payment of First Instalment of Premium			
	No. of Policies	Sum Assured (In Crores)	No. of Policies	%age	Sum Assured (In Crores)	% age
1	2	3	4	5	6	7
NORTHERN ZONE						
Ajmer	31733	28.93	6364	20.05	6.02	20.80
Chandigarh	38118	45.60	7815	20.50	8.57	18.79
Delhi	53273	72.87	10373	19.47	11.84	16.24
Jaipur	24116	24.58	5948	24.66	5.88	23.92
Jullundur	41655	50.69	9537	22.90	9.47	18.68
CENTRAL ZONE						
Agra	33443	34.76	7506	22.44	6.78	19.50
Indore	34492	35.19	7759	22.50	7.23	20.54
Jabalpur	20518	19.98	4449	21.68	3.66	18.31
Kanpur	32411	34.88	8879	27.40	8.53	24.45
Lucknow	49332	52.82	10131	20.54	10.38	19.65
Meerut	46469	57.65	8387	18.05	10.89	18.88
Raipur	18972	19.58	5471	28.84	4.58	23.39
Varanasi	45719	45.97	12541	27.43	11.73	25.51
EASTERN ZONE						
Asansol	36046	26.37	4367	12.12	3.12	11.83
Calcutta	109234	100.86	5268	4.82	4.12	4.08
Cuttack	30071	29.77	8530	28.37	8.35	28.04
Gauhati	52760	42.85	9919	18.80	7.32	17.08
Jalpaiguri	23800	17.04	3585	15.06	2.32	13.62
Jamshedpur	28268	27.37	4178	14.78	3.81	13.92
Muzaffarpur	23523	24.17	3590	15.26	3.06	12.66
Patna	28694	33.68	3096	10.79	4.09	12.14
SOUTHERN ZONE						
Bangalore	65291	54.78	7568	11.59	6.23	11.37
Coimbatore	36241	34.98	6736	18.59	6.72	19.21
Dharwar	33275	26.05	5288	15.89	4.27	16.39
Hyderabad	85739	82.86	11052	12.89	11.00	13.27
Kozhikode	34515	29.11	7513	21.77	5.96	20.47
Masulipatnam	39844	40.90	10273	25.78	8.98	21.96
Madras	66642	67.74	8396	12.60	7.96	11.75
Madurai	33459	28.26	6855	20.49	4.75	16.81
Thanjavur	24331	19.67	4967	20.41	3.50	17.79
Trivandrum	36798	40.70	7061	19.19	7.30	17.94
Udipi	47202	40.34	8201	17.37	6.77	16.78
Visakhapatnam	31875	23.57	6405	20.09	4.09	17.35
WESTERN ZONE						
Ahmedabad	81590	74.52	15584	19.10	12.14	16.29
Bombay	175017	202.63	15987	9.13	16.13	7.96
Nagpur	38907	33.01	4836	12.43	5.03	15.23
Nasik	26654	19.61	3974	14.91	3.13	15.96
Pune	36783	29.99	4232	11.51	3.43	11.44
Rajkot	27491	26.55	5022	18.27	3.78	14.24
Satara	37938	26.06	5711	15.05	3.90	14.97
Surat	33316	33.86	4999	15.00	4.67	13.79

APPENDIX 32

(Chapter VI—Para 6.52)

STATEMENT OF NET LAPSES ACCORDING TO DURATION

(Based on Sum Assured)

CENTRAL ZONE

Division	Year of Issue	Percentage of net lapses out of New Business of the year shown in (2) at mean duration 0	1	2	3	Total (3) + (4) + (5) + (6)
(1)	(2)	(3)	(4)	(5)	(6)	(7)
Agra	1972-73	1.1	18.8	9.4	5.4	34.7
	1973-74	0.5	16.5	11.3	5.0	33.3
	1974-75	0.6	21.0	10.5	1.8	33.9
	1975-76	0.9	22.1	12.8	4.1	39.9
	1976-77	0.8	22.5	11.1		
	1977-78	0.8	10.3			
	1978-79	0.1				
Indore	1972-73	1.0	20.1	8.6	5.4	34.7
	1973-74	0.9	18.1	9.8	4.4	33.2
	1974-75	0.0	21.0	10.5	4.0	35.5
	1975-76	0.9	21.8	10.5	4.2	37.4
	1976-77	1.2	24.4	10.2		
	1977-78	1.3	20.4			
	1978-79	1.3				
Jabalpur	1972-73	0.9	21.5	8.2	1.7	31.4
	1973-74	0.8	19.0	11.6	4.2	35.6
	1974-75	1.2	22.6	9.1	3.8	36.7
	1975-76	1.0	24.4	10.0	3.8	39.2
	1976-77	1.5	24.2	9.5		
	1977-78	0.8	21.3			
	1978-79	1.2				
Kanpur	1972-73	1.3	18.6	7.6	4.5	32.0
	1973-74	0.7	15.6	11.3	3.9	31.5
	1974-75	1.1	22.4	10.1	4.2	37.8
	1975-76	0.7	22.2	10.1	3.9	36.9
	1976-77	1.0	22.3	10.9		
	1977-78	1.4	19.3			
	1978-79	1.0				
Lucknow	1972-73	1.0	23.7	8.7	4.0	37.4
	1973-74	0.7	18.1	8.4	4.0	31.2
	1974-75	0.6	19.3	9.5	3.2	32.6
	1975-76	0.6	20.9	9.0	2.9	33.4
	1976-77	0.9	24.1	8.8		
	1977-78	0.4	20.2			
	1978-79	0.7				
Meerut	1972-73	4.2	13.2	17.8	7.3	42.5
	1973-74	0.5	11.8	14.2	5.6	39.1
	1974-75	0.3	23.0	12.8	5.9	42.0
	1975-76	0.2	25.7	12.8	5.4	44.1
	1976-77	1.2	25.4	12.6		
	1977-78	0.9	22.3			
	1978-79	0.7				
Varanasi	1972-73	1.6	27.8	13.0	5.3	47.7
	1973-74	1.4	22.8	12.9	4.5	41.6
	1974-75	0.9	26.4	13.6	5.0	45.9
	1975-76	..	29.2	11.7	5.2	46.2
	1976-77	1.2	27.5	11.2		
	1977-78	1.2	25.9			
	1978-79	1.2				
Raipur	1973-74	1.1	21.8	10.1	4.5	37.5
	1974-75	1.6	23.1	9.3	4.3	38.3
	1975-76	1.0	20.1	8.5	2.8	32.4
	1976-77	1.1	19.4	7.6		
	1977-78	0.9	17.7			
	1978-79	0.9				

EASTERN ZONE

Division	Year of Issue	Percentage of net lapses a mean duration* 0	1	2	3	Total (3) + (4) + (5) + (6)
(1)	(2)	(3)	(4)	(5)	(6)	(7)
Asansol	1972-73	1.5	16.0	9.8	7.2	34.5
	1973-74	1.3	17.9	8.9	5.9	34.0
	1974-75	0.3	21.8	4.9	5.5	32.5
	1975-76	0.3	20.5	8.1	(—)0.7	28.2
	1976-77	0.7	16.3	3.0		
	1977-78	0.4	24.4			
	1978-79	0.4				
Calcutta	1972-73	0.8	11.0	9.8	5.3	26.9
	1973-74	0.3	13.4	4.7	1.8	20.1
	1974-75	—0.1	7.8	5.4	2.3	15.2
	1975-76	0·2	4.8	5.7	1.3	12.0
	1976-77	0.1	7.1	7.5		
	1977-78	0.1	9.1			
	1978-79	0.2				
Cuttack	1972-73	0.5	21.2	11.1	8.8	41.6
	1973-74	0.8	18.4	10.9	2.2	32.3
	1974-75	0.5	21.8	8.3	4.3	34.9
	1975-76	1.4	27.3	10.1	3.8	42.6
	1976-77	0.8	28.7	9.3		
	1977-78	1.1	23.2			
	1978-79	0.9				
Gauhati	1972-73	8.4	23.3	11.4	3.1	46.2
	1973-74	0.3	22.1	10.7	4.5	37.6
	1974-75	0.4	24.2	9.6	4.1	38.3
	1975-76	1.2	23.3	8.1	2.6	35.2
	1976-77	1.3	24.2	6.8		
	1977-78	1.1	27.2			
	1978-79	1.5				
Jalpaiguri	1972-73	0.3	27.2	10.6	5.9	44.0
	1973-74	0.8	22.9	15.8	7.6	47.1
	1974-75	2.8	24.8	7.9	8.5	44.0
	1975-76	1.2	23.3	3.3	5.4	33.2
	1976-77	1.4	17.2	11.9		
	1977-78	1.4	21.2			
	1978-79	1.2				
Jamshedpur	1972-73	1.0	14.6	8.1	3.9	27.6
	1973-74	0.1	16.0	8.9	4.2	29.2
	1974-75	0.7	17.1	7.3	3.4	28.5
	1975-76	1.0	17.5	6.0	2.6	27.1
	1976-77	1.0	17.0	6.1		
	1977-78	1.0	13.6			
	1978-79	0.7				
Muzaffarpur	1972-73	1.8	29.4	14.3	5.3	50.8
	1973-74	2.0	32.8	13.1	0.7	48.6
	1974-75	1.6	22.9	11.0	2.9	38.4
	1975-76	2.1	23.4	10.4	2.6	38.5
	1976-77	1.6	16.1	5.7		
	1977-78	1.6	22.3			
	1978-79	1.7				
Patna	1972-73	1.6	29.7	13.7	7.7	52.7
	1973-74	0.0	12.7	30.8	6.4	49.9
	1974-75	0.0	20.9	25.8	7.5	54.2
	1975-76	0.8	38.6	14.6	6.2	60.2
	1976-77	2.4	32.8	13.4		
	1977-78	1.9	28.9			
	1978-79	1.4				

*Out of new business for the year shown in (2).

NORTHERN ZONE

Division	Year of Issue	Percentage of net lapses out of New Business of the year shown in (2) at mean duration				Total (3) + (4) + (5) + (6)
		0	1	2	3	
(1)	(2)	(3)	(4)	(5)	(6)	(7)
Ajmer	1972-73	0.7	13.9	11.5	4.0	30.1
	1973-74	0.1	17.4	9.1	3.1	29.7
	1974-75	0.2	19.7	8.2	3.2	31.3
	1975-76	0.4	20.1	10.1	3.8	34.4
	1976-77	0.6	21.7	10.3		
	1977-78	0.6	18.7			
	1978-79	1.0				
Chandigarh	1972-73	0.9	17.2	15.2	3.3	38.6
	1973-74	0.2	12.1	18.1	5.0	35.4
	1974-75	0.3	26.5	7.9	3.3	38.0
	1975-56	0.3	24.8	8.8	4.0	37.9
	1976-77	0.8	23.4	9.9		
	1977-78	1.2	19.2			
	1978-79	1.0				
Delhi	1972-73	0.6	11.1	8.1	2.6	22.4
	1973-74	0.7	12.6	5.9	4.2	23.4
	1974-75	0.7	12.3	7.9	3.7	24.6
	1975-76	0.8	11.9	6.8	3.6	23.1
	1976-77	0.6	13.3	6.8		
	1977-78	0.7	11.3			
	1978-79	0.8				
Jullundur	1972-73	1.4	19.0	9.6	4.4	34.4
	1973-74	0.8	18.0	10.7	4.1	33.6
	1974-75	0.7	19.2	4.8	3.3	28.0
	1975-76	0.9	23.9	9.6	2.7	37.1
	1976-77	1.0	20.4	7.9		
	1977-78	0.8	18.7			
	1978-79	1.2				

SOUTHERN ZONE

Division	Year of Issue	Percentage of net lapses at mean duration*				Total (3) + (4) + (5) + (6)
		0	1	2	3	
(1)	(2)	(3)	(4)	(5)	(6)	(7)
Bangalore	1972-73	2.0	5.1	3.8	1.2	12.1
	1973-74	0.3	7.2	3.8	1.5	12.8
	1974-75	2.6	10.6	4.7	2.0	19.9
	1975-76	0.5	10.1	2.5	1.6	14.7
	1976-77	0.4	14.6	4.7		
	1977-78	0.5	11.4			
	1978-79	0.3				
Coimbatore	1972-73	0.9	14.8	6.8	4.0	26.5
	1973-74	0.3	15.1	8.6	3.9	27.9
	1974-75	0.3	20.2	7.6	3.5	31.6
	1975-76	0.8	21.7	9.0	3.0	34.5
	1976-77	1.2	20.9	6.6		
	1977-78	0.9	15.9			
	1978-79	0.7				
Dharwad	1972-73	0.5	13.1	7.7	3.4	24.7
	1973-74	0.3	13.4	8.9	3.7	26.3
	1974-75	0.6	17.0	8.1	3.5	29.2
	1975-76	0.8	18.5	9.3	1.8	30.4
	1976-77	0.8	14.9	6.8		
	1977-78	0.8	13.5			
	1978-79	0.9				
Hyderabad	1972-73	0.4	16.4	10.8	3.3	30.9
	1973-74	0.1	16.4	10.0	5.1	31.4
	1974-75	0.6	19.9	12.4	7.3	40.2
	1975-76	0.3	17.2	5.2	2.4	25.1
	1976-77	0.5	18.3	8.8		
	1977-78	0.5	15.9			
	1978-79	0.2				
Kozhikode	1973-74	@	@	9.6	6.6	0.0
	1974-75	@	22.7	12.1	5.1	—
	1975-76	1.0	34.3	12.1	3.9	51.3
	1976-77	1.8	29.1	7.1		
	1977-78	2.8	28.1			
	1978-79	3.0				
Madras	1972-73	0.8	13.3	6.9	0.3	21.3
	1973-74	1.0	11.1	2.2	1.6	15.9
	1974-75	1.1	21.3	5.7	1.1	29.2
	1975-76	0.9	26.4	5.5	3.5	36.3
	1976-77	1.2	24.0	8.8		
	1977-78	1.3	15.1			
	1978-79	0.4				
Masulipatnam	1972-73	0.6	14.7	7.5	2.9	25.7
	1973-74	0.6	16.6	6.7	2.2	26.1
	1974-75	0.9	16.9	8.0	4.9	30.7
	1975-76	0.2	18.1	7.7	3.5	29.5
	1976-77	0.3	25.2	7.1		
	1977-78	1.5	27.8			
	1978-79	1.2				

*Out of New Business of the year shown in (2).

@Included in Coimbatore D.O. Separate figures not available.

(1)	(2)	(3)	(4)	(5)	(6)	(7)
Madurai	1972-73	0.7	12.7	6.5	0.0	19.9
	1973-74	0.5	13.7	7.6	2.4	24.2
	1974-75	1.0	18.0	9.6	2.3	30.9
	1975-76	1.0	19.4	7.4	1.4	29.2
	1976-77	1.0	19.8	4.9		
	1977-78	1.1	15.7			
	1978-79	0.8				
Thanjavur	1972-73	1.1	15.8	6.1	3.0	26.0
	1973-74	1.2	17.4	8.2	5.0	31.8
	1974-75	0.4	21.6	10.1	4.3	36.4
	1975-76	1.2	27.0	10.5	2.3	41.0
	1976-77	1.8	27.7	7.4		
	1977-78	0.6	22.2			
	1978-79	1.9				
Trivandrum	1972-73	0.4	16.7	7.4	3.2	27.7
	1973-74	0.5	18.8	8.0	3.6	30.9
	1974-75	1.5	21.4	6.3	1.8	31.0
	1975-76	1.7	16.0	6.1	2.6	26.4
	1976-77	1.8	22.5	6.8		
	1977-78	2.7	20.6			
	1978-79	2.1				
Udipi	1972-73	0.9	13.5	6.0	3.1	23.5
	1973-74	0.9	14.8	8.7	4.2	28.6
	1974-75	0.7	17.3	8.0	2.9	28.9
	1975-76	0.8	19.1	8.9	1.7	30.5
	1976-77	1.0	20.3	5.9		
	1977-78	0.9	15.8			
	1978-79	1.2				
Visakhapatnam	1974-75	**	21.3	8.2	4.8	..
	1975-76	0.3	20.6	7.3	4.0	32.2
	1976-77	0.3	21.5	5.5		
	1977-78	1.2	19.4			
	1978-79	1.0				

**Included in Masulipatnam D.O. Separate figures not available.

WESTERN ZONE

Division	Year of Issue	Percentage of net lapses at mean duration* 0	1	2	3	Total (3) + (4) + (5) + (6)
(1)	(2)	(3)	(4)	(5)	(6)	(7)
		%	%	%	%	%
Ahmedabad	1972-73	0.2	12.0	6.8	4.8	23.8
	1973-74	0.3	9.7	9.3	4.4	23.7
	1974-75	0.3	13.1	8.4	3.7	25.5
	1975-76	0.2	13.6	8.1	3.0	24.9
	1976-77	0.3	14.5	8.7		
	1977-78	0.3	13.0			
	1978-79	0.3				
Bombay	1972-73	0.2	6.1	6.1	2.8	15.2
	1973-74	0.2	6.7	5.0	2.2	14.1
	1974-75	0.1	8.0	4.8	3.0	15.9
	1975-76	0.4	7.0	5.7	3.6	16.7
	1976-77	0.4	9.2	6.3		
	1977-78	0.3	8.2			
	1978-79	0.3				
Nagpur	1972-73	0.4	12.2	8.0	3.3	23.9
	1973-74	0.6	10.6	6.5	3.1	20.8
	1974-75	0.5	11.9	6.1	2.9	21.4
	1975-76	0.7	12.2	6.6	3.0	22.5
	1976-77	0.8	14.0	7.2		
	1977-78	0.7	13.4			
	1978-79	0.6				
Nasik	1972-73	0.5	13.3	8.8	5.0	27.6
	1973-74	0.5	11.6	9.7	4.8	26.6
	1974-75	0.3	14.2	8.8	4.0	27.3
	1975-76	1.2	15.4	8.0	3.1	27.7
	1976-77	1.4	17.1	9.4		
	1977-78	0.7	15.3			
	1978-79	0.8				
Pune	1972-73	0.5	9.8	6.1	4.1	20.5
	1973-74	0.6	9.1	6.9	1.4	18.0
	1974-75	0.6	12.1	9.1	2.9	24.7
	1975-76	0.9	13.7	6.9	3.3	24.8
	1976-77	1.1	13.9	6.9		
	1977-78	0.2	12.2			
	1978-79	0.7				
Rajkot	1972-73	0.4	11.8	6.4	5.7	24.3
	1973-74	0.3	10.2	11.0	4.4	25.9
	1974-75	0.4	13.0	6.1	3.3	22.8
	1975-76	0.5	13.0	7.8	4.2	25.5
	1976-77	0.7	14.5	9.7		
	1977-78	0.6	14.1			
	1978-79	0.7				
Satara	1972-73	1.2	15.0	9.8	6.0	32.0
	1973-74	0.8	13.8	10.5	5.8	30.9
	1974-75	0.8	15.6	10.1	4.6	31.1
	1975-76	0.8	16.5	10.4	3.6	31.3
	1976-77	1.1	18.9	9.2		
	1977-78	1.1	18.2			
	1978-79	1.3				
Surat	1972-73	0.4	13.2	8.1	5.0	26.7
	1973-74	0.4	11.2	9.2	4.2	25.0
	1974-75	0.5	12.7	7.1	4.0	24.3
	1975-76	0.3	12.7	8.8	3.5	25.3
	1976-77	0.5	15.3	8.3		
	1977-78	0.5	12.9			
	1978-79	0.6				

*Out of New Business of the year shown in (2).

APPENDIX 33

(Chapter VI—Para 6.58)

STATEMENT SHOWING THE TOTAL BUSINESS UNDER LIFE ASSURANCE & PENSION SCHEMES IN THE U.K.

(Figures in Millions)

Year	Total estimated membership	Total yearly premiums	Total prospective pensions p.a.	Total pensions p.a. in course of payment	Total lump sum benefits on death before retirement
		£	£	£	£
1973	7.59	568	2040	138	13,700
1974	8.02	691	2410	158	17,500
1975	8.25	905	3100	173	22,600
1976	8.72	1160	3730	211	27,500

SOURCE : Life Assurance in the United Kingdom 1973—77—Published by the Life Offices' Association and Others.

STATEMENT SHOWING TOTAL BUSINESS IN FORCE UNDER GROUP LIFE INSURANCE AND SUPERANNUATION SCHEMES IN THE UNITED STATES (000 omitted)

Year	Assurances		Annuities	
	No. of lives	Amount	No. of lives	Annuities p.a. in course of payment
1973	88385	708,322,000	N.A.	N.A.
1974	93567	827,018,000	13,335	2,230,000
1975	96693	904,625,000	15,195	2,520,000
1976	100138	1,002,647,000	16,985	2,735,000

SOURCE : Life Insurance Fact Book '77 Published by American Council of Life Insurance.

APPENDIX 34

(Chapter VI—Para 6.66)

LIST OF GROUP SCHEMES FINALISED WITH 10,000 LIVES AND MORE

Sl No.	Name of	Month & year of commencement	No. of Lives	Type of Schemes	Name of Division	Remarks
1	2	3	4	5	6	7
	Upto 71					
1.	Gujarat State Road Transport Corporation	Oct. 67	36484	GGI	Ahmedabad	
2.	Karnataka State Road Transport Corporation	April, 69	22276	GGI	Bangalore	
3.	Maharashtra State Road Transport Corporation	Nov. 71	29823	GGI	Bombay	
	1971-72					
1.	Gujarat State Electricity Board	April 71	15240	GI	Surat	Discontinued
2.	Gujarat Housing Finance Society	June 71	103473	GI	Ahmedabad	
3.	Tamil-Nadu Co-op. Hsg. Socy. Ltd.	July 71	20000	GI	Madras	
4.	Borrowers of Maharashtra Co-op. Housing Finance Socy.	July 71	46189	GI	Bombay	
5.	Punjab National Bank	Feb. 72	11997	GGI	New Delhi	Discontinued
6.	Rajasthan State Electricity Board	March 72	10329	GI	Ajmer	Discontinued
7.	Govt. of Gujarat Class IV Employees	March 72	25071	GI	Ahmedabad	Discontinued
	1972-73					
1.	W.B. State Ele. Board	Sept. 72	31857	GI	Calcutta	
2.	Borrowers of Rajasthan State Co-op. Hsg. Finance Socy.	Oct. 72	16739	GI	Jaipur	
3.	Borrowers of A.P. State SC & ST Hsg. Ltd.	Jan. 73	45000	GI	Hyderabad	
4.	Shri Ambica Mills and allied Concern	Jan. 73	26632	GGI	Ahmedabad	Discontinued
5.	U.P. Primary & Jr. High School Teachers	Feb. 73	235416	GI	Kanpur	
6.	Haryana State Electricity Board	March 73	17176	GI	Chandigarh	
7.	U.P. State Electricity Board	March 73	89523	GI	Lucknow	
8.	Maharashtra State Electricity Board	March 73	30521	GI	Bombay	Discontinued
	1973-74					
1.	Punjab State Electricity Board, Patiala	June 73	28914	GI	Chandigarh	
2.	Lalbhai Group	July 73	19489	GI	Ahmedabad	Discontinued
3.	U.P. Bar Council	Aug. 73	19244	GI	Kanpur	
4.	Gujarat State Textile Corpn.	Jan. 74	12598	GI	Ahmedabad	Discontinued
5.	Higher Secondary Teachers of U.P.	March 74	111000	GI	Kanpur	
6.	U.P. Police	March 74	115505	GI	Kanpur	Discontinued
7.	Govt. of Orissa	March 74	189000	GI	Cuttack	
	1974-75					
1.	Sable Waghire & Co.	Dec. 74	16952	GGI	Pune	
2.	Kerala State Cashew Dev. Corporation	Jan. 75	36000	GGI	Trivandrum	
3.	Syndicate Bank	Jan. 75	15576	GGI	Udipi	
4.	Bharat Heavy Electricals	March 75	55187	GI	New Delhi	
5.	U.P. State Road Transport Corpn.	March 75	39166	GI	Lucknow	
6.	Calcutta Electric Supply Corpn.	March 75	10745	GGI	Calcutta	
7.	Bihar State Elec. Board	March 75	37000	GI	Patna	
8.	Dudh Sagar Dairy Milk Producers' Union Ltd.	March 75	61223	GI	Ahmedabad	
9.	Tamil Nadu Govt. Employees	March 75	418000	GI	Madras	Discontinued
10.	Orissa State Electricity Board	March 75	18000	GI	Cuttack	
	1975-76					
1.	Haryana Govt. Employees	April 75	135000	GI	Chandigarh	
2.	Govt. of Manipur	April 75	29954	GI	Gauhati	
3.	Modi Spg. & Wvg. Mills	May 75	11831	GGI	Meerut	
4.	Canara Bank Nirantara Deposit Linked Insc. Scheme	July 75	30047	GI	Bangalore	

1	2	3	4	5	6	7
5.	Indian Air Force	Nov. 75	—	GI	New Delhi	Discontinued
6.	Indian Navy	Dec. 75	—	GI	New Delhi	"
7.	Indian Army	Jan. 76	—	GI	New Delhi	"
8.	Manganese Ore (India) Ltd.	March 76	12426	GGI	Nagpur	
9.	Sinnar Beedi Udyog Ltd.	Oct. 75	10365	GI	Nasik	
10.	Tamil Nadu Handloom Weavers	Nov. 75	43785	GI	Madras	
11.	Birla Jute Mfg. Co. Ltd.	Dec. 75	13291	GGI	Calcutta	
12.	Non-Teaching Staff of U.P.	Feb. 76	15878	GI	Kanpur	
13.	U.P. Degree College Teachers	March 76	21681	GI	Kanpur	
14.	U.P. State Govt. Employees	March 76	435000	GI	Lucknow	Discontinued
15.	United Commercial Bank	March 76	13451	GGI	Calcutta	
16.	Hindustan Steel Works Construction	March 76	23500	GGI	Calcutta	
	1976-77					
1.	Fertilizer Corpn. of India	August 76	31701	GI	New Delhi	
2.	Modi Group of Industries	August 76	20174	GI	Meerut	
3.	O.N.G.C. Employees	August 76	24618	GI	Meerut	
4.	Heavy Engg. Corpn.	August 76	21045	GI	Jamshedpur	
5.	M.P. State Electricity Board	Nov. 76	35735	GI	Jabalpur	
6.	U.P. University Employees	March 77	12000	GI	Lucknow	
7.	U.P. Local Bodies	March 77	54000	GI	Lucknow	
8.	Singareni Collieries	March 77	45050	GI	Hyderabad	
9.	Hindustan Machine Tools	March 77	20409	GGI	Bangalore	
	1977-78					
1.	Indian Leaf Tobacco Dev. Co. Ltd	Apr. 77	19180	GGI	Calcutta	
2.	Bokaro Steel Ltd.	Nov. 77	34741	GI	Jamshedpur	
3.	Bharat Electronics Ltd.	Nov. 77	14000	GI	Bangalore	
4.	Calcutta Elec. Supply Corpn.	January 78	11068	GI	Calcutta	
5.	Dunlop India Ltd.	Jan. 78	11200	GI	Calcutta	
6.	A.P. State Road Transport Corporation	Jan. 78	42510	GI	Hyderabad	
7.	Aided School Teachers & Empl. of Local Bodies	Jan. 78	300000	GI	Madras	
8.	Indian Oil Corporation	March 78	17889	GI	New Delhi	
9.	Jiyajeerao Cotton Mills	March 78	13750	GI	Indore	
10.	Malayalam Plantations	March 78	21958	GGI	Trivandrum	
	1978-79					
1.	Non Govt. Aided Educational Institutions	April 78	117489	GI	Cuttack	
2.	The West Bangal Govt. Employees	April 78	265000	GI	Calcutta	
3.	West Bengal Police	April 78	68000	GI	Calcutta	
4.	M.P.S.R.T.C.	June 78	15389	GI	Indore	
5.	Indian Telephone Industries	August 78	20000	GI	Bangalore	
6.	Manganese Ore (I) Ltd.	August 78	13000	GI	Nagpur	Discontinued
7.	Bharat Earth Movers Ltd.	Sept. 78	11361	GI	Bangalore	
8.	S.A.I.L.	Nov. 78	199350	GI	New Delhi	
9.	Singareni Collieries	January 89	59000	GGI	Hyderabad	
10.	H.A.L. Bangalore Complex	Feb. 79	43224	GI	Bangalore	
11.	Hindustan Steel Works Construction	March 79	24135	GI	Calcutta	
12.	B.E.S.T.	March 79	22145	GI	Bombay	
	1979-80 (Up to December 79)					
1.	Indian Council of Agricultural Research	May 79	22500	GI	New Delhi	
2.	M.P. State Electricity Board	Oct. 79	56843	GI	Jabalpur	
3.	Hindustan Copper Ltd.	Dec. 79	13503	GI	Calcutta	
4.	Aided College Teachers	July 70	12359	GI	Madras	
5.	Maharashtra State Electricity Board	April 79	55000	GI	Bombay	
6.	Bombay Dyeing	Oct. 79	17749	GI	Bombay	
7.	Gujarat State Road Transport Corporation	June 79	41725	GI	Ahmedabad	

APPENDIX 35

(Chapter VI—Para 6.66)

LIST OF SCHEMES OFFERED TO NON-EMPLOYER EMPLOYEE GROUP

I. HOUSING

Sr. No.	Name of Schemes	No. of Lives	Date of Commencement	Name of Division
1.	West Bengal State Hsg. Finance Co-op. Society	2984	1-1-72	Calcutta
2.	Gujarat Co-op. Hsg. Finance Society	103473	1-6-71	Ahmedabad
3.	Tamil Nadu Co-op. Hsg. Society	20000	1-7-71	Madras
4.	Madras Fertilizer Ltd., Hsg. Loan Scheme	10	1-11-73	Madras
5.	A.P.S.C. & S.T. Co-op. Hsg. Society	45000	1-1-73	Hyderabad
6.	A.P. State Co-op. Hsg, Society Federation	5000	1-1-71	Hyderabad
7.	M.P. State Co-op. Hsg. Finance Society	1406	1-9-73	Kanpur
8.	Kerala Apex Hsg. Society	280	1-12-72	Trivandrum
9.	Maharashtra Co-op. Hsg. Finance Society	46189	1-7-71	Bombay
10.	Mahindra & Mahindra Hsg. Loan	133	1-12-71	Bombay
11.	Rajasthan State Co-op. Hsg. Finance Society	16739	1-10-73	Jaipur
12.	Vickers Sperry of India Hsg. Loan Scheme	75	August, 74	Bombay
13.	Karnataka Co-op. Hsg. Corporation	336	Sept. 74	Banglore
14.	Delhi Development Authority Hire Purchase Scheme (Hsg. Loan Scheme)	311	1-1-74	Delhi
	TOTAL	241936		

II. EMPLOYEES CO-OP. CREDIT SOCIETIES AND EMPLOYEES ASSOCIATIONS (L.I.G.)

Sr. No.	Name of Schemes	No. of Lives	Date of Commencement	Name of Division
1.	L.I.C. Employees Co-op. Credit Society, Chandigarh	530	1-7-72	Chandigarh
2.	Lucknow Dist. Insurance Employees Co-op. Credit Society	1012	1-3-75	Lucknow
3.	L.I.C. Empl. Co-op. Credit Society	753	Dec. 74	Surat
4.	L.I.C. Staff Co-op. Society.	750	Dec. 75	Ajmer
5.	L.I.C. Dev. Office Scheme (21 Scheme)	4958		Varanasi
	TOTAL	8003		

EMPLOYEES' CO-OPERATIVE CREDIT SOCIETIES AND EMPLOYEES' ASSOCIATIONS (OTHERS)

Sr. No.	Name of Scheme	No. of Lives	Date of Commencement	Name of Division
1	2	3	4	5
1.	Bureau of Economics & Statistics Employees' Co-operative Society	260	1-1-72	Bangalore
2.	Common Staff Co-op. Credit Soc.	92	1-1-74	Bangalore
3.	I.S.P. Credit Society, Nasik	1200	1-3-74	Nasik
4.	Chandurpur Zilla Parishad Employees Co-operative Credit Society	545	1-9-73	Nasik
5.	Central Telegraph Traffic Employees' Credit Society	472	1-12-72	Ahmedabad
6.	National Co-op. Bank Personal Soc.	221	15-6-73	Ahmedabad
7.	Junagad District Central Co-op. Bank Employees' Co-op. Society	227	15-8-74	Ahmedabad
8.	B.S.T. Co-operative Credit Society	311	1-3-73	Kanpur
9.	Hindustan Insurance Employees' Co-oprtative Credit Society	1481	31-3-72	Calcutta
10.	Baroda Dairy Co-operative Credit & Supply Society	387	Oct. 74	Ahmedabad
11.	Telephone Employees' Co-operative Credit & Supply Society	577	May 74	Ahmedabad
12.	Puddukkotai Municipal Employees' Co-operative Credit Society	147	Nov. 74	Thanjavur
13.	The Railway Employees' Co-operative Credit Society	214	Oct. 75	Madras
14.	Nasik Deolali Municipal Employees' Co-operative Credit Society	235	May 75	Nasik
15.	District Development Officers', Surendranagar	1543	1-3-78	Rajkot
16.	Chandigarh Branch Bima Workers	70	1-3-74	Chandigarh
17.	Brooke Bond Employees' Association	108	30-3-74	Chandigarh
18.	I.T.I. Officers' Association	399	April, 74	Bangalore
19.	Welfare Fund for the Association of Geophysists	134	Feb. 75	Calcutta
20.	State Bank of Hyderabad Officers' Association	700	March 76	Hyderabad
	TOTAL	9323		

MISCELLANEOUS

Sr. No.	Name of Scheme	No. of Lives	Date of Commencement	Name of Division
1	2	3	4	5
1.	U.P. Bar Council	19,244	1-8-1973	Kanpur
2.	Tamilnadu Handloom Weavers	43,785	15-10-1975	Madras
3.	Canara Bank Nirantara Deposit Linked Insurance Scheme	30,047	1-7-1975	Bangalore
4.	Dudh Sagar Dairy Milk Producers' Union	61,223	1-3-1975	Ahmedabad
5.	Vivekanand Education Foundation's Trust	3,430	15-6-1975	Ahmedabad
6.	Janatha Auto-Rickshaw Owners' Co-operative Society (Group Mortgage Redemption Assurance Scheme)	104	28-7-1971	Hyderabad
7.	Twin Cities Motor Taxi Drivers' Co-operative Society (GMRAS)	30	28-3-1971	Hyderabad
8.	Greater Hyderabad Motor Taxi Drivers' Co-operative Society (GMRAS)	26	28-7-1971	Hyderabad
9.	Andhra Pradesh State Handloom Weavers' Co-operative Society	12,114	25-3-1971	Hyderabad
10.	Hyderabad Handloom Weavers' Central Co-operative Society	6,839	28-8-1971	Hyderabad
11.	Yemmigannur Weavers' Co-operative Society	1,002	25-3-1972	Hyderabad
12.	Kranti Motor Taxi Drivers' Co-operative Society	30	1-10-1973	Hyderabad
13.	Unit Linked Insurance Scheme	65,743	1-10-1971	Central Office
14.	Deposit Linked Insurance Scheme	467	30-11-1971	Central Office
	Total	2,44,084		

NOTE :—Schemes other than Nos. 1, 3, 5, 13 and 14 are Schemes covering weaker Section of the Society.

APPENDIX 36

(Chapter VI—Para 6.73)

STATEMENT OF BUSINESS FIGURES IN FORCE UNDER UNIT-LINKED INSURANCE SCHEME

Inforce as on	No. of Lives	Sum Assured	Premium
		Rs.	Rs. P.
31-3-1975	5496	3,56,45,140	1,88,408.65
31-3-1976	6867	4,19,15,685	2,57,991.27
31-3-1977	10874	6,74,28,095	4,05,908.58
31-3-1978	15789	9,94,65,060	6,06,091.70
31-3-1979	36759	26,04,85,675	14,83,009.30

APPENDIX 37

(Chapter VII—Para 7.5)

(POLICYHOLDERS' SERVICING)

OPERATIONAL GOALS

Activity	Operational Goals
1. *Issue of Policy*	
(*i*) Proposals completed in February and May to November	Time-lag from date of FPR/receipt of FPR counterfoil in D.O. to date of despatch of policy not to exceed 20 days.
(*ii*) Proposals completed in December, January, March & April	Time-lag from date of FPR/receipt of FPR counterfoil in D.O. to date of despatch of policy not to exceed 40 days.
2. *Revivals*	
(*i*) Quotation	Time-lag from receipt of letter to issue of quotation not to exceed 7 days.
(*ii*) Action	Time-lag, from receipt of last requirement to issue of letter intimating revival not to exceed 7 days.
3. *Loans and Surrenders*	
(*i*) Quotation	Time-lag, from receipt of letter to issue of quotation not to exceed 7 days.
(*ii*) Payment	Time-lag, from receipt of last requirement to sending voucher to accounts department not to exceed 3 days.
4. *Maturity Claims*	
(*i*) Policy in full force	Time-lag, from date of maturity to date of payment not to exceed 1 month.
(*ii*) Paid up Policy	Time-lag, from date of maturity to date of payment not exceed 3 months.
5. *Death Claims*	
(*i*) Early Claims	Time-lag, from date of intimation of death to date of payment or of letter finally rejecting the claim not to exceed 6 months.
(*ii*) Other Claims	Time-lag, from date of intimation of death to date of payment or of letter finally rejecting the claim not to exceed 3 months.
Death and Maturity Claims	(*i*) Ratio of claims outstanding at the end of the year to the sum of claims outstanding at the beginning of the year and claims arising during the year not to exceed %*
	(*ii*) No claim to remain outstanding for more than one year unless it involves legal matters or matters regarding exchange control or for such other reasons beyond the control of the Divisional Office.
6. *Transfer of Policy records*	Time-lag from date of receipt of letter to date of forwarding policy records to another office not to exceed 20 days.
7. *SSS premium adjustment*	Time-lag from date of collection in the office to date of adjustment not to exceed 1 month.
8. *All other correspondence*	Time-lag from date of receipt of letter to date of disposal not to exceed 7 days.
9. *Premium deposits*	(*i*) Time-lag between date of receipt of a deposit and its adjustment (or refund) not to exceed 3 months.
	(*ii*) Total premium deposits (including proposal and policy deposits, SSS deposits, G&S deposits and miscellaneous deposits) to be reduced by the year end to Rs. ×
	(*iii*) Ratio of amounts placed in policy deposit account in the year to the individual premium income (excluding first premium) in the year not to exceed 7%.
10. *Premium Posting*	Time-lag between date of collection of premium under ordinary policies and the posting of the collection in the policy ledgers not to exceed 2 days at the Branch Office and 15 days at the Divl. office.
11. *S.S.S.*	Collection of SSS premium from every paying authority to be secured within a period of one month following the due date; the number of paying authorities who delay payment and the percentage of premiums collected late to be reduced steadily from month to month.
12. *Commission billing*	Time-lag from the end of each month to the date of sending the commission bills to Branches for premiums received (or adjusted) in that month not to exceed 1½ months for ordinary and 2½ months for SSS policies.
13. *Lapse control*	(*i*) Branches, Development Officers and Agents with heavy lapsation experience to be identified for appropriate action.
	(*ii*) Branch Managers to scrutinise premium invoices monthly and take action to ensure that not less than 90% of unpaid premiums are subsequently collected.

*Percentage specified for each division.

× Figure specified for each division.

S/63 M of Fin/80—31

APPENDIX 38

(Chapter VII—Para 7.23)

STATEMENT OF CLAIMS INTIMATED, SETTLED AND OUTSTANDING FROM 1969-70 TO 1978-79

Year	Claims outstanding at the beginning of the year		Claims intimated during the year		Total		Claims Settled		Claims outstanding at the end of the year		% of claim outstanding to claims intimated	
	No. in '000s	Amount (in crores of Rs.)	No. in '000s	Amount (in crores of Rs.)	No. in '000s	Amount (in crores of Rs.)	No. in '000s	Amount (in crores of Rs.)	No. in '000s	Amount (in crores of Rs.)	Col.10/ Col. 4	Col 11/ Col. 5
(1)	(2)	(3)	(4)	(5)	(6)	(7)	(8)	(9)	(10)	(11)	(12)	(13)
1969-70	117	24	314	81	431	105	321	81	110	24	35	30
1970-71	110	24	333	87	443	111	354	90	89	21	27	24
1971-72	89	21	324	92	413	113	350	95	63	18	19	19
1972-73	63	18	369	103	432	121	362	100	70	21	19	20
1973-74	70	21	403	115	473	136	375	107	98	29	24	25
1974-75	98	29	473	148	571	177	467	145	104	32	22	22
1975-76	104	32	525	163	629	195	545	166	84	29	16	18
1976-77	84	29	541	174	625	203	564	178	61	25	11	14
1977-78	61	25	627	207	688	232	605	201	83	31	13	15
1978-79 . .	83	31	691	238	774	269	671	233	103	36	15	15

APPENDIX 39

(Chapter VII—Para 7.27)

CAUSEWISE AND DURATIONWISE ANALYSIS OF OUTSTANDING MATURITY CLAIMS AS AT THE END OF 31-3-1979

Nature of Cause	More than Five years	More than Three years but less than Five Years	More than Two years but less than Three Years	More than One year but less than Two Years	More than Six Months but less than One Year	More than Three Months but less than Six Months	Less than Three Months	Total Claims outstanding
(1)	(2)	(3)	(4)	(5)	(6)	(7)	(8)	(9)
A. Claims in course of being processed at the operating office:								
Maturity Intimation Note issued . .	1	4	3	8	2	78	2216	2312
Further requirements to be called for .	—	—	1	6	18	63	790	878
Payment pending	1	1	4	2	27	82	395	512
B. Claims pending for requirements from the claimants:								
Age proof awaited	1	3	28	4	13	27	136	212
Discharge form and/or Policy documents awaited	156	843	2147	7673	9198	15401	27301	62719
Other requirements awaited from Policy-holders (information relating to Exchange Control)	9	70	97	221	186	253	350	1186
C. Policyholders not traceable	31	385	269	243	351	947	680	2906
D. Claims pending for other requirements (Exchange Control, etc.) .	25	48	65	88	232	307	180	945
E. Claims under payment (*e.g.* Educational Annuities settlement options, etc.) .	—	—	1	11	1752	49	379	2192
Total	224	1354	2615	8256	11779	17207	32427	73862

APPENDIX 40

(Chapter VII—Para 7.29)

STATEMENT SHOWING THE POSITION OF CLAIM PARTICULAR SHEETS ISSUED AND ACTED UPON DURING 1978-79

Name of Divl. Office	No. of C.P.S. issued during 1-4-78 to 31-3-79	No. of C.P.S. disposed of during 1-4-78 to 31-3-79	No. of C.P.S. o/s as on 31-3-1979 (Col. 2—Col. 3)	Percentage of C.P.S. o/s to C.P.S. issued— Col. 4 x 100 / Col. 2
(1)	(2)	(3)	(4)	(5)
Ajmer (Jaipur included)	845	511	334	40
Chandigarh	2426	1156	1270	52
Jullundur	272	222	50	18
New Delhi	224	144	80	36
Agra	Nil	Nil	Nil	Nil
Indore	1119	868	251	22
Jabalpur	566	452	114	20
Kanpur	124	36	88	71
Lucknow	364	286	78	21
Meerut	117	100	17	15
Raipur	693	678	15	2
Varanasi	598	295	303	51
Calcutta	1322	658	664	50
Cuttack	153	67	86	56
Gauhati	1223	605	618	51
Jalpaiguri	996	865	131	13
Jamshedpur	573	418	155	27
Muzaffarpur	225	167	58	26
Patna	1338	807	531	40
Bangalore	2559	1789	770	30
Coimbatore	638	501	137	21
Dharwar	1058	880	178	17
Hyderabad	1116	914	202	18
Kozhikode	435	377	58	13
Madurai	588	373	215	37
Masulipatnam	1376	1011	365	27
Thanjavur	502	398	104	21
Trivandrum	421	307	114	27
Udipi	460	416	44	10
Ahmedabad	3092	1728	1364	44
Bombay	3347	1812	1535	46
Nagpur	1568	1150	418	—
Nasik	355	355	—	—
Rajkot	499	388	111	22
Satara	1261	1111	150	12
Surat	1615	1263	352	22

APPENDIX 41

(Chapter VII—Para 7.35)

CAUSEWISE AND DURATIONWISE ANALYSIS OF OUTSTANDING DEATH CLAIMS AS AT THE END OF 31-3-1979

Nature of Cause	More than 5 yrs.	More than 3 yrs. but less than 5 yrs.	More than 2 yrs. but less than 3 yrs.	More than 1 yr. but less than 2 yrs.	More than 6 months but less than 1 yr.	More than 3 months but less than 6 months	Less than 3 months	Total Claims outstanding
(1)	(2)	(3)	(4)	(5)	(6)	(7)	(8)	(9)
A. Claims in the course of being processed at the operating office:								
Claim forms to be issued				4	1	2	690	697
Further requirements to be called for .	44	95	40	78	45	27	206	535
All requirements called for recd. but claims investigation incomplete	4	48	107	312	374	310	327	1482
Requirements for admission of claim recd. but discharge form yet to be issued .	1	1	19	87	131	131	392	762
Payment pending	—	1	1	71	16	43	44	176
B. Claims pending for requirements from the claimants:								
Claim forms not recd.	27	247	579	1775	2293	2328	7292	14541
Age proof awaited	1	7	4	9	9	429	1	460
Proof of title not recd. (Incl. cases of disputed title)	80	426	589	786	675	240	306	3102
Other requirements awaited (Policy document lost, I. Bonds, Information relating to Exch. Control)	10	67	129	368	417	297	428	1716
Discharge Forms not recd. . .	8	130	280	558	582	504	1592	3655
C. Claimants not traceable	3	14	17	9	12	16	28	99
D. Claims pending for other requirements : .								
Sanction from Exch. Control Authorities necessary	3	5	5	15	11	22	26	87
Replies awaited to direct inquiries by the office from Doctors, Hospitals, etc. .	2	85	168	548	446	266	190	1705
Claims under payment *i.e.* Multipurpose .	—	10	8	71	55	7	76	227
Miscellaneous	—	—	—	—	—	—	—	—
Total	183	1136	1946	4692	5067	4622	11598	29244

The figures are compiled only on the basis of Audited figures.

APPENDIX 42

(Chapter VII—Para 7.45)

TIME LAGS IN P.H.S. OPERATIONS

Name of Divl. Office	Period of Audit Inspection	Time lag *i.e.* average No. of days taken for the following PHS Operations (as per Audit & Inspection Report): Age admission	Registration of Nomination	Registration of assignment	Revival Quotation	Effecting Revival or advising the Br. to effect revival after receipt of all requirements	Quoting terms for Alteration	Effecting Policy alteration after receipt of requirements	Effecting change of address	Surrender quotation	Preparation & forwarding of loan payment Vr. to the A/c Dept. after receipt of Pol. & other requirement	Preparation & forwarding of Surrender value payment Vr. to the A/c Dept. after Rt. of the requirements	Effecting transfer of pols to other Divs.	Effecting transfer of Pols from one br. to another within the Div.	Action on Pols transferred in from other Divs.	Loan quotations
(1)	(2)	(3)	(4)	(5)	(6)	(7)	(8)	(9)	(10)	(11)	(12)	(13)	(14)	(15)	(16)	(17)
Ajmer . .	14-6-79 to 7/7	18	5	5	8	8	17	12	3.3	15	15	8	8	By B.O.	8	14
Chandigarh . .	5-6-79 to 5/7	By BO	Same day	8	By BO	5	14	14	3	6	1	3	17	Same day	3	Same day
Jaipur . .	20-6-79 to 26/6	23	By BOs	4	BY BOs	37	33	38	28	23	2	6	16	By Ajmer	7	2
Jullundur . .	11-6-79/to 30/6	1	5	10	1	1.5	2.7	3	3.7	4.7	1	1.6	12.7	11	6	2
New Delhi . .	28-5-79 to 30/6	11½	8	11¼	7	6½	11	10½	17	No record maintained	14	11½	18	12	9	No record maintained
Agra . .	14-5-79 to 2/6	3.6	3.3	3.2	6.4	5.8	5.4	7.4	7.5	2.5	0.6	1.7	10.3	6.9	4.2	1.6
Indore . .	19-4-79 to 12/5	5.5	5.7	4	5.3	16.7	3.5	4	7	18	3	18	25	12	17	5
Jabalpur . .	21-3-79 to 9/4	6	2	10	5	5	4	4	1.3	13	2	29	22	22	38	Same day
Kanpur . .	17-3-79 to 12/4	4	3.5	4	3	3	8	Same day	3	5	0.9	1.7	23	28	5	2
Lucknow . .	11-4-79 to 19/4	12	3.5	6.4	11.7	6.6	8.4	7.3	6.7	4	2.9	2.3	8.3	9.6	3	3
Meerut . .	23-4-79 to 30/4	12.6	4.1	11.5	4.3	1.7	8	4	8.1	9.3	3.1	6.8	22.6	31.3	5.1	3.7
Raipur . .	19-7-78 to 11/8	Cases Very Few	4.7	3	1.7	7	8		6	2	6	3	5	4	2.2	11
Varanasi . .	16-4-79 to 5/5	26.5	Samo day	40	7	13	20	18.5	48.2	12	2	9	7	1	7	1.7
Asansol . .	16-4-79 to 9/5	18	10	12	8	9	7	12	9	19	3	8	25	6	4	19
Calcutta . .	23-4-79 to 26/5	15	14	11	15	22	9	14	8	8	6	5	14	12	5	14

Cuttack	17-4-79 to 9/5	27	19	43	56	46	15	12	11	10	3	5	28	39	22	5
Gauhati	27-6-79 to 19/7	18	4	13	Not ascertained	8	17	27	16	6	1	9	31	46	45	7
Jalpaiguri	3-4-79 to 26/4	9	18	13	10	18	12	15	23	6	1	5	12	10	5	5
Jamshedpur	30/7/79 to 22/8	N/A	5	3	4	7	12	10	18	7	1	4	8	9	7	2
Muzaffarpur	19-6-79 to 11/7	60	Decentralised	15	4	4	10	7	5	1	1	4	10.5	2	13	10
Patna	5-7-79 to 26/7	87	3	1	37	29	29	58	2	40	14	25	88	Done by BO	33	8
Bangalore	21-5-79 to 9/6	11	10	10	3	7	11	11	10	7	4	3	29	5	11	Same day
Coimbatore	8-5-79 to 26/5	7	3	5	4	4	6	7	3	12	2	5	23	By BO	6	2
Dhawar	18-4-79 to 8/5	19	6	14	12	18	14	12	10	8	2	8	9	17	9	2
Hyderabad	17-4-79 to 5/5	33	12	16	8	18	13	22	23	31	2	5	13	By BO	20	12
Kozhikode	12-6-79 to 29/6	11	14	10	9	23	9	24	3	14	3	7	13	14	13	6
Madras	25-1-78 to 20/2	3	4.7	13	4.7	6	8	5	13	13	4	6	5	5	25.6	4.6
Madurai	17-4-79 to 8/5	4	7	7	2	5	13	10	4	10	1	3	62	51	17	6
Masulipatnam	24-4-79 to 12/5	11	14	11	—	By BO	5	Attended By BO	12	—	2	Same day	Same day	3	12	5
Thanjavur	22-5-79 to 8/6	13	6	7	12	18	7	15	14	7	3	5	19	By BO's	16	3
Trivandrum	24-4-79 to 14/5	7	4	2	5	3.5	5	8	3.5	5	1	3	2	-do-	3.5	2.5
Udipi																
Visakhapatnam	8-5-79 to 26/5	25	9	16	—	60	—	57	—	6	Same day	7	49	Over 1 month	45	3
Ahmedabad	23-2-79 to 17/3	11	6	9	9	12	5	9	10	7	4	5	20	13	12	5
Bombay	19-2-79 to 22/3	43	14	19	17	29	20	21	35	9	4½	7	36	42	24	8
Nagpur	20-2-79 to 10/3	7	6	7	6	6	6	7	5	5	3	5	10	N/A Decentralised	6	4
Nasik	12-2-79 to 3/3	19	14	10	6	22	25	38	4	13	8	3	28	16	8	12
Pune	20-2-79 to 8/3	68	48	63	75	32	32	42	18	12	8	8	66	55	47	12
Rajkot	17-4-79 to 5/5	—	7	18	11	8	9	11	—	6	2	5	25	9	12	3
Satara	20-2-79 to 19/3	12	10.6	8.5	12	16	5.5	10	13.3	9.5	5.6	12	22.7	18.6	9	6.4
Surat	20-2-79 to 9/3	20	By BO	2.4	6	5.6	7	12	19.6	13	—	11	12	38	25	6

APPENDIX 43

(Chapter VIII—Para 8.9)

RECOMMENDATIONS NOS. 1 TO 3 & 9 OF THE COMMITTEE OF ENQUIRY INTO THE EXPENSES OF THE LIFE INSURANCE CORPORATION OF INDIA (MORARKA COMMITTEE) AND GOVT. DECISION THEREON

Recommendation No.

1. The Renewal Expense Ratio (RER) cannot be accepted as a proper standard for index of expenses for the following reasons :—

(i) The RER does not correctly indicate the level of the cost of renewal administration;

(ii) The variations in the RER may be misleading, being not necessarily or wholly due to similar variations in the basic cost ratios. consequently it is not a valid standard for comparison;

(iii) The RER is likely to lead to subordination of considerations of economy in planning for and securing new business, when the New Business Cost Ratio (NBCR) is consistently less than the New Business Expense Allowance (NBER) over a period of time. This subordination may ultimately lead to a rise in the expense level and therefore to arise in the RER itself;

(iv) It is more difficult for insurers transacting quality business to achieve the same or lower RER than for other insurers; consequently the RER tends to make the insurer lukewarm towards the growth of renewal premium;

(v) Under certain circumstances, the RER gives values that can only be described as fantastic. It may even be negative, implying that the management of renewal business not merely does not require any expenditure but produces an income;

(vi) The RER does not give a correct standard for the provision for future expenses to be made in the valuation.

2. The RER may be divested of the statutory status that it enjoys today. The present rule 25(B) of the Insurance Rules, 1939, which gives this status to the RER, may be amended, and instead of the RER, the following particulars may be required to be given by the valuing actuary:

"25(b)(i) A statement giving a measure of the strain, if any, arising out of the new business as percentage of the corresponding first year premium, explaining in detail how this is calculated, and showing what provision, if necessary is made in the valuation in respect of the similar strain arising in future in respect of the future new business.

(ii) A statement comparing the mortality experience of the last inter-valuation period with that expected on the basis of the mortality table used in the valuation. (The method used in compiling the statement should be explained).

(iii) An analysis of the consolidated expenses for the whole of the last inter-valuation period giving the new bsusiness and the renewal cost ratios calculated in accordance with the method recommended in Chapter IV."

3. (a) Though the renewal expanse ratio is a defective index of the level of expenses, the present high level of expenses as indicated by it is confirmed by a more reliable index, *viz.* the cost ratios. Further whatever method of analysis is used, the budget method of the actuaries' method, the present high level of expenses is confirmed by both.

(b) It is not possible to explain fully the variations in the overall expense ratios or the renewal expense ratios for the various periods except with reference to the basic cost ratios and the new business expense allowance (NBER). Further, neither the Overall Expense Ratio (OER) nor the RER by itself gives us any reliable indication of the expenses of the Corporation.

(c) Variations in the cost ratios can be explained completely with reference to item-wise cost ratios. This enables the causes of the variations to be studied fully. Cost ratios are particularly useful from this point of view, besides furnishing a more reliable measure of expenses.

(d) Apart from self-regulatory expenses (like commission, policy stamps etc.), staff emoluments accounts for the major portion of expenses, and the variations in the cost ratios are to a large extent due to variations in the staff emoluments.

9. The present rule 17D of the Insurance Rules should cease to be applicable to the L.I.C., and instead the following procedure should be prescribed:—

(a) The revenue expenses of the Investment Department (including the Mortgage Department) and Building Department should not be included in the Expenses of Management, but should be debited to income from interest and rents. The figures of the interest earned, dividend collected and rent realised, and the respecttive deductions made from each of these should be shown separately in the annual revenue account.

(b) The Corporation should appoint a Committee of Experts to make a detailed investigation into its expenses of management once in every five years. The first Committee of this kind should be appointed as soon as possible.

(i) This investigation should mention the different types of policies in respect of which there is reason to believe that expenses are incurred at a rate materially different from that broadly applicable to major group of policies.

(ii) The investigation should evolve a set of working rules to locate different items of expenditure, as accurately as practicable, between first year and renewal expenses.

(iii) The investigation should give formulae expressing, as closely as possible, first year expenses in a year as an aggregate of percentages of the first year premium received in that year under the major group and under the different types of policies referred to in (i) above and similar formulae should be given for renewal expenses.

NOTE:—(1) The percentages in the formulae for the first year and the renewal expenses applicable to the major group are the New Business Cost Ratio (NBCR) and Renewal Cost Ratio (RCR) respectively. All other percentages applicable to the different types are referred to as special percentages.

(2) In the case of policies where no further premiums are payable the Corresponding (special) percentages may be of sum assured, number of policies or amount of annuities paid (instead of premiums).

(iv) The Corporation should forward the report of this Committee of experts, alongwith its own comments on the report to the Government. Government may, if necessary, direct such modifications as it deems fit to be made in the set of working rules, special percentages, and as a consequence, in the NBCR and RCR.

Government should prescribe appropriate limits separately for special percentages and NBCR and RCR on the basis of the report of the Committee, revised in accordance with the modifications, if necessary.

These limits should be in force for a period of five years, they should be revised every five years on the basis of the five yearly investigations.

(v) The actual expenses of every year should be analysed into first year and renewal expenses, and the actual NBCR and RCR for the year should be calculated according to the approved set of working rules and prescribed special percentages in respect of the different types of policies. The prescribed limits of the NBCR and RCR should apply to these actual NBCR and RCR.

(vi) Every year, the Corporation should publish an analysis of its expenses during the year in accordance with what we have suggested in the preceding paragraph, and explained the variations in the cost ratios from year to year with reference to the item-wise cost ratios, giving reasons for the increases or decreases in the latter.

The approved set of working rules should be published alongwith the analysis for the year in which they are first adopted. Whenever the approved set of working rules is changed, in the first year in which a new set of rules is introduced, the analysis should be made both in accordance to the old rules and the new rules.

vii) For the interim period, until decisions are taken by the Government on the first of the five-yearly investigations the Committee recommends the following limits for the NBCR and RCR calculated according to the budget form of analysis for 1967-68.

	NBCR	RCR
Limits	75%	20%

These limits may be revised by the Government even during the interim period, in the light of any changes that may occur either as a result of the other recommendations of the Committee or otherwise.

(viii) Though separate limits for the NBCR and RCR are prescribed in (iv) and (vii) above, the Corporation should not be deemed to have trangressed the limits, if its NBCR is within the prescribed limit and the total expenses are within the total permissible expenses on the basis of the prescribed NBCR and RCR, even though the limit on the RCR might have been exceeded. Sec. (40)(B) of the Insurance Act 1938 may be suitably modified.

Government decision on the above recommendations

The renewal expense ratio has been the traditional index for measuring the cost of service to the policyholders. Any exepnse ratio has inherent limitations, as many items if expenses are not proportional to premium income, but renewal expense ratio has served its purpose well.

The statements showing percentages of New Business Cost Ratio (NBCR) and Renewal Cost Ratio (RCR) do not bring out the trend of rising expenses, which the Renewal Expense Ratio, has, and there is also no agreement how the NBCR and RCR should be calculated. In any case, it would be necessary to combine these two indices to give a composite index in order to assess whether the expenses show an increasing] or decreasing trend. In view of the practical difficulties in working out the two cost ratios and preparing a composite index, the recommendations are not accepted.

Premium Income and Expenses of management—Contd.

(Amounts in thousands of Rupees)

Particulars	Actuals 1968-69		Actuals 1969-70		Actuals 1970-71		Actuals 1971-72		Actuals 1972-73		Actuals 1973-74		Actuals 1974-75		Actuals 1975-76		Actuals 1976-77		Actuals 1977-78		Actuals 1978-79	
NEW BUSINESS:																						
No. of policies	14,54,298		14,01,254		16,16,234		19,01,841		20,20,923		20,51,753		17,99,313		20,14,886		20,57,955		18,58,022		17,59,091	
Individual	904.30		990.03		1224.14		1508.72		1737.96		1924.18		1772.27		2116.30		2112.49		2020.71		2073.32	
G&S	25.05		46.05		78.94		131.17		336.91		662.15		1341.07		3269.04		3007.27		3787.72		5077.56	
TOTAL	929.35		1036.08		1303.08		1639.89		2074.87		2586.33		3113.34		5385.34		5119.76		5808.43		7150.88	
PREMIUM INCOME:																						
Individual:																						
First Year Premium	37,55,12		41,37,48		48,40,50		60,78,48		72,25,08		82,75,80		83,28,25		94,85,84		99,27,75		98,04,40		104,40,21	
Renewal Premium	192,40,97		212,94,41		236,36,04		267,48,33		305,06,53		355,83,77		409,24,37		453,55,18		504,08,99		555,31,69		612,39,92	
Single Premium	7,55		48,71		19,73		82,09		1,02,50		1,61,76		5,40		7,15		3,67		11,89		4,62	
Consideration for Annuities granted	60,76		38,34		29,39		30,77		1,01,98		54,54		28,49		81,12		2,93,33		4,34,21		3,96,60	
Sub Total	230,64,40		255,18,94		285,25,66		329,39,67		379,36,09		440,75,87		492,86,51		549,29,29		606,33,64		657,82,19		720,81,35	
G&S PREMIUM:																						
First Year Premium	33,58		52,71		1,19,20		72,23		1,29,86		1,26,48		2,38,96		4,74,22		2,66,02		3,76,65		3,99,55	
Renewal Premium	1,37,94		1,75,48		2,09,40		3,23,93		2,52,60		2,24,70		2,45,72		4,41,29		7,12,11		7,16,14		10,50,62	
Single Premium	30,92		73,54		70,95		1,50,04		2,72,78		5,17,08		7,67,42		22,14,04		29,18,50		32,17,77		27,97,05	
Consideration for Annuities granted	2,10,96		2,20,99		2,89,25		3,68,89		3,81,87		5,44,34		5,85,50		7,66,69		7,99,73		8,50,33		11,69,59	
Sub Total	4,13,40		5,22,72		6,88,80		9,15,09		10,37,11		14,12,60		18,37,60		38,96,24		46,96,36		51,60,89		54,16,85	
Grand Total	234,77,80		260,41,66		292,14,46		338,54,76		389,73,20		454,88,47		511,24,11		588,25,53		653,30,10		700,43,08		774,98,20	
EXPENSES OF MANAGEMENT:																						
I. Direct variable Expenses to New Business and First Year Premium Income		% to FYP (Ind.)		% to FYP (Ind.)		% to FYP (Ind.)		% to FYP (Ind.)		% to FYP (Ind.)		% to FYP (Ind.)		% to FYP (Ind.)		% to FYP (Ind.)		% to FYP (Ind.)		% to FYP (Ind.)		% to FYP (Ind.)
1. First Year Commn.	11,30,28	30.10	12,17,22	29.42	14,81,03	30.60	18,96,97	31.20	22,25,79	30.81	25,51,75	30.83	25,96,46	31.18	29,77,74	31.40	31,18,84	31.42	29,47,64	30.06	32,48,21	31.11
2. Medical Fees	99,28	2.64	99,59	2.41	1,21,54	2.51	1,43,87	2.37	1,66,11	2.30	1,81,53	2.19	1,69,10	2.03	1,88,99	1.99	1,89,38	1.91	1,83,02	1.87	1,80,79	1.73
3. Policy Stamps	37,97	1.01	41,54	1.00	50,91	1.05	63,49	1.05	77,19	1.07	87,27	1.06	77,36	0.93	1,64,56	1.73	93,11	0.94	1,34,13	1.37	1,41,75	1.36
4. Dev. Officers Salary and allowances and other expenses	8,28,63	22.07	7,62,66	18.44	9,65,26	19.94	10,95,88	18.02	12,15,26	16.82	13,92,54	16.83	16,14,12	19.38	17,39,46	18.34	19,18,24	19.31	17,64,98	18.00	19,74,81	18.92
5. Other New Business Expenses	1,29,95	3.46	1,42,78	3.45	1,57,95	3.26	1,93,78	3.20	2,40,87	3.33	2,96,76	3.58	3,70,10	4.44	3,83,35	4.03	4,28,68	4.32	4,08,08	4.16	4,22,72	4.05
Sub Total	22,26,11	59.28	22,63,79	54.72	27,76,69	57.36	33,93,99	55.84	39,25,22	54.33	45,09,85	54.49	48,27,14	57.96	54,54,10	57.49	57,48,25	57.90	54,37,85	55.46	59,68,28	57.17
II. Expenses Relating to Renewal Premiums		% to RP(Ind.)		% to RP(Ind.)		% to RP(Ind.)		% to RP(Ind.)		% to RP(Ind.)		% to RP(Ind.)		% to RP(Ind.)		% to RP(Ind.)		% to RP(Ind.)		% to RP(Ind.)		% to RP(Ind.)
6. Renewal Commission	8,64,92	4.50	9,72,15	4.57	10,64,17	4.50	12,12,71	4.53	14,48,62	4.75	16,99,44	4.78	19,55,93	4.78	22,74,05	5.01	24,58,22	4.88	25,91,96	4.67	29,10,31	4.76
7. Gratuity and Term Assurance to Agents	—	—	—	—	—	—	—	—	—	—	—	—	—	—	—	—	—	—	—	—	22.10	0.04
Sub Total	8,64,92	4.50	9,72,15	4.57	10,64,17	4.50	12,12,71	4.53	14,48,62	4.75	16,99,44	4.78	19,55,93	4.78	22,74,05	5.01	24,58,22	4.88	25,91,96	4.67	29,38,41	4.80
III. Common Expense Relating to Total Premium Income:		% to (FYP+RP) TP(Ind.)		% to (FYP+RP) TP(Ind.)		% to (FYP+RP) TP(Ind.)		% to (FYP+RP) TP(Ind.)		% to (FYP+RP) TP(Ind.)		% to (FYP+RP) TP(Ind.)		% to (FYP+RP) TP(Ind.)		% to (FYP+RP) TP(Ind.)		% to (FYP+RP) TP(Ind.)		% to (FYP+RP) TP(Ind.)		% to (FYP+RP) TP(Ind.)
A. Administrative Staff Salaries including Bonus, Overtime and other benefits to Staff (Cl. I, III & IV)	27,18,01	11.83	33,05,81	13.00	33,63,48	11.81	40,02,67	12.19	45,72,33	12.11	58,22,13	13.28	76,17,47	15.48	84,42,67	15.40	74,81,98	12.40	88,51,34	13.55	92,80,47	12.95
Sub Total	27,18,01	11.83	33,05,81	13.00	33,63,48	11.81	40,02,67	12.19	45,72,33	12.11	58,22,13	13.28	76,17,47	15.48	84,42,67	15.40	74,81,98	12.40	88,51,34	13.55	92,80,47	12.95
B. Printing & Stationery	1,05,42	0.46	98.18	0.39	1,11,78	0.39	1,38,20	0.42	1,56,99	0.42	1,56,94	0.36	2,35,45	0.48	2,75,61	0.50	2,67,39	0.44	2,46,21	0.38	2,57,64	0.36
C. Postage, Telegrams [illegible]ipt Stamps	1,32,98	0.57	1,41,93	0.56	1,59,25	0.55	1,90,15	0.57	2,18,56	0.58	1,72,98	0.39	2,01,71	0.41	2,15,22	0.39	2,54,83	0.42	2,39,59	0.37	2,67,97	0,37
[illegible]elephone Charges	25,99	0.12	28,63	0.11	33,80	0.12	42,92	0.13	52,15	0.14	61,46	0.14	76,08	0.16	74,76	0.14	87,24	0.14	89,73	0.14	91,15	0.13
E. Rents Imputed & Others	1,05,85	0.46	1,14,70	0.45	1,24,94	0.44	1,38,98	0.43	1,52,19	0.41	1,85,76	0.43	2,29,83	0.46	2,47,13	0.45	2,56,51	0.43	2,81,45	0.43	3,17,04	0.44
F. Tabulating Machines Rental & Maintenance	1,06,84	0.46	97,14	0.38	1,04,37	0.37	1,21,50	0.37	1,32,11	0.35	1,35,96	0.31	1,71,84	0.35	1,81,33	0.33	1,89,28	0.31	1,91,64	0.29	1,42,57	0.20
G. Misc. Expenses including Law Charges	1,21,39	0.52	1,34,93	0.53	1,50,95	0.53	1,32,09	0.41	1,44,65	0.37	1,70,31	0.38	2,00,86	0.39	2,10,32	0.38	2,30,24	0.39	2,42,55	0.36	2,58,12	0.36
H. Depreciation	59,13	0.26	54,96	0.22	53,80	0.19	53,87	0.16	55,06	0.15	59,95	0.14	68,62	0.14	71,95	0.13	77,39	0.13	79,41	0.12	1,01,84	0.14
Sub Total	6,57,60	2.85	6,70,47	2.64	7,38,89	2.59	8,17,71	2.49	9,11,71	2.42	9,43,36	2.15	11,84,39	2.39	12,76,32	2.32	13,62,88	2.26	13,70,58	2.09	14,36,33	2.00
Grand Total (I+II+III)	64,66,64		72,12,22		79,43,23		94,27,08		108,57,88		129,74,78		155,84,93		174,47,14		170,51,33		182,51,73		196,23,49	
New Business Cost Ratio	73.96		70.36		71.36		70.52		68.86		69.92		75.83		75.21		72.56		71.10		72.12	
Renewal Cost Ratio	19.18		20.21		18.90		19.21		19.28		20.21		22.65		22.73		19.54		20.31		19.75	
Renewal Expense Ratio	15.91		16.15		14.65		14.36		13.72		14.99		18.97		18.14		14.92		16.68		15.40	
Adjusted Renewal Exp. Ratio	16.15		16.51		15.23		14.78		14.24		15.47		19.64		19.35		15.92		15.65		16.42	
Overall Expenses Ratio	27.54		27.69		27.19		27.85		27.86		28.52		13.48		29.66		26.10		25.73		25.32	

NOTE:

(1) New Business Cost Ratio is the sum total of ratios of Items I & III of Annexure II, *i.e.* ratio of direct expenses pertaining to New Business to F.Y.P. Income and of common expenses relating to total premium income.

(2) Renewal Cost Ratio is the total of the ratios of Items II & III of Annexure II, *i.e.* ratio of direct expenses relating to renewal premium and of common expense relating to total premium income.

(3) Renewal Expense Ratio is calculated in terms of the Insurance Rules.

(4) Overall Expense Ratio is the ratio of Total Expenses of Management to Total Premium Income (including Single Premium and Consideration for Annuities Granted).

(5) Percentage of Expenses to Renewal Premium (Individual policy business) or Total Premium is expressed briefly as % to Renewal Premium (I) or % to T.P. (I). Individual Assurances exclude G & S Premiums, however, expenses pertaining to G & S Business have notbeen excluded.

(6) Renewal Expense Ratio Adjusted means the ratio of expenses of management in the manner explained under note (3) above after excluding the Premium Income and Expenses of Management relating to G&S Business from the financial year 1974-75 to 1978-79. In respect of earlier years, the ratio is calculated after allowing 4% of the G&S Premium Income, *i.e.* all premiums, *viz.* First Year, Renewal, Single Premium and Consideration for Annuities Granted.

(Amounts in thousands of Rupees)

Particulars	Actuals 1968-69	Actuals 1969-70	Actuals 1970-71	Actuals 1971-72	Actuals 1972-73	Actuals 1973-74	Actuals 1974-75	Actuals 1975-76	Actuals 1976-77	Actuals 1977-78	Actuals 1978-79
NEW BUSINESS:											
No. of policies	14,54,298	14,01,254	16,16,234	19,01,841	20,20,923	20,51,753	17,99,313	20,14,886	20,57,955	18,58,022	17,59,091
Individual	904.30	990.03	1224.14	1508.72	1737.96	1924.18	1772.27	2116.30	2112.49	2020.71	2073.32
G&S	25.05	46.05	78.94	131.17	336.91	662.15	1341.07	3269.04	3007.27	3787.72	5077.56
TOTAL	929.35	1036.08	1303.08	1639.89	2074.87	2586.33	3113.34	5385.34	5119.76	5808.43	7150.88
PREMIUM INCOME:											
Individual:											
First Year Premium	37,55,12	41,37,48	48,40,50	60,78,48	72,25,08	82,75,80	83,28,25	94,85,84	99,27,75	98,04,40	104,40,21
Renewal Premium	192,40,97	212,94,41	236,36,04	267,48,33	305,06,53	355,83,77	409,24,37	453,55,18	504,08,99	555,31,69	612,39,92
Single Premium	7,55	48,71	19,73	82,09	1,02,50	1,61,76	5,40	7,15	3,67	11,89	4,62
Consideration for Annuities granted	60,76	38,34	29,39	30,77	1,01,98	54,54	28,49	81,12	2,93,33	4,34,21	3,96,60
Sub Total	230,64,40	255,18,94	285,25,66	329,39,67	379,36,09	440,75,87	492,86,51	549,29,29	606,33,64	657,82,19	720,81,35
G&S PREMIUM:											
First Year Premium	33,58	52,71	1,19,20	72,23	1,29,86	1,26,48	2,38,96	4,74,22	2,66,02	3,76,65	3,99,55
Renewal Premium	1,37,94	1,75,48	2,09,40	3,23,93	2,52,60	2,24,70	2,45,72	4,41,29	7,12,11	7,16,14	10,50,62
Single Premium	30,92	73,54	70,95	1,50,04	2,72,78	5,17,08	7,67,42	22,14,04	29,18,50	32,17,77	27,97,05
Consideration for Annuities granted	2,10,96	2,20,99	2,89,25	3,68,89	3,81,87	5,44,34	5,85,50	7,66,69	7,99,73	8,50,33	11,69,59
Sub Total	4,13,40	5,22,72	6,88,80	9,15,09	10,37,11	14,12,60	18,37,60	38,96,24	46,96,36	51,60,89	54,16,85
Grand Total	234,77,80	260,41,66	292,14,46	338,54,76	389,73,20	454,88,47	511,24,11	588,25,53	653,30,10	700,43,08	774,98,20

EXPENSES OF MANAGEMENT:

Particulars	1968-69	%	1969-70	%	1970-71	%	1971-72	%	1972-73	%	1973-74	%	1974-75	%	1975-76	%	1976-77	%	1977-78	%	1978-79	%
I. Direct variable Expenses to New Business and First Year Premium Income		% to FYP (Ind.)		% to FYP (Ind.)		% to FYP (Ind.)		% to FYP (Ind.)		% to FYP (Ind.)		% to FYP (Ind.)		% to FYP (Ind.)		% to FYP (Ind.)		% to FYP (Ind.)		% to FYP (Ind.)		% to FYP (Ind.)
1. First Year Commn.	11,30,28	30.10	12,17,22	29.42	14,81,03	30.60	18,96,97	31.20	22,25,79	30.81	25,51,75	30.83	25,96,46	31.18	29,77,74	31.40	31,18,84	31.42	29,47,64	30.06	32,48,21	31.11
2. Medical Fees	99,28	2.64	99,59	2.41	1,21,54	2.51	1,43,87	2.37	1,66,11	2.30	1,81,53	2.19	1,69,10	2.03	1,88,99	1.99	1,89,38	1.91	1,83,02	1.87	1,80,79	1.73
3. Policy Stamps	37,97	1.01	41,54	1.00	50,91	1.05	63,49	1.05	77,19	1.07	87,27	1.06	77,36	0.93	1,64,56	1.73	93,11	0.94	1,34,13	1.37	1,41,75	1.36
4. Dev. Officers Salary and allowances and other expenses	8,28,63	22.07	7,62,66	18.44	9,65,26	19.94	10,95,88	18.02	12,15,26	16.82	13,92,54	16.83	16,14,12	19.38	17,39,46	18.34	19,18,24	19.31	17,64,98	18.00	19,74,81	18.92
5. Other New Business Expenses	1,29,95	3.46	1,42,78	3.45	1,57,95	3.26	1,93,78	3.20	2,40,87	3.33	2,96,76	3.58	3,70,10	4.44	3,83,35	4.03	4,28,68	4.32	4,08,08	4.16	4,22,72	4.05
Sub Total	22,26,11	59.28	22,63,79	54.72	27,76,69	57.36	33,93,99	55.84	39,25,22	54.33	45,09,85	54.49	48,27,14	57.96	54,54,10	57.49	57,48,25	57.90	54,37,85	55.46	59,68,28	57.17
II. Expenses Relating to Renewal Premiums		% to RP(Ind.)		% to RP(Ind.)		% to RP(Ind.)		% to RP(Ind.)		% to RP(Ind.)		% to RP(Ind.)		% to RP(Ind.)		% to RP(Ind.)		% to RP(Ind.)		% to RP(Ind.)		% to RP(Ind.)
6. Renewal Commission	8,64,92	4.50	9,72,15	4.57	10,64,17	4.50	12,12,71	4.53	14,48,62	4.75	16,99,44	4.78	19,55,93	4.78	22,74,05	5.01	24,58,22	4.88	25,91,96	4.67	29,10,31	4.76
7. Gratuity and Term Assurance to Agents	—	—	—	—	—	—	—	—	—	—	—	—	—	—	—	—	—	—	—	—	22.10	0.04
Sub Total	8,64,92	4.50	9,72,15	4.57	10,64,17	4.50	12,12,71	4.53	14,48,62	4.75	16,99,44	4.78	19,55,93	4.78	22,74,05	5.01	24,58,22	4.88	25,91,96	4.67	29,38,41	4.80
III. Common Expense Relating to Total Premium Income:		% to (FYP+RP) TP(Ind.)		% to (FYP+RP) TP(Ind.)		% to (FYP+RP) TP(Ind.)		% to (FYP+RP) TP(Ind.)		% to (FYP+RP) TP(Ind.)		% to (FYP+RP) TP(Ind.)		% to (FYP+RP) TP(Ind.)		% to (FYP+RP) TP(Ind.)		% to (FYP+RP) TP(Ind.)		% to (FYP+RP) TP(Ind.)		% to (FYP+RP) TP(Ind.)
A. Administrative Staff Salaries including Bonus, Overtime and other benefits to Staff (Cl. I, III & IV)	27,18,01	11.83	33,05,81	13.00	33,63,48	11.81	40,02,67	12.19	45,72,33	12.11	58,22,13	13.28	76,17,47	15.48	84,42,67	15.40	74,81,98	12.40	88,51,34	13.55	92,80,47	12.95
Sub Total	27,18,01	11.83	33,05,81	13.00	33,63,48	11.81	40,02,67	12.19	45,72,33	12.11	58,22,13	13.28	76,17,47	15.48	84,42,67	15.40	74,81,98	12.40	88,51,34	13.55	92,80,47	12.95
B. Printing & Stationery	1,05,42	0.46	98.18	0.39	1,11,78	0.39	1,38,20	0.42	1,56,99	0.42	1,56,94	0.36	2,35,45	0.48	2,75,61	0.50	2,67,39	0.44	2,46,21	0.38	2,57,64	0.36
C. Postage, Telegrams & Receipt Stamps	1,32,98	0.57	1,41,93	0.56	1,59,25	0.55	1,90,15	0.57	2,18,56	0.58	1,72,98	0.39	2,01,71	0.41	2,15,22	0.39	2,54,83	0.42	2,39,59	0.37	2,67,97	0,37
D. Telephone Charges	25,99	0.12	28,63	0.11	33,80	0.12	42,92	0.13	52,15	0.14	61,46	0.14	76,08	0.16	74,76	0.14	87,24	0.14	89,73	0.14	91,15	0.13
E. Rents Imputed & Others	1,05,85	0.46	1,14,70	0.45	1,24,94	0.44	1,38,98	0.43	1,52,19	0.41	1,85,76	0.43	2,29,83	0.46	2,47,13	0.45	2,56,51	0.43	2,81,45	0.43	3,17,04	0.44
F. Tabulating Machines Rental & Maintenance	1,06,84	0.46	97,14	0.38	1,04,37	0.37	1,21,50	0.37	1,32,11	0.35	1,35,96	0.31	1,71,84	0.35	1,81,33	0.33	1,89,28	0.31	1,91,64	0.29	1,42,57	0.20
G. Misc. Expenses including Law Charges	1,21,39	0.52	1,34,93	0.53	1,50,95	0.53	1,32,09	0.41	1,44,65	0.37	1,70,31	0.38	2,00,86	0.39	2,10,32	0.38	2,30,24	0.39	2,42,55	0.36	2,58,12	0.36
H. Depreciation	59,13	0.26	54,96	0.22	53,80	0.19	53,87	0.16	55,06	0.15	59,95	0.14	68,62	0.14	71,95	0.13	77,39	0.13	79,41	0.12	1,01,84	0.14
Sub Total	6,57,60	2.85	6,70,47	2.64	7,38,89	2.59	8,17,71	2.49	9,11,71	2.42	9,43,36	2.15	11,84,39	2.39	12,76,32	2.32	13,62,88	2.26	13,70,58	2.09	14,36,33	2.00
Grand Total (I+II+III)	64,66,64		72,12,22		79,43,23		94,27,08		108,57,88		129,74,78		155,84,93		174,47,14		170,51,33		182,51,73		196,23,49	
New Business Cost Ratio	73.96		70.36		71.36		70.52		68.86		69.92		75.83		75.21		72.56		71.10		72.12	
Renewal Cost Ratio	19.18		20.21		18.90		19.21		19.28		20.21		22.65		22.73		19.54		20.31		19.75	
Renewal Expense Ratio	15.91		16.15		14.65		14.36		13.72		14.99		18.97		18.14		14.92		16.68		15.40	
Adjusted Renewal Exp. Ratio	16.15		16.51		15.23		14.78		14.24		15.47		19.64		19.35		15.92		15.65		16.42	
Overall Expenses Ratio	27.54		27.69		27.19		27.85		27.86		28.52		13.48		29.66		26.10		25.73		25.32	

NOTE:

(1) New Business Cost Ratio is the sum total of ratios of Items I & III of Annexure II, *i.e.* ratio of direct expenses pertaining to New Business to F.Y.P. Income and of common expenses relating to total premium income.

(2) Renewal Cost Ratio is the total of the ratios of Items II & III of Annexure II, *i.e.* ratio of direct expenses relating to renewal premium and of common expense relating to total premium income.

(3) Renewal Expense Ratio is calculated in terms of the Insurance Rules.

(4) Overall Expense Ratio is the ratio of Total Expenses of Management to Total Premium Income (including Single Premium and Consideration for Annuities Granted).

(5) Percentage of Expenses to Renewal Premium (Individual policy business) or Total Premium is expressed briefly as % to Renewal Premium (I) or % to T.P. (I). Individual Assurances exclude G & S Premiums, however, expenses pertaining to G & S Business have not been excluded.

(6) Renewal Expense Ratio Adjusted means the ratio of expenses of management in the manner explained under note (3) above after excluding the Premium Income and Expenses of Management relating to G&S Business from the financial year 1974-75 to 1978-79. In respect of earlier years, the ratio is calculated after allowing 4% of the G&S Premium Income, *i.e.* all premiums, *viz.* First Year, Renewal, Single Premium and Consideration for Annuities Granted.

APPENDIX 45

(Chapter VIII—Para 8.22)

STATEMENT SHOWING NUMBER OF INFORCE POLICIES IN INDIA AND NUMBER OF EMPLOYEES IN CLASS I, III AND IV AT THE END OF EACH FINANCIAL YEAR AND THE AVERAGE NUMBER OF EMPLOYEES DEPLOYED TO SERVICE ONE LAKH POLICIES IN FORCE

Year ending	No. of inforce policies (in lakhs) in India	Number of Employees				No. of employees deployed to service one lakh policies
		Class I	Class III	Class IV	Total	
31-12-56	—	903	16100	4709	21712	—
31-12-57	54.18	1038	19588	4920	25546	471
31-12-58	59.74	1432	22994	4544	29970	502
31-12-59	66.73	1479	24652	6022	32153	482
31-12-60	74.56	1852	26706	5878	34436	462
31-12-61	83.41	2162	28625	5933	36720	440
31-3-63	92.67	2495	30915	6462	39872	430
31-3-64	101.19	2751	31624	6665	41040	406
31-3-65	106.30	2747	32218	6768	41733	393
31-3-66	114.10	2833	32558	6833	42244	370
31-3-67	119.98	2910	32935	6927	42772	356
31-3-68	126.43	2977	32679	6966	42622	337
31-3-69	133.45	2849	32666	6858	42373	317
31-3-70	139.39	2833	32578	6854	42265	303
31-3-71	146.93	2973	33118	6899	42990	293
31-3-72	157.11	3487	34507	7101	45095	287
31-3-73	167.92	3512	35734	7128	46374	276
31-3-74	179.43	3604	37974	7978	49556	276
31-3-75	187.45	4209	37826	8304	50339	268
31-3-76	196.06	4218	37365	8128	49711	253
31-3-77	202.75	4086	36719	7997	48802	241
31-3-78	207.08	4221	36522	7372	48115	232
31-3-79	211.73	4223	36220	7547	47990	227

APPENDIX 46

(Chapter VIII—Para 8.23)

TABLE SHOWING COST OF LIVING INDEX & CLASSWISE AVERAGE MONTHLY SALARY PER EMPLOYEE

Year	Consumer Price Index 1960=100	Salary Cost per Employee—Class I		Salary Cost per Employee—Class II		Salary Cost per Employee—Class III		Salary Cost per Employee—Class IV		Salary Cost per Employee per month (All Classes)	
		Amount	Index	Amount	Index	Amount	Index	Amount	Index	Amount	Index
	(1)	(2)	(3)	(4)	(5)	(6)	(7)	(8)	(9)	(10)	(11)
1960	100	773	100	387	100	244	100	131	100	270	100
1961	104	754	98	360	93	253	104	140	107	278	103
1962-63 (15 months)	108	840	109	355	92	282	116	147	112	375	139
1963-64	117	828	107	414	107	300	123	155	118	326	121
1964-65	128	1034	134	467	121	336	138	181	138	374	139
1965-66	139	1048	136	534	138	380	156	203	155	424	157
1966-67	157	1138	147	605	156	415	170	227	173	474	176
1967-68	175	1201	155	624	161	468	192	255	195	514	190
1968-69	174	1480	191	816	211	492	202	270	206	578	214
1969-70	177	1527	198	779	201	597	245	360	275	668	247
		@(1514)	@(196)			@(620)	@(254)	@(338)	@(258)	@(643)	@(238)
1970-71	186	1533	198	1017	263	634	260	306	234	707	262
		@(1546)	@(200)			@(611)	@(250)	@(328)	@(250)	@(713)	@(264)
1971-72	192	1621	210	1116	288	682	280	355	271	793	294
1972-73	207	1703	220	1221	316	706	289	386	295	864	320
1973-74	250	2058	266	1381	357	898	368	428	327	1035	383
1974-75	317	2115	274	1595	412	1182	484	561	428	1309	485
1975-76	313	2501	324	1840	475	1322	542	650	496	1472	545
1976-77	301	2404	311	2125	549	1168	479	563	430	1394	516
						*(1316)	*(539)	*(620)	*(473)	*(1396)	*(517)
1977-78	324	2495	323	2032	525	1517	622	739	564	1601	593
						*(1369)	*(561)	*(677)	*(517)	*(1463)	*(542)
1978-79	332	**2820	365	**2333	603	1562	640	811	619	**1653	**612

@Adjusted after arrears taken into respective years.

*Two years Bonus adjusted.

**Includes Bonus paid to Class I & II for the year 1975-76 & 1976-77.

APPENDIX 47

(Chapter IX—Para 9.13)

DATA ABOUT INTEREST RATES OF COMMERCIAL BANKS, NATIONAL SAVINGS SCHEME AND FOR PROVIDENT FUND INVESTMENTS: RATES OF INTEREST IN FORCE ON 31-3-1980

(*a*) *Scheduled Commercial Bank*

Class of Deposits :

Class of Deposits	% p.a.	Remarks
I. Saving Deposits	5.00	
II. Fixed Deposits:		
(1) 15 days to 45 days	2.50	
(2) 46 days to 90 days	3.00	
(3) 91 days and above but less than 6 months	4.00	
(4) 6 months and above but less than 9 months	4.50	
(5) 9 months and above but less than 1 year	5.50	
(6) 1 year and above but less than 3 years	7.00	
(7) 3 years and above and upto & inclusive of 5 years	8.50	
(8) Above 5 years	10.00	

(*b*) *National Savings Scheme:*

I. *Post Office Savings Bank A/c.*		
Single Account	5.50	
Joint Account	5.50	
Public Account	3.50	
II. 7-Year National Savings Certificates (II Issue)	6.50	Interest is completely Tax-free.
III. 7-Year National Savings Certificates (III Issue)	6.00	
IV. 7-Year National Savings Certificates (IV Issue)	10.25	Interest upto Rs. 3,000 a year is tax-free.
V. 7-Year National Savings Certificates (V Issue)	10.75	Interest payable at maturity. Interest upto Rs. 3,000 a year is tax-free.
VI. 12-Year National Savings Annuity Certificates	10.25	Annuity payable monthly for 7 years after deposit & deferment period of 5 years principal & Bonus will be received on maturity.
VII. 5-Year National Development Bonds	13.00 (corresponding to 10% p.a. compound).	Simple interest. Interest upto Rs. 3,000 is tax-free.
VIII. 10-Year Cumulative Time Deposit Account	6.75	Compound interest is completely tax-free.
IX. 5-Year Post Office Recurring Deposit Account.	10.50	Compound interest. Interest upto Rs. 3,000 a year is tax-free.
X. Post Office Time Deposits:		
1—Year	8.00	Minimum Rs. 50. No maximum limit. Interest upto Rs. 3,000 a year is tax-free.
2—Year	8.50	
3—Year	9.00	
5—Year	10.50	
XI. 15-Year Public Provident Fund Account.	7.50	Interest is completely tax-free.

(*c*) *Provident Fund Investment*:

Category	Percentage investment permissible	Maximum yield possible
I. Government securities created and issued by the Central Govt.	Minimum 20%	7%
II. Government Securities created and issued by any State Govt. & any other securities the principal whereof and interest whereon is fully and unconditionally guaranteed by the Central Govt. or any State Govt.	Minimum 20%	7%
III. National Savings Certificates and any account with the Post-Office Savings Bank in accordance with the Post Office (Time Deposits) Rules 1970.	Minimum 35%	10%
IV. The Special Deposit Scheme.	Maximum 25%	10%

APPENDIX 48

(Chapter IX—Para 9.14)

YIELD ON LONG TERM GOVT. BONDS IN SOME FOREIGN COUNTRIES AND IN INDIA

	FRANCE	ITALY	U.S.	GERMANY	U.K.	NETHERLANDS	INDIA
1950	5.3	4.6	2.2		3.6	3.1	3.0
1951	5.5	5.0	2.4		3.5	3.2	3.0
1952	6.5	5.2	2.7		4.1	3.6	Did not float
1953	5.6	5.3	2.7		4.2	3.2	3.5
1954	5.3	5.7	2.6		3.9	3.3	3.5
1955	5.3	6.0	2.6		3.8	3.3	3.5
1956	5.3	6.3	2.8		4.5	3.4	3.75
1957	5.6	6.7	3.3	5.5	4.6	4.4	4.0
1958	6.0	6.5	3.3	6.6	5.2	4.5	4.0
1959	5.5	5.6	3.8	5.9	4.7	4.2	4.0
1960	5.2	5.2	4.4	6.2	5.2	4.3	4.0
1961	5.1	5.2	3.9	6.2	5.7	4.0	4.0
1962	5.0	5.0	4.1	6.0	6.5	4.0	4.5
1963	4.9	5.0	3.9	6.1	5.7	4.4	4.5
1964	5.0	5.7	4.1	6.1	5.8	5.2	4.8
1965	5.1	5.7	4.1	6.3	6.5	5.0	5.5
1966	5.3	5.2	4.4	7.1	6.5	5.7	5.5
1967	5.5	5.7	4.4	7.4	6.6	6.2	5.5
1968	5.7	5.5	5.1	7.1	7.0	6.0	5.5
1969	6.0	6.0	5.7	6.6	8.2	6.5	5.5
1970	7.0	7.0	6.8	7.4	8.7	7.5	5.5
1971	7.6	8.5	5.8	7.8	9.5	7.2	5.8
1972	7.6	7.7	5.6	8.0	7.8	7.0	5.8
1973	7.6	7.5	5.8	8.6	9.6	7.0	5.8
1974	9.5	7.5	6.6	9.7	12.5	9.0	6.3
1975	9.5	11.5	8.2	8.5	14.4	8.3	6.5
1976	9.2	13.1	7.9	7.8	14.4	8.5	6.5
1977	9.6	14.6	7.7	6.2	12.7	7.5	6.5
1978	9.0	13.7	8.5	5.8	12.5	7.3	6.8

APPENDIX 49

(Chapter IX—Para 9.17)

STATEMENT OF RATES OF INTEREST ON VARIOUS CATEGORIES OF FIXED INTEREST BEARING INVESTMENT

Particulars	1969-70	1970-71	1971-72	1972-73	1973-74	1974-75	1975-76	1976-77	1977-78	1978-79
1. Central loans	5½ 30 years	5¾ 30 years	5¾ 30 years	5¾ 30 years	5¾ 30 years	6¼ 23 years	6½ 28 years	6¼ 26 years	6¼ 28 years	6¾ 29 years
2. State loans	5¾ 12 years	5¾ 12 years	5¾ 12 years	5¾ 12 years	5¾ 10 years	6 10 years	6 10 years	6 10 years	6 10 years	6¼ 10 years
3. Other Approved Securities	6 12 years	6 12 years	6 12 years	6 12 years	6 12 years	6¼ 12 years & 10 years	6¼ 10 years	6¼ 10 years	6¼ 10 years	6½ 10 years
4. Loans to Government	6¾ 25 years	6¾	6¾	6¾	7	7¼	7½	8	8	8
5. Loans on Government Guarantee	6¾ (15 to 25 years)	6¾	7	7	7½	7¼	7¾	7¾ 8½ from 15-12-1976	8½	8¼
6. Loans to Sugar Cooperatives	8	8 (8¼ from December 1970)	8½	8½	8¼ (9 from Oct. 73)	9 (10¼ from Aug. 74)	10¼ (11 from May 75)	11	11	11
7. Loans to Electricity Boards (Mortgage)	7¼	7¼	7¼ (7½ from Nov. 71)	7¾	7½ (8¼ from) July 73)	8¼ (10¼ from Aug. 74) (1¼ over Bank rate)	10¼	11 (April 76) (2% over Bank Rate with minimum of 11%)	11	11
8. Pref. Shares of Public Ltd. Cos.	9.3—9.5	9.3—9.5	9.3—9.5	9.3—9.5	9.3—9.5	9.8—11.0 (from Sept.74)	11	11	11	11
9. Debentures of Public Ltd. Cos.	7.5	8.0	8.0	8.0	8.8—8.5 (July 73)	8.5 10.5 (Sept.74)	10.5 ——Privately placed at 11%. . Right Debs11%	10.5	10.5	10.5
10. Call Money Ceiling Rate	——No Ceiling——				15 (Dec. 73)	15	15 12.5 (March 76)	12.5	12.5 10.0 (June 77) 8.5 (March 78)	8.5
11. Participation Certificates Ceiling rates	—	12 Scheme was introduced in 1970-71	12	12	12	12	12	12	12 10 (from March 78)	10
12. LIC's Mortgage Loans (a) On immovable property	8	8 8.5 (June 70)	8.5	8.5 (10.0 for commercial bldg.) (12.0 for Cinema House)	8.5 9.5 (July 73) ——2½% over Bank Rate——	9.5 11.5 (July 74)	11.5 13.0* *——for commercial purposes——	11.5 13.0*	11.5 13.0*	11.5 13.0*
(b) Own Your Home Scheme	7	7 7.5 (June 70)	7.5	7.5	7.5 9.5 (July 73) ——2¼% over Bank Rate——	9.5 11.5 (July 74)	11.5	11.5	11.5	11.5
(c) Employees Co-op. Housing Scheme	——4¼——									
(d) Construction of own Houses by Employees	——5——									

Particulars	1969-70	1970-71	1971-72	1972-73	1973-74	1974-75	1975-76	1976-77	1977-78	1978-79
(e) Co-op. Housing Societies of Employees of Public Ltd. Cos.	7	7 7½ (June 70)	7.5	7.5	7.5 8.5 (July 73) ——1½% over Bank Rate)——	8.5 10.5 (Aug. 74)	10.5	10.5	10.5	10.5
(f) Co-op. Housing Societies of Employees of Public Sector undertakings	—	7.5 (June 70)	——	——	——	——Same as Item (e)——	——	——	——	——
(g) To Public Ltd. Companies for Housing Scheme of Employees	8	8— 8.5 (June 70)	8.5	8.5	8.5 9.5 (July 73)	9.5 11.5 (August 74)	11.5 ——	11.5 2½% over Bank Rate	11.5	11.5 ——
(h) Housing Schemes of Public Sector undertakings for their Employees	—	—	—	8.5 (June 72)	——	——	——Same as Item (g)——	——	——	——

APPENDIX 50

(Chapter IX—Para 9.17)

STATEMENT SHOWING CROSS INVESTMENTS EFFECTED AND CURRENT YIELD THEREON DURING THE YEAR 1979-80 AND TENTATIVE BUDGET ALLOCATIONS AND EXPECTED RATE OF RETURN THEREON FOR 1980-81

(Rs. in crores)

Description	Investments during 1979-80	Current Yield	Tentative Estimates for 1980-81	Expected Rate of Return
		%		%
1. Central Govt. Securities	276	6.83	202	7.50
2. State Govt. Securities	49	6.39	65	7.00
3. *Other Securities guaranteed by Government* :				
(a) Debentures of Co-op. Land Development Banks	38	6.75	45	6.75
(b) Bonds of State Electricity Boards	61	6.75	65	7.00
(c) Bonds & Shares of Financial Corporations	37	6.53	50	7.00
(d) Municipal & Port Trust Securities	3	6.74	—	—
(e) Other Approved Securities	—	—	1	7.00
(f) Shares & Debentures of Co.s being approved Securities	9	6.78	—	—
4. *Loans & Fixed Deposits to and or guaranteed by Government*:				
(a) Housing Loan to:				
(i) State Governments	42	8.00	40	8.00
(ii) Apex Co-op. Hsg. Financial Societies	63	8.76	70	8.50
(iii) Housing Boards/DDA	—	—	—	—
(b) Loans for Water Supply & Sewerage Schemes	50	8.53	75	8.50
(c) Loans to industrial Estates	2	11.63	7	11.00
5. *Other Loans excluding loans in Private Sector:*				
(a) Loans to HUDCO	10	10.50	15	10.50
(b) Loans to Sugar Cooperatives	5	11.00	3	11.00
(c) Loans to State Electricity Boards	114	11.00	153	11.00
(d) Loans to State Road Transport Corpn.	30	11.00	30	11.00
(e) Loans against Promisory Notes—IDBI	—	—	60	10.00
(f) Unguaranteed Debentures of Municipal Corporation	5	10.79	—	—
6. *Private Sector:*				
(a) Loans to Companies	45	12.28		
(b) Debentures	12	10.92	90	11.00
(c) Preference Shares	1	10.80		
(d) Ordinary Shares	8	8.32		
(e) Participation Certificates	56	10.00	175	10.00
	916	8.34	1146	8.95

S/63 M of Fin/80—35

APPENDIX 51

(Chapter IX—Para 9.20)

TOTAL INVESTMENTS IN DIFFERENT STATES GROUPED ACCORDING TO ZONES AS AT 31ST DECEMBER, 1957 AND AS AT 31ST MARCH, 1979

(Rupees in Lakhs)

State and Zone	Investment in State/Zone as at 31-12-1957	Investment in States/Zone as a %age to total investment as at 31-12-1957	Investment in State/Zone as at 31-3-1979	Investment in State/Zone as a %age to total investment as at 31-3-1979	Average % of 5 years —1974-75 to 1978-79
(1)	(2)	(3)	(4)	(5)	(6)
	Rs.	%	Rs.	%	%
CENTRAL ZONE:					
(a) Madhya Pradesh	3,14.18	2.24	125,28.55	4.32	4.12
(b) Uttar Pradesh	13,37.03	10.26	295,48.99	10.20	9.59
	17,51.21	12.50	420,77.54	14.52	13.71
EASTERN ZONE:					
(a) Assam	1,08.76	0.78	57,71.93	1.99	2.11
(b) Bihar	8,57.33	6.12	182,83.74	6.31	6.30
(c) Manipur	—	—	4,48.07	0.16	0.12
(d) Moeghalaya	—	—	11,81.51	0.41	0.30
(e) Nagaland	—	—	7,04.19	0.24	0.18
(f) Orissa	2,02.37	1.45	119,48.97	4.12	4.28
(g) Sikkim	—	—	15.60	0.01	—
(h) Tripura	—	—	2,94.60	0.10	0.05
(i) West Bengal	37,74.34	26.96	231,67.19	7.99	8.41
	49,42.80	35.31	618,15.80	21.33	21.75
NORTHERN ZONE:					
(a) Delhi	91.83	0.66	16,78.12	0.58	0.62
(b) Haryana			106,46.06	3.67	3.32
(c) Himachal Pradesh			9,35,96	0.32	0.27
(d) Jammu & Kashmir	93.59	0.67	16,50.14	0.57	0.43
(e) Punjab			98,11.13	3.39	3.32
(f) Rajasthan	63.94	0.46	161,39.36	5.57	5.32
	2,49.36	1.79	408,61.37	14.10	13.28
SOUTHERN ZONE:					
(a) Andhra Pradesh	5,84.05	4.17	184,15.45	6.35	6.25
(b) Karnataka	5,44.42	3.89	152,16.05	5.25	5.44
(c) Kerala	1,54.56	1.10	139,38.97	4.81	4.80
(d) Pondicherry	—	—	42.16	0.01	0.01
(e) Tamil Nadu	12,69.29	9.07	272,59.05	9.41	9.79
	25,52.32	18.23	748,71.68	25.83	26.29
EASTERN ZONE:					
(a) Goa	—	—	3,19.54	0.11	0.06
(b) Gujarat			289,75.31	10.00	10.16
(c) Maharashtra	45,02.76	32.17	409,00.46	14.11	14.75
	45,02.76	32.17	701,95.31	24.22	24.97
GRAND TOTAL	139,98.45	100.00	2898,21.70	100.00	100.00

APPENDIX 52

(Chapter IX—Para 9.20)

STATEWISE INVESTMENTS & SURPLUS FUNDS DURING THE YEARS 76-77 TO 78-79

State	Investments as at 31-3-76, Figures in lakhs of Rupees	Investments as at 31-3-79, figures in Lakhs of Rupees	Difference Col. (2) minus(1)	Surplus Funds during the years 76-77 to 78-79 in lakhs
(1) CENTRAL ZONE:				
1. Madhya Pradesh	8239.55	12528.55	4289.00	2683.14
2. Uttar Pradesh	19282.15	29548.99	10266.84	11268.37
(2) EASTERN ZONE:				
3. Assam 4. Manipur 5. Meghalaya 6. Mizoram 7. Nagaland 8. Tripura	5884.38	8400.30	2515.92	1647.13
9. Bihar	13230.11	18283.74	5053.63	2546.76
10. Orissa	9139.49	11948.97	2809.48	1083.20
11. West Bengal 12. Sikkim	17595.94	23182.79	5586.85	8050.94
(3) NORTHERN ZONE:				
13. Delhi 14. Haryana 15. Himachal Pradesh 16. Punjab 17. Jammu & Kashmir	15823.14	24721.41	8898.27	10254.88
18. Rajasthan	10901.79	16139.96	5238.17	3006.13
(4) SOUTHERN ZONE:				
19. Andhra Pradesh	12934.44	18415.45	5481.01	6171.54
20. Karnataka	11441.04	15216.05	3775.01	6132.09
21. Kerala	9965.75	13938.97	3973.22	3252.42
22. Tamil Nadu 23. Pondicherry	20686.42	27301.21	6614.79	5871.85
(5) WESTERN ZONE:				
24. Gujarat	21016.77	28975.31	7958.54	8122.48
25. Maharashtra 26. Goa	31141.44	41220.00	10078.56	20773.58
TOTAL	207282.41	269821.70	82539.29	90864.51

APPENDIX 53

(Chapter IX—Para 9.21)

STATEMENT SHOWING PERCENTAGES OF MAJOR CATEGORIES OF INVESTMENTS TO THE CONTROLLED FUND

Sr. No.	Category	As at 31-21-60 %	As at 31-3-64 %	As at 31-3-68 %	As at 31-3-72 %	As at 31-3-73 %	Aa at 31-3-74 %	Aa at 31-3-75 %	As at 31-3-76 %	As at 31-3-77 %	As at 31-3-78 %	As at 31-3-79 %
1.	Central Government Securities .	36.66	31.55	25.69	24.95	24.86	23.60	24.01	24.02	24.07	24.91	24.78
2.	State Government Securities .	15.24	16.64	14.00	11.19	10.40	11.17	11.20	11.24	10.50	9.80	8.99
3.	Other Approved marketable securities Government guaranteed marketable securities . .	6.67	7.94	8.53	10.92	10.28	9.73	9.77	9.20	10.01	10.64	11.84
4.	Loans to/Guaranteed by Government . . .	2.22	6.81	10.93	13.32	14.07	14.14	14.54	14.79	14.79	14.55	15.08
5.	Mortgage Loans to Socially Oriented Sector (Loans to Electricity Boards Sugar Co-op. Loans to SIDC's Mortgage Loans of Mortgage Dept. etc.)	—	0.18	5.95	11.37	12.59	13.48	14.52	15.79	15.22	14.93	12.70
6.	*Corporate Sector Investments:*											
	(i) Loans	—	—	1.25	1.13	1.03	1.14	2.01	1.67	1.62	1.68	1.48
	(ii) Debentures . . .	3.83	4.40	3.66	2.66	2.52	2.29	1.95	1.75	1.72	1.61	1.52
	(iii) Preference shares . .	3.32	2.73	2.36	1.69	1.55	1.39	1.27	1.17	1.06	0.94	0.82
	(iv) Equity shares . . .	7.63	9.17	8.61	6.01	5.28	4.73	4.40	4.11	3.79	3.54	3.09
	(v) Participation certificates .	—	—	—	—	—	—	—	—	0.37	1.64	3.76
	Total of Corporate Sector .	14.78	16.30	15.88	11.49	10.38	9.55	9.63	8.70	8.56	9.41	10.67
7.	Foreign Investments . .	2.13	1.81	1.69	1.17	1.03	0.98	0.88	0.71	0.65	0.71	0.64
8.	House Property & Land . .	4.25	3.42	2.61	1.88	1.75	1.64	1.60	1.58	1.48	1.31	1.17
9.	Bank Deposits . . .	1.19	1.00	0.17	0.28	1.16	2.92	1.14	1.15	2.10	1.20	2.24
10.	Other Investments (including loans on Policies) . . .	9.69	8.78	8.60	8.37	8.13	7.60	7.70	7.84	7.58	7.00	6.46
11.	Other Assets . . .	7.17	5.57	5.95	5.06	5.35	5.19	5.01	4.98	5.04	5.54	5.43
	Total . . .	100.00	100.00	100.00	100.00	100.00	100.00	100.00	100.00	100.00	100.00	100.00

APPENDIX 54

(Chapter IX—Para 9.25)

STATEMENT SHOWING APPRECIATION/DEPRECIATION AS ALSO YIELD IN RESPECT OF INVESTMENTS IN EQUITY SHARES OF COMPANIES BELONGING TO LARGE GROUPS AND OTHER UNDERTAKINGS REGISTERED UNDER SEC. 26 OF THE MONOPOLIES AND RESTRICTIVE TRADE PRACTICES ACT, 1969 AS AT 31-3-1975, 1976, 1977, & 1978

(In lakhs of Rupees)

	Book Value	Market Value	Appreciation/ Depreciation	%age of Appri./Depri. over Book Value	Yield for the year ended
	Rs.	Rs.	Rs.	%	%
Part 'A' : *Large Groups:*					
AS AT					
31-3-1975	71,51.66	96,68.67	(+)25,17.01	(+)35.19	5.625
31-3-1976	74,58.21	111,29.67	(+)36,71.46	(+)49.23	9.344
31-3-1977	81,54.78	127,15.70	(+)45,60.92	(+)55.93	10.470
31-3-1978	88,50.09	149,74.07	(+)61,23.98	(+)69.19	10.438
Part 'B' : *Other Single Large Undertakings having Assets of Rs. 20 Crores or more:*					
31-3-1975	6,59.84	5,50.55	(—)1,09.29	(—)16.56	3.086
31-3-1976	6,59.84	6,04.91	(—)54.93	(—)8.32	9.549
31-3-1977	10,57.18	16,93.66	(+)6,36.48	(+)60.21	14.721
31-3-1978	9,33.03	12,32.69	(+)2,99.66	(+)32.12	8.250
Part 'C' : *Dominant Undertakings:*					
31-3-1975	3,18.88	7,02.45	(+)3,83.57	(+)1,20.29	7.117
31-3-1976	3,61.74	7,72.21	(+)4,10.47	(+)1,13.47	12.189
31-3-1977	2,85.73	6,60.87	(+)3,75.14	(+)1,31.29	11.135
31-3-1978	3,19.53	5,55.03	(+)2,35.50	(+)73.70	10.817
Total Invts. as per MRTP Act:					
31-3-1975	81,30.38	109,21.67	(+)27,91.29	(+)34.33	5.471
31-3-1976	84,79.79	125,06.79	(+)40,27.00	(+)47.49	9.477
31-3-1977	94,97.69	150,70.23	(+)55,72.54	(+)58.67	10.962
31-3-1978	1,01,02.65	167,61.79	(+)66,59.14	(+)65.91	10.209
Investments in other Undertakings:					
31-3-1975	60,79.50	53,08.69	(—)7,70.61	(—)12.68	3.787
31-3-1976	62,31.05	52,93.92	(—)9,37.13	(—)15.04	4.762
31-3-1977	59,72.38	51,54.82	(—)8,17.56	(—)13.69	4.990
31-3-1978	63,00.96	63,06.89	(+)5.93	(+)0.09	6.168
GRAND TOTAL:					
31-3-1975	1,42,09.88	1,62,30.56	(+)20,20.68	(+)14.22	4.749
31-3-1976	1,47,10.84	1,78,00.71	(+)30,89.87	(+)21.00	7.471
31-3-1977	1,54,70.07	2,02,25.05	(+)47,54.98	(+)30.74	8.552
31-3-1978	1,64,03.61	2,30,68.68	(+)66,55.07	(+)40.63	8.720

APPENDIX 55

(Chapter IX—Para 9.27)

STATEMENT SHOWING OVERALL APPRECIATION/DEPRECIATION ON SECURITIES, BONDS, SHARES AND DEBENTURES, INVESTMENT RESERVE, EXCESS OF RESERVE OVER DEPRECIATION AND PROFIT & LOSS ON SALES/ REDEMPTION OF INVESTMENTS FOR THE 10 YEARS ENDED 31ST MARCH, 1978. [LIFE INSURANCE BUSINESS AND CAPITAL REDEMPTION (INCLUDING ANNUITY CERTAIN) INSURANCE BUSINESS].

(Lakhs of Rupees)

Year ended	Appreciation		Depreciation		Investment Reserve	Excess Investment Reserve	Profit/Loss on Sale/Redemption of Investment		
	Corporate Sector	Total	Corporate Sector	Total			Profit made	Loss incurred	Total
31-3-1969 . . .	8,95.72	—	—	1,33.55	31,06.03	29,72.48	94.39	1,18.42	(—)24.03
31-3-1970 . . .	22,25.05	20,39.79	—	—	31,06.03	31,06.03	1,34.29	25.29	(+)1,00.00
31-3-1971 . . .	28,55.58	11,96.38	—	—	31,06.03	31,06.03	3,02.18	29.88	(+)2,72.30
31-3-1972 . . .	19,17.15	5,17.80	—	—	31,06.03	31,06.03	2,02.98	62.44	(+)1,40.54
31-3-1973 . . .	17,55.25	5,02.34	—	—	31,06.03	31,06.03	2,02.45	1,67.20	(+)35.25
31-3-1974 . . .	51,61.19	35,52.33	—	—	31,06.03	31,06.03	1,09.58	13.57	(+)96.02
31-3-1975 . . .	3,73.69	—	—	57,05.21	57,06.00	0.79	1,66.79	3,07.15	(—)1,40.36
31-3-1976 . . .	12,07.76	—	—	37,18.19	57,06.00	19,87.81	1,96.86	4,15.92	(—)2,19.06
31-3-1977 . . .	27,17.15	—	—	14,12.83	56,60.21	42,47.38	1,87.73	26.58	(+)1,61.15
31-3-1978 . . .	45,58.14	12,68.69	—	—	56,60.21	56,60.21	94.19	2,54.10	(—)1,59.91

(+) : Net Profit (—) : Net Loss

APPENDIX 56

(Chapter X—Para. 10.7)

LIST OF STATISTICAL STATEMENTS PREPARED BY VARIOUS DEPARTMENTS OF THE CENTRAL OFFICE FOR CIRCULATION AMONG THE DIVISIONAL OFFICES

Department: Development

Sr. No.	Period	
1.	Fortnightly	Specimen No. 1—N.B. Individual Life Assurance. Statistics from the beginning of financial year up to the end of the period, corresponding figures for the period in the previous year, % variation, achievement expressed as % of target, improvement over previous year, etc.
2.	Fortnightly	Specimen No. 2—N.B. Individual Statistics of sum proposed only from the beginning of the year up to a day prior to the statement for the period only and up to the ending day of the statement compared with previous financial year.
3.	Monthly	Specimen No. 3—N.B. Individual Figures of New Business relating to that month only & for the same month in previous year.
4.	Quarterly	Specimen No. 4. First/Rural—Figures of first insurances (S.A. and No. of Policies) for the period, percentage to total business and percentage to total business of last financial year, proportion of rural population and number of new policies per 10,000 rural population.
5.	Quarterly	Specimen No. 7—Direct Agents' statistics. (i) No. of Direct Agents under regular Branches, exclusive Branches, CAs and percentage of Direct Agents to total agents and compared with similar period of last year. (ii) No. of Policies secured by each group and percentage of total and corresponding figures of similar period of last year. (iii) S.A. secured by each group and percentage to total and corresponding figures for similar period of last year.
6.	Quarterly	Specimen No. 8——Statistics of Agents. (i) No. of Agents at the beginning of the year. No. of additions and deletions from the beginning of the year to the end of the quarter under various heads. (ii) No. of male, female & institutional agencies. (iii) Active, qualified & rural active agents.
7.	Quarterly	Specimen No. 9—SSS business statement. (i) No. of PAS at the beginning of the year, additions and deletions from the beginning of the year up to the end of the quarter. (ii) No. of policies and sum assured sub-divided into Government, SSS & Non-Govt. SSS & Total.
8.	Quarterly	Specimen No. 10—Number of individual proposals. (i) No. of proposals from the beginning of the financial year to the end of the period, corresponding figures for the previous financial year, % age variation. (ii) Total number of proposals for the previous financial year, target for current year. (iii) Percentage of achievement to the previous year to target of variation over the corresponding period over business of last 3 years.
9.	Yearly	Specimen No. 5—Comparative non-SSS, SSS and FPI statement. (i) Non-SSS, S.A. and FPI for the period and %age variation over past year, average FPI for current and previous year. (ii) SSS business figures as above. (iii) Total business figures under same columns. (iv) %age of SSS to total business —S.A. and Pols. comparative.
10.	Yearly	Specimen No. 6—Statistics of Development Officers. (i) No. of Dev. Officers at the beginning of the year confirmed and probationary. (ii) Additions under various heads. (iii) Deletions under various heads. (iv) No. of Dev. Officers at the end of the year.

Sr. No.	Period	
11.	Yearly	Specimen No. 11—Non-medical business—No. of Policies and sum assured for the financial year under N.M. (G) and N.M. (S), their total and Grand Total of Individual L.A. business.
12.	Yearly	Specimen No. 12—Slabwise Agents Statistics. (i) Total Number of active agents. (ii) Distribution of agents according to population of the place of agent. (iii) Percentage of agents earning bonus commission and qualified agents. (iv) Percentage of agents according to different slabs of bussiness. (v) Average performance of active agents.
13.	Yearly	Specimen No. 13—Whole-time agent's statistics. (i) No. of wholetime agents, active and qualified. (ii) New business proposed and completed. (iii) Average production of agent.
14.	Yearly	Specimen No. 14—Survival rate of agents (k). Proportion of agents surviving at the end of different periods from the year of recruitment.
C.O. PHS		
1.	Monthly	Division-wise Settlement of maturity claims at the end of the month. Total No. of claims, claims settled on or before the date of maturity, % of claims intimated, outstanding claims % of previous month & category.
2.	Monthly	Division-wise settlement of Death Claims—Total No. of claims up to the end of the month, No. settled, claims settled within 3 months, outstanding claims and category.
C.O. Accounts:		
1.	Monthly	Statement of premium income—Progressive monthly statements—budgeted FYP, NBSA, NBSA for previous year, Average premium, budgeted renewal premium, renewal premium.
2.	Monthly	Clearance of outstanding deposits. Division-wise statistics of clearance of deposits under ordinary and SSS business & proposals deposits, index, target & total points & rank.
3.	Yearly	Division-wise statement of outstanding deposits for the year ending—showing the same columns as in statement (2) above.

APPENDIX 57

(Chapter X—Para 10.8)

CERTAIN PERFORMANCE INDICATORS—DIVISION-WISE

Average Sum Assured per policy.

Average Sum Assured per Development Officer.

Percentage of Medical Sum Assured to total Ordinary Sum Assured.

Percentage of SSS Sum Assured to total Ordinary Sum Assured.

Percentage increase in New Business (Ordinary) over previous year.

DD Premium per 1000 Ordinary Sum Assured.

First Year Premium per thousand Ordinary Sum Assured.

Percentage increase in First Year Premium over previous year.

Percentage of Outstanding First Year Premium to First Year Premium (Ordinary).

Overall Lapse Ratio.

Conservation Ratio of Renewal Premium.

Percentage increase in Deposit over last year.

Percentage of Outstanding Renewal Premium to Renewal Premium (Ordinary).

Percentage of First Year Commission to First Year Premium.

Percentage of Outstanding First Year Commission to First Year Commission.

Percentage of Outstanding Bonus Commission to Bonus Commission to Class II.

Travelling Expenses per Class II.

Percentage of Conveyance Allowance to Class II to Development Officer's Premium.

Medical Fees per Thousand Medical Sum Assured.

Percentage of Renewal Commission to Renewal Premium (Ordinary).

Percentage of Outstanding Renewal Commission to Renewal Commission.

Printing and Stationery per in-force policy cost.

Percentage of Closing stock to Expenditure of Printing and Stationery.

Postage, Telegrams and M.O. Commission per in-force policy cost.

Telephone Charges per in-force policy cost.

Motor Car Expenses per Car.

Number of Class I per thousand Class II, III and IV.

Number of Class III per Lakh total terminal policies in-force.

Percentage of Overtime Class III to Gross Salary Class III.

Percentage of Overtime Class IV to Gross Salary Class IV.

New Business Cost Ratio.

Renewal Cost Ratio.

Overall Expenses Ratio.

Percentage of Bonus Class III and IV to Gross Salaries Class III & IV.

Ratio of Outstanding Deposits to Total Premium (FYP+RP) Individual.

Percentage of Outstanding Claims to previous outstanding claims plus claims intimated during the year.

S/63 M of Fin/80—36

APPENDIX 58

(Chapter XII—Para 12.10)

BENEFITS AVAILABLE UNDER WHOLE LIFE & ENDOWMENT TYPE OF PLANS OF LIFE ASSURANCE COMPANIES IN U.K.

(Reproduced from 'THE ECONOMIST' dated 26th July, 1980)

Amounts paid out on life policies of annual premium £100 taken out by a managed 29 at normal rates

	Amounts payable in 1980—with profits policies												New policies started in 1980					
	Whole life policy started in 1940 death in 1980			Endowment policy started in 1955 maturing 1980			15 year endowment policy started in 1970				Non-profit		10-years endowment policy with profits			25-year endowment policy with profits		
							Payable in 1980 on death											
	Sum assured (1) £	Bonuses (2) £	Total (3) £	Sum assured (4) £	Bonuses (5) £	Total (6) £	Sum assured (7) £	Bonuses (8) £	Total (9) £	Surrendered in 1980 (10) £	Whole life policy (11) £	25-year endowment policy (12) £	Sum assured (13) £	Payable on maturity (a) (14) £	Pay on maturity excluding terminal bonus (15) £	Sum assured (16) £	Payable on maturity (a) (17) £	Pay on maturity excluding terminal bonus (18) £
Clerical Medical	3,785	12,256	16,041	2,385	5,091	7,476	1,328	972	2,300	1,290	10,618	3,022	872	1,514	1,362	2,118	7,363	6,438
Colonial Mutual	4,324	9,946	14,270	2,405	3,663	6,068	1,428	641	2,069	1,244	8,822	—	897	1,391	1,283	2,269	6,614	5,661
Commercial Union	4,000	8,623	12,623	2,383	3,451	5,834	1,376	758	2,134	1,355	11,308	3,433	841	1,320*	1,320	2,050	6,302*	6,302
Co-operative	4,461	8,748	13,209	2,355	3,380	5,735	1,389	712	2,101	1,174	—	—	930	1,349*	1,349	2,363	5,021*	5,021
Cornhill	—	—	—	—	—	—	—	—	—	—	10,648	3,940	927	1,294*	1,294	2,447	5,628*	5,628
Crusader	—	—	—	2,222	3,799	6,021	1,366	863	2,229	1,287	10,729	4,203	886	1,543	1,403	2,192	8,639	6,911
Eagle Star	4,363	9,202	13,565	2,407	3,707	6,114	1,402	842	2,244	1,200	10,919	3,754	892	1,425*	1,425	2,125	6,859*	6,859
Ecclesiastical	4,597	13,538	18,135	2,441	4,884	7,305	1,471	785	2,256	1,429	13,177	4,513	931	1,422*	1,422	2,395	6,892*	6,892
Equitable Life	3,774	13,318	17,092	2,410	4,494	6,904	1,412	1,167	2,579	1,285	12,630	4,441	897	1,573	1,430	2,380	7,901	7,023
Equity & Law	4,285	15,918	20,203	2,385	4,901	7,286	1,331	725	2,056	1,223	9,292	4,031	819	1,212*	1,212	2,059	5,489*	5,489
Friends' Provident	4,263	11,593	15,856	2,365	4,325	6,690	1,408	856	2,264	1,307	10,544	3,922	932	1,611	1,455	2,320	8,474	7,054
Guardian Royal Exchange	4,095	13,801	17,896	2,350	3,573	5,923	1,374	887	2,261	1,290	10,358	4,000	851	1,462	1,340	2,321	6,491	5,657
Legal & General	—	—	—	2,346	4,635	6,981	1,374	865	2,239	1,302	10,971	3,769	886	1,470	1,335	2,158	7,660	6,391
Life Association of Scotland	—	—	—	—	—	—	—	—	—	—	11,703	3,693	890	1,431	1,382	2,136	6,848	6,420
London Life	4,629	10,911	15,540	2,448	4,751	7,199	1,440	1,073	2,513	1,420	11,294	4,486	943	1,763†	1,521	2,436	9,516†	8,055
London & Manchester	4,262	7,177	11,439	2,301	3,061	5,362	1,405	743	2,148	1,089	8,103	3,601	874	1,398	1,302	2,315	6,200	5,151
Manufacturers Life	—	—	—	—	—	—	—	—	—	—	10,273	—	1,000	1,361*	1,361	2,569	5,922*	5,922
Marine & General	4,291	8,264	12,555	2,369	3,119	5,488	1,420	749	2,169	1,196	11,149	3,864	894	1,426	1,363	2,326	5,978	5,466
National Mutual	4,240	11,406	15,646	2,353	3,344	5,697	1,399	801	2,200	1,320	9,746	3,315	896	1,522	1,378	2,216	7,801	6,512
National Mutual of Australasia	4,285	9,391	13,676	2,669	3,657	6,326	1,548	652	2,200	1,215	10,345	3,833	935	1,446	1,345	2,570	8,286	6,374
National Provident	4,096	10,091	14,187	2,407	3,487	5,894	1,467	770	2,237	1,289	11,238	4,258	867	1,340*	1,340	2,229	6,619*	6,619
Norwich Union	4,138	15,593	19,731	2,417	5,382	7,799	1,422	924	2,346	1,349	11,206	4,248	877	1,460	1,337	2,274	8,039	6,515
Pearl	4,494	7,648	12,142	2,359	3,220	5,579	1,383	741	2,124	1,279	8,000	3,508	908	1,500†	1,375	2,318	7,037†	5,528
Phoenix	4,000	6,648	10,648	2,294	2,660	4,954	1,334	664	1,998	1,251	10,682	3,983	868	1,345*	1,345	2,191	5,203*	5,203
Pioneer Mutual	—	—	—	—	—	—	—	—	—	—	9,195	3,587	836	1,296*	1,296	2,228	5,292*	5,292

Provident Life	—	—	—	—	—	—	1,411	711	2,122	1,219	9,430	3,820	851	1,309*	1,309	2,052	6,021*	6,021
Provident Mutual	4,109	13,031	17,140	2,378	3,949	6,327	1,450	800	2,250	1,255	10,689	4,151	916	1,438	1,308	2,453	7,462	5,970
Prudential	4,240	11,122	16,362	2,344	3,617	5,961	1,407	766	2,173	1,385	9,947	4,257	871	1,433	1,297	2,229	6,592	4,959
Refuge	4,478	9,001	13,479	2,326	3,219	5,545	1,399	761	2,160	1,189	7,813	3,663	920	1,495	1,380	2,375	6,709	5,344
Royal	4,255	9,320	13,575	2,315	3,673	5,988	1,374	791	2,165	1,332	—	3,947	865	1,416	1,373	2,088	8,475	7,099
Royal London Mutual	4,477	11,620	16,097	2,312	4,512	6,824	1,391	940	2,331	1,268	10,318	4,144	906	1,341*	1,341	2,325	6,626	5,115
Scottish Amicable	4,152	14,433	18,585	2,326	4,955	7,281	1,367	897	2,264	1,384	11,563	4,115	911	1,566	1,409	2,259	9,289	7,027
Scottish Equitable	4,082	7,541	11,623	2,312	2,900	5,212	1,369	657	2,026	1,145	9,565	3,793	858	1,334*	1,334	2,037	6,127*	6,127
Scottish Life	4,278	6,668	10,946	2,335	2,863	5,198	1,384	692	2,076	1,295	9,849	4,331	861	1,375*	1,375	2,140	6,874*	6,874
Scottish Mutual	4,124	13,216	17,340	2,400	4,193	6,593	1,386	694	2,080	1,241	9,495	3,904	856	1,305*	1,305	2,172	6,764*	6,764
Scottish Provident	5,492	9,977	15,469	2,330	4,335	6,665	1,375	748	2,123	1,292	11,662	4,484	895	1,410	1,410*	2,193	6,816*	6,816
Scottish Widows' Fund	4,096	16,592	20,688	2,319	4,960	7,279	1,343	889	2,232	1,347	9,894	4,189	872	1,490†	1,380	2,104	8,001†	6,612
Sentinel	—	—	—	—	—	—	1,422	677	2,099	1,159	11,950	4,194	936	1,488	1,404	2,440	5,856	5,490
Sdandard Life	3,609	14,769	18,378	2,348	5,248	7,596	1,418	825	2,243	1,400	8,710	4,037	918	1,432	1,432*	2,166	6,947*	6,947
Sun Alliance & London	—	—	—	—	—	—	1,392	785	2,177	1,270	11,217	4,025	888	1,349	1,340	2,179	6,594	6,485
														1,429			7,465	
Sun Life	4,065‡	—	—	2,304	2,581	4,885	1,414	756	2,170	1,109	11,605	3,821	894	1,423	1,375	2,207	6,902	6,475
UK Provident	4,445	13,549	17,994	2,293	4,650	6,943	1,394	914	2,308	1,446	11,177	3,526	901	1,508	1,407	2,212	7,626	6,724
Wesleyan & General	4,342	9,066	13,408	2,374	3,229	5,603	1,417	729	2,146	1,153	9,858	3,962	924	1,477	1,349	2,384	7,182	5,126
Yorkshire -General	4,255	8,612	12,867	2,353	3,496	5,849	1,379	838	2,217	1,275	11,769	4,320	873	1,476	1,379	2,368	7,078	5,802
Zurich	—	—	—	—	—	—	1,658	257	1,915	1,077	9,773	3,741	902	1,342	1,342*	2,306	6,210*	6,210

Nearly all offices give better terms to women, usually by fixing premiums as if they were three years younger than actual age. For col. 11, some offices cease premium at age 85 or 90. For some offices sums assured shown in col. 13 are less than the minimum policy written. (a) Most estimated on current reversionary bonus rates. *Terminal bonus excluded. †Terminal bonuses included for illustrative purposes only. ‡Bonuses depended on age and duration before 1955.

APPENDIX 59

(Chapter XIX—Para 19.5)

NUMBER OF ZONAL MANAGERS WHO WERE IN CHARGE OF ZONES BETWEEN 1956 AND 1980

Name of Zone	Number of Zonal Managers
1. Northern Zone	12
2. Central Zone	13
3. Eastern Zone	9
4. Southern Zone	11
5. Western Zone	12

NUMBER OF DIVISIONAL MANAGERS WHO WERE IN CHARGE OF DIVISIONS BETWEEN 1956 AND 1980

Name of Division	Number of Divisional Managers in charge of the Division	Name of Division	Number of Divisional Managers in Charge of the Division
New Delhi	9	Madras	10
Ajmer	5	Bangalore	8
Chandigarh	7	Coimbatore	10
Jaipur	7	Dharwad	10
Jullundur	8	Hyderabad	9
Kanpur	11	Cuddapah	3
Agra	9	Kozhikode	3
Indore	9	Madurai	11
Jabalpur	12	Masulipatnam	9
Lucknow	9	Thanjavur	8
Meerut	9	Trivandrum	9
Raipur	9	Udipi	9
Varanasi	10	Visakhapatnam	9
Calcutta	10	Bombay	9
Asansol	9	Ahmedabad	8
Cuttack	8	Nagpur	11
Gauhati	10	Nasik	7
Jalpaiguri	11	Pune	8
Jamshedpur	7	Rajkot	10
Muzaffarpur	9	Satara	10
Patna	10	Surat	7

APPENDIX 60

(Chapter XIX—Para 19.16)

STATEMENT 1

NUMBER QUALIFYING AS FELLOWS OR ASSOCIATES OF THE INSTITUTE OF ACTUARIES IN INDIA

Year	Fellows		Associates	
	LIC Employees	Others	LIC Employees	Others
1957	3	3	3	2
1958	7	1	4	2
1959	4	2	2	3
1960	3	1	8	4
1961	1	—	6	4
1962	2	3	5	3
1963	2	1	5	1
1964	7	—	3	4
1965	6	—	2	3
1966	2	1	3	1
1967	3	3	1	—
1968	1	3	2	—
1969	2	—	2	—
1970	2	—	7	7
1971	—	1	2	—
1972	2	—	3	2
1973	2	1	3	2
1974	3	1	3	—
1975	1	—	1	—
1976	—	—	1	—
1977	1	—	1	—
1978	—	—	1	—
1979	—	—	—	1
1980	1	—	1	—
Total:	55	21	69	39

APPENDIX 60

(Chapter XIX—Para 19.16)

STATEMENT 2

NUMBER OF FELLOWS OF THE INSTITUTE OF ACTUARIES EMPLOYED IN LIC

Number of Fellows in LIC at the time of nationalisation	67
Number qualified during 1957 to 1980	55
Total	122
Number resigned from service	26
Number retired from service	47
Number died in service	4
Number in service at present (1-9-1980)	45

STATEMENT 3

NUMBER OF ACTUARIES IN THE LIC RETIRING OVER THE NEXT 10 YEARS

Year of Retirement	Fellows	Associates
1981	5	1
1982	2	2
1983	2	1
1984	1	1
1985	4	2
1986	6	3
1987	3	3
1988	1	4
1989	—	2
1990	4	5
Total	28	24

APPENDIX 61

(Chapter XIX—Para 19.17)

PROPORTION OF OFFICERS TO CLERICAL STAFF IN BANKS AND SIMILAR RATIO FOR LIC FOR BOTH ADMINISTRATIVE AND DEVELOPMENT STAFF

Institution	Staff Strength			If 20% Direct recruitment in Class I is assumed		
	Officers	Clerical	Ratio	Promotee Officers	Clerical	Ratio
Central Bank of India	7654	15592	1 : 2.04	6123	15592	1 : 2.55
Bank of India	5114	15788	1 : 3.09	4091	15788	1 : 3.86
Union Bank	4887	9458	1 : 1.94	3910	9458	1 : 2.42
Syndicate Bank	4688	11577	1 : 2.47	3750	11577	1 : 3.09
Canara Bank	4229	13831	1 : 3.27	3383	13831	1 : 4.09
United Bank of India	3179	7467	1 : 2.35	2543	7467	1 : 2.94
All Banks (1976)	29751	73713	1 : 2.48	23800	73713	1 : 3.10
LIC (1979) (Administration) (x) other than A.B.Ms.(D) but including Supdts. %Clerical Staff excluding Supdts.	4157	% 35492	1 : 8.54	(x) 3472	% 35492	1 : 10.22
	Sr. B.Ms., B.Ms. and A.B.Ms(D)	Dev. Officers	Ratio			
(Development)	1487	6931	1 : 4.66			

MGIPRRND—S/63 M of Fin./80—TSS-I—13-1-81—1000

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1000—1980 (DSK. II)

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GOVERNMENT OF INDIA
MINISTRY OF FINANCE

SUMMARY OF CONCLUSIONS AND RECOMMENDATIONS OF THE REPORT OF THE COMMITTEE TO REVIEW THE WORKING OF LIFE INSURANCE CORPORATION OF INDIA SUBMITTED TO GOVERNMENT ON 21ST OCTOBER, 1980.

SUMMARY OF MAIN CONCLUSIONS AND RECOMMENDATIONS

Development of Life Insurance Business

1. From the analysis of some of the important issues affecting life insurance business, the following broad conclusions emerge:—

(i) The cost of providing life insurance through individual life insurance policies is high and beyond the means of a large section of the population both in urban and rural areas.

(ii) In pursuance of one of its basic objectives, namely, mobilisation of savings through life insurance, the LIC has been concentrating its efforts mainly on that section of the population which has a regular income and savings potential. The obligatory linking of life insurance to savings inherent in the conventional individual assurance plans and the LIC's concentration on this type of business have together had the effect of denying life insurance cover to the vast section of the people who do not have a regular income and whose savings potential is low.

(iii) As a result of the above, only about 10% of the insurable male lives in the country have been provided cover against death. Even among those covered, the concentration has hitherto been on the salary earning classes and persons in the higher income groups who take out life insurance mainly because of the tax relief available. The coverage of persons in rural areas and of those employed in the unorganised sector in the urban areas is meagre.

(iv) Though a beginning has been made by the LIC in providing insurance cover against death at reasonable cost through the group term insurance plan, such coverage has again been confined mainly to the salary earning classes and very little progress is noticeable in extending this type of cover to the rural areas and to the unorganised sector in the urban areas.

(v) Because of the relatively low yield on the life fund and the high level of expenses, life insurance has ceased to be a viable savings medium and this is the reason why the share of life insurance in domestic savings has been declining.

(vi) Life insurance in India can still be a viable savings medium, as it is in U.K., provided the LIC is enabled to improve substantially the yield on its investments and to control effectively its expenses of management.

2. Group term insurance is the best method of providing life insurance protection to large numbers at a low cost, as it avoids the cost of individual selling and individual policy administration. Also, as it precludes individual selection, it is possible to provide insurance cover to large numbers who would not be eligible for insurance under individual insurance plans. Therefore, the best way to ensure that life insurance is spread much more widely and in particular in the rural areas and among the socially and economically backward classes is through a wider spread of group term insurance. At present the LIC's Group Term Insurance business is confined mainly to salaried classes as it is easier to deal with them as a group. It is, however, necessary to extend this business to other classes as well. The LIC should, therefore, adopt as the principal plank in its development programme promotion of group term insurance extensively to the people in rural areas and to the unorganised sectors in the urban areas.

3. Another agency through which life insurance coverage can be extended to the rural people is the Central Co-operative Bank or the Regional Rural Bank. All these Banks advance short term loans to farmers for their agricultural needs. Insurance cover could provide a collateral security for the Bank loan and the cost of insurance can be combined with the interest charged by the Bank. The group policy can be issued to the Bank itself covering all persons to whom loans have been granted, the insurance cover being the amount of the loan. The Committee recommends that the LIC should consult the Reserve Bank and explore the possibility of making such group insurance compulsory for all farm loans granted.

4. The Committee recommends that the LIC should lay down every year definite targets regarding the number of lives to be covered through group schemes in the rural areas and in the unorganised urban sector by each Division and create the the necessary organisational framework for achieving them.

5. A large proportion of lives insured under individual assurances as well as under group schemes belong to the salaried class. The Committee is of the view that the best way of providing life insurance cover at minimum cost to them would be through a compulsory insurance scheme. The Committee has noted that some form of compulsory insurance already exists for this class under the Deposit Linked Insurance Scheme, which is a part of the Employees' Provident Fund Scheme. However, the risk cover offered under this Scheme is low. The Committee, therefore, recommends that a compulsory insurance scheme which will provide a cover equal to $2\frac{1}{2}$ times the annual salary of the employee subject to a maximum of Rs. 50, 000 should be introduced for all employees covered through various Provident Fund Schemes.

6. As regards salaried employees who are not covered by a Provident Fund, another approach for providing a compulsory insurance cover can be considered. The LIC has already submitted a proposal to the Gujarat State Government to provide, as a social security measure, some basic insurance cover to employees of Shops and Establishments with less than 10 employees. The proposal is to

make a small beginning. The premium would be only Rs. 1 per month of which 50 paise would be paid by the employee and 50 paise by the employer. The amount of contribution would be collected by the Municipal Corporation along with the registration Fees under the Shops and Establishments. Act. All the records necessary for the purpose of insurance would be available with the authorities administering the Shops and Establishments Act and the same authorities can be authorised to apy the death claims. The Committee understands that the Gujarat Government has accepted the proposal and has decided to make it operative in the four cities of the State with Municipal Corporation. The Committee recommends that other State Governments should also be approached for introducing similar schemes.

7. Besides the compulsory insurance scheme suggested for all salary earners contributing to a Provident Fund, the Committee recommends that the LIC should continue its efforts to extend Group Insurance coverage linked with savings to the salary earning classes through its Group Term-cum-Savings Scheme. Under this scheme the LIC is at present allowing accumulation of the contributions at 6% only. It should be noted that the LIC is currently earning on its new investments a rate of interest of over 8%. If the funds pertaining to such group scheme are invested separately and if a rate of interest ½% to 1% less than the actual rate earned on the LIC's funds, depending on the size of the group, is allowed, the scheme will prove more attractive than at present. The Committee is of the view that the difference between the interest actually earned and the interest allowed on the accumulations of contribution as suggested would be adequate to meet the expenses of administration of the Schemes.

8. The Committee is informed that under its existing Group Term-cum-Savings Schemes the maximum amount of cover that the LIC allows is Rs. 12,000 and that it has recently decided that under all new group schemes, the cover should be restricted to Rs. 10,000 only. The Committee is of the view that even the present limit of Rs. 12,000 is too low and that the limit should be increased to Rs. 50,000 which is the maximum limit suggested for the proposed compulsory insurance scheme. .... The Committee is convinced that the Group Term-cum-Savings Scheme re-designed on the lines suggested would be found attractive by a large number of employee groups and will help the LIC both in spreading insurance coverage and in mobilisation of savings at minimum cost.

9. The Committee appreciates that introduction of compulsory insurance schemes and wider extension of Group Term-cum-Savings Schemes for salaried employees may affect LIC's direct business adversely as currently a very large proportion of its business is being secured from salaried employees. The Committee, however, feels that there is enough potential in the country for development of life insurance business and if to an extent the potential from salary earning class is reduced, it would stimulate the LIC to concentrate on other classes who have till now been relatively neglected, and thus help in greater spread of life insurance business in the country as a whole. The Committee also believes that even after introduction of compulsory insurance

schemes and extension of Group Term-cum-Savings Schemes to large sections of salaried employees, there will still be scope for selling individual savings linked life insurance policies to the salaried class, provided steps are taken to make life insurance a viable savings medium.

10. In considering life insurance as a savings medium the difference in the return (taking into account the tax reliefs obtainable) obtained by those in the higher income brackets and by those who pay little or no tax has to be considered. This difference in the return obviously involves serious lack of equity. The Committee would, therefore, like to recommend an alternative approach on the lines of the suggestion made in the report of the Committee of Actuaries which involves establishment of a separate fund for policies on which no income-tax relief would be available and on which the Government would allow a substantially higher rate of interest. The broad outlines of the plan are given hereunder:—

(i) Only one type of policy will be issued under this Fund which will be Endowment With Profits Policy for terms 15, 20 and 25 years and maturing not beyond age 60.

(ii) The maximum amount of annual premium that can be paid under all policies taken under this plan by an individual would be Rs. 1,000/-. The proponent would be required to give details in the proposal form, of policies already taken out by him under this plan and the amount of premium he is paying under such policies. He should also be required to give a declaration that if the information given is false or inaccurate and he had, in fact, taken out other policies under this plan, any premium paid in excess of Rs. 1,000/- per annum under such policies would stand forfeited and the sum assured would be reduced correspondingly.

(iii) Premiums paid under these policies would not be eligible for any income-tax relief. This will by itself ensure that such a policy will be mainly availed of by persons who are not liable for high rates of income-tax.

(iv) This fund will be invested in a special Deposit Account as directed by the Government. The rate of interest on this fund should be at least 2% higher than the rate of interest on 7 Year National Savings Certificates where the current rate of interest is 10.75% compound. The 2% difference in yield is to cover outgo by way of expenses of management so that the net yield obtained by the policyholder is the same as on investments in National Savings.

(v) In determining the LIC's liability for income-tax, the surplus of this fund would be excluded from the total surplus.

(vi) The entire surplus of this fund disclosed by periodical actuarial valuations should be available for distribution to the policyholders and no share will be reserved for the Government.

(vii) A separate account of this fund should be maintained and all premiums and other income relating to this fund should be accounted for separately. All expenses should be allocated between the Ordinary Life Fund and this Fund in proportion to the respective premium income of the two funds.

11. Various suggestions have been made to the Committee for introduction of new plans of insurance to meet the needs of the rural population. ....After considering the various suggestions received, the Committee recommends examination of the following two suggestions for special plans :—

(i) As the rural population do not have regular income, any special plan for rural population should permit variations in premium from year to year. To meet this particular problem, the Committee suggests that the LIC should consider issuing single premium Endowment policies under which the risk cover would be double the amount payable on maturity. The cost of servicing such policy would be small. As the full premium is paid in one instalment and would be available for immediate investment, it should be possible to assume a much higher rate of interest in the calculation of premium than under the ordinary Endowment plan. A variation of this plan would be to have a single policy contract with a Pass Book issued to the policyholder, under which option would be given to the policyholder to pay additional premium at any time and obtain additional cover merely by way of an endorsement in the Pass Book. As both the original cover as well as additional covers would be on the basis of single premium contracts, it may be possible to issue all such policies on non-medical basis, subject of course to certain limits on the maximum sum assured. To ensure that agents take interest in persuading the policyholders to go in for periodical additions to such policies, commission at reasonable rates should be paid to the agent each time an additional cover is availed of. It should be possible to work out a suitable scheme on the above lines which would permit considerable flexibility and still be simple to administer.

(ii) In rural areas there are often periods which may extend from one to three years when the policyholder is unable to pay the premium because of drought, or other natural calamities. The LIC should, therefore, consider issuing an ordinary endowment policy under which a small term insurance premium would be collected along with the first premium which would provide risk cover for a period up to three years in case the policyholder is unable to pay the premium for some time after two years' premia have been paid. Any time within the three years' period during which risk cover is provided without payment of the normal annual premium, the policyholder will have the option to pay off the arrears of premium with interest for continuation of the policy beyond the three year period. Risk premium already paid would then again become available for covering further defaults in future. Though the risk premium would increase with the age, as the amount at risk will go on reducing with the duration of the policy, it should be possible to determine, at the outset, the amount of risk premium to be collected along with the first premium which could provide risk cover for defaults in payment of premium up to three years throughout the term of the policy.

12. There is one other plan which the Committee feels the LIC ought to introduce and that is a level premium term insurance plan. The Committee has noted that the Committee of Actuaries had recommended introduction of such a plan. The Committee understands that the LIC has not yet taken any decision on this recommendation. As a monopoly organisation, it is the LIC's obligation to provide all types of life insurance cover which are actuarially sound and are generally offered by insurers in other countries. The Committee, therefore, recommends that the LIC should introduce this scheme.

13. The Committee is strongly of the view that the present restriction on the operation of approved Pension Funds is not at all justified and all approved Pension Funds should be given freedom from the provisions of the LIC Act, as was the case before nationalisation. At the same time, the LIC should itself re-examine its methods of operating its pension schemes and should urgently consider introduction of the managed fund concept which is recommended by the Committee of Actuaries in their report, so that they are able to offer terms which are competitive with those which privately managed pension funds can give to their members. ,......The Committee, therefore, recommends that:—

(i) The LIC Act should be suitably amended, so that exemption is granted to all Pension Funds from the operation of the LIC Act, on par with the exemption granted to the Funds existing as on 1.9.1956 under Section 44(f) of the LIC Act, subject to their working being supervised by the Controller of Insurance; and

(ii) The LIC should urgently re-examine its present pattern of working of Pension Schemes and introduce the managed fund concept, so that it is able to offer terms which are competitive with those that can be offered to their members by privately managed Pension Funds.

Marketing Organisation and Development Planning

14. We believe that if life insurance business is to grow on healthy lines a strong agency organisation consisting of trained professional agents should be the corner stone of the LIC's marketing organisation.

15. There should be a pre-recruitment training and test before an agent is appointed. The LIC should devise appropriate aptitude tests as well as tests for the basic knowledge required by an agent and selection should be made on the basis of such tests and after interview by the Branch Manager, who should be made responsible for proper selection of agents. He should ensure that only such persons as are likely to continue in the insurance agency career are recruited and in no case a "Benami" is given an agency.

16. The Committee is of the view that renewal commission should be viewed as payment for services required to be rendered and not as a deferred compensation for just selling a policy. It is, therefore, necessary to ensure that agents render essential services to policyholders. Though the Committee appreciates that there would be practical difficulties in strictly enforcing any such rule, it suggests laying down some broad criteria for this purpose such as follows:-

(i) The agent should be required to maintain certain essential records which should be periodically verified by the Branch Manager.

(ii) Whenever there is default in payment of premiums the agent should be required to give the reasons for non-payment.

The suggestions made above are only illustrative. The Committee is of the view that it would be possible for the LIC to evolve on the basis of practical experience, methods of ensuring that agents do maintain contacts with policyholders and render essential services to them to entitle them to payment of renewal commission.

17. To enable the agent to render these services, proper post-recruitment training is essential. The Committee recommends that the training should be at three levels. The first will be the pre-recruitment training, which will be given by the Development Officer who recruits the agent and which would give him basic knowledge of life insurance plans and selling techniques to enable him to start working as an agent. The second stage is the post-recruitment training given by trained instructors covering all aspects of policy servicing and giving more detailed guidance in selling techniques. This stage would also include field training by the Development Officer through joint calls on prospects. Servicing of "orphaned policies", that is policies where the original agent has ceased to work as an agent, can also form part of such field training. The third will be advanced training of a high standard for professional agents, provided through special courses designed by the Federation of Insurance Institutes leading to the grant of a diploma on passing an examination. Agents who have obtained the diploma should receive recognition as professional agents and holding of the diploma should after a transition period, be made a condition for membership of various clubs.

18. At present the LIC classifies its agents into three categories - inactive, active and qualified agents. None of these classifications gives any indication as to whether the agent is working effectively throughout the year. The Committee, therefore, recommends that a new classification of "effective agents" be introduced the criterion being that the agent insures a minimum of 2 lives for a sum assured of Rs. 10, 000 every month for at least 10 months in the year and his total business during the year is not less than 25 lives and a sum assured of Rs. 2 lakhs. Efforts of the Development Officials should be concentrated on increasing the number of such "effective" agents from year to year.

19. After careful consideration, the Committee has come to the conclusion that if the LIC is to get the right type of person to work as agents particularly in the rural areas and untapped segments of urban areas, it would be necessary to

retain the existing levels of agency commission. The Committee also feels that any rescheduling of commission rates between first year and renewal would not be of great practical utility.

20. The Committee is of the view that renewal commission should be considered as payment for services required to be rendered by the agent and not deferred compensation for selling of life insurance policies. It is necessary that the present rule regarding continuation of renewal commission after termination of agency should also be modified.

The Committee recommends that continuation of renewal commission after cessation of the agency should be allowed only if the agent has worked for at least 15 years out of which for at least 10 years he should have completed the minimum qualifying business required in accordance with the Agents' Regulations.

21. As regards payment of "hereditary" commission, the Committee is of the view that there is no justification for payment of commission after the death of an agent. However, to give protection to the families of agents who die during their agency career, a more generous term insurance benefit should be allowed. The Committee recommends that the present term insurance scheme for agents may be modified to cover all agents who have completed the minimum qualifying business for a period of at least five years and the quantum of cover fixed at five times the renewal commission earned by the agent in the agency year preceding his death.

22. In order to bring down the high incidence of early lapses certain changes are necessary in the agents' commission schedule. The Committee recommends that commission on first year's premium should be paid only on receipt of the full first year's premium. Further, bonus commission should be based on the first year's premia after deducting therefrom the premia on policies which have lapsed during the year in question without acquiring surrender value. The Committee realises that such a change in the method of payment of bonus commission may be difficult to implement with the existing data processing machines and that it will be possible to give effect to it only after the existing data processing system is replaced by a more versatile system as recommended by us.

23. Regarding Development Officers the Committee recommends that their functions should be redefined. At present, though the Development Officer is expected to recruit, train, motivate and supervise the agents, his work is appraised mainly on the basis of the sum assured and premium income secured through his organisation. This has resulted in the neglect of the essential function of the Development Officer, namely creation of a stable agency organisation. The Committee, therefore, recommends that the Development Officer's functions should be clearly defined as that of recruitment and training of agents and supervision of the working of the agents recruited by him. It should be his responsibility to see that the right type of persons are chosen as agents and given pre-recruitment training before appointment and they are given detailed training,

guidance and motivation in the field after recruitment so that they develop into "effective" agents. The work of a Development Officer should be appraised solely on the basis of his success in developing an organisation of "effective" agents. His targets should be fixed in terms of the number of agents to be recruited by him, the proportion of recruited agents to be made "effective" and the increase in the number of "effective" agents.

24. The Committee accepts that for employees whose work will be completely in the field, a scheme of incentives and disincentives should constitute an essential part of their remuneration. However, the incentives and disincentives should be linked to the performance in creating an "effective" agency organisation and not to "cost ratio".

25. The Committee recommends that all agents who have worked as "effective' agents for a period of at least 3 years and who are in a position to work on their own should be detached from the Development Officer and made direct agents. This, however, will not affect the appraisal of the Development Officer as his work is to be judged mainly on the basis of the new agents he is able to recruit and make "effective".

26. The cadre of Assistant Branch Manager (Development) should be treated as a selection grade for the Development Officers and not as an intermediary between the Development Officer and Branch Manager. In the urban areas the ABM(D) will look after all agents who have been made direct. It will be his responsibility to see that the direct agents continue to remain "effective" and their productivity continues to increase. In the rural areas where a Development Officer is in exclusive charge of a certain area, it may not be practicable to detach from the Development Officer, agents who have worked as "effective" agents for three years. However, in such areas where a Development Officer has been able to create a fairly large organisation of "effective" agents, he should be considered for promotion to the cadre of Assistant Branch Manager (Development). After such promotion also, he will continue to look after his whole area and it will be his responsibility to see that whenever any gaps occur in the agency organisation by termination of an existing agent, the vacancy is filled by recruitment of a new agent.

27. The Committee makes the following recommendations with regard to the marketing organisation for the expansion of the group scheme business and its administration:-

(i) The decision already taken by the LIC to set up full-fledged Group and Superannuation Department in all the Divisions should be implemented at an early date.

(ii) In each Branch office, particularly in the rural areas, at least one Officer from the cadre of Assistant Branch Manager (Development) and one Higher Grade Assistant should be given thorough training in the sale and administration of group insurance business so that they are able to initiate and conduct negotiations for the sale of group business under the overall guidance of the Divisional Office.

(iii) The Committee recommends that the officer and staff posted in the proposed development-cum-servicing centres should also be given training in the special problems of development of group business in the rural areas, so that they can take the initiative in developing group business in these areas.

(iv) Though group schemes should continue to be canvassed mainly by the officials, professional agents who have received specialised training in this behalf and passed a prescribed test may be allowed to play a limited role in selling this business. They should, however, be restricted to rural areas and to the unorganised sector in the urban areas. They may also be allowed to play a limited role in the sale of group gratuity schemes and pension schemes with large employers in the urban areas. The Commission to the agent will, however, be restricted to a small percentage which will not add materially to the cost of group cover.

(v) A scheme of incentives should be introduced for officers in charge of group business for outstanding performance in the development of such business. However, the scale of incentives should be so fixed that it does not add materially to the cost of the group cover.

28. From a review of the operations of the LIC in the area of Development planning, the following conclusions emerge:-

(i) Though the LIC realised the need for planning based on market survey and statistics relating to the economic potential of the area and its manuals provided for the same in practice these were not implemented. Instead the easier method of fixing adhoc targets of new business in terms of sum assured was adopted.

(ii) While a large number of agents were recruited year after year, almost an equal number had to be terminated as they failed to complete the minimum business guarantee. These were merely spotters with no sustained interest in the agency work. Consequently growth of a stable and professional agency force was inhibited.

(iii) In the earlier years a large number of development officers were recruited without any regard for their aptitude. The performance of most of them was poor, the remuneration paid to them exceeded in some cases even the premium income brought by them.

(iv) The stress on new business sum assured has led to an organisational culture where success was measured solely by new business sum assured, and other aspects of organisational functioning were virtually ignored.

(v) Since volume of new business was the major yardstick for measuring the progress, the entire organisation gears itself to fulfil the target set before it during the closing period of the accounting year. Heavy new business in the last month of the accounting year has been in evidence even during the years before nationalisation and the LIC is no exception. There was heavy concentration of business in December when the accounting year ended in December and now, when the accounting year ends in March, the concentration has shifted to March. This has resulted in (a) delays in the adjustment of amounts received towards premium (b) delays in the issuing of policies (c) non-issue of premium notices, particularly in the case of Quarterly and Half-yearly mode of premium and the consequential lapsation, revivals, etc., etc.

29. The LIC should fix targets every year for the number of lives to be covered through group insurance schemes in the rural areas and in the unorganised sector in the urban areas. To start with, such targets may be fixed for the Division as a whole. Later it may be possible to fix targets Branch-wise as well. Separate targets may also be fixed for the number of lives to be covered and the amount of savings to be mobilised through group term-cum-savings plan and through group gratuity schemes and group pension schemes. The work of the Development Officials concerned with this business should get recognition at all-India levels through competitions and awards. In its internal and external publicity, increasing stress should be laid by the LIC of the role of these schemes in extending insurance coverage.

30. As regards planning for development of individual life insurance business, the basic planning should be in terms of growth of organisation as represented by the number of "effective" agents. Planning should start with locating all the centres in the rural areas which have the potential for supporting an "effective" agent, which may be termed an "agency block". The plan would take into consideration the number of such blocks where "effective" agents are already working and the number of blocks which lack such agents. The aim of the plan should be to ensure that the proportion of agency blocks where there are "effective" agents should steadily increase.

31. As regards urban areas, the Committee has noted that at present there is no effective planning to ensure that the agency organisation covers all important sectors of the urban centre. The Branches are at present located on the basis of availability of premises and convenience of the Development personnel. As, till recently, the City Branch Offices were not handling any service to policyholders, the convenience of the policyholders did not arise. Further, in the recruitment of agents no efforts are made to see that all the important sectors of the population are covered. The Committee suggests that the LIC should undertake a complete review of its present policy in the matter of location of Branch offices and recruitment

of agents in the larger cities. It should take steps to disperse the Branch Offices over the city with a view to locating the Branches near the policyholders' place of work or residence. It should also plan its agents' recruitment in such a manner that all important sectors classified on the basis of geographical location, economic activity or community-wise are covered.

32. As regards overall targets for the Branches, Divisions and the LIC as a whole, the Committee recommends that these targets should be fixed not in terms of new business, but in terms of the increase in the business in force as represented by the number of lives covered, sum assured and premium income and also in terms of the increase in the number of "effective" agents.

33. One of the terms of reference of the Committee is to assess the potential for growth of life insurance particularly in the rural areas and suggest steps for accelerating the development of business. The existence of a vast potential for development of life insurance business is obvious from the fact that only 10% of the insurable population has so far been covered by the LIC and 90 % still remains to be covered. The main reason for the LIC's failure in extending the coverage to the rural areas and to the weaker sections of the community has been its concentration on savings linked individual insurance business which is beyond the reach of large sections of the community. The Committee has, therefore, recommended a wider spread of group insurance business which would enable the LIC to extend the coverage of life insurance to those neglected sections. As for the potential of life insurance as a means of mobilising savings, this depends on restoring viability of life insurance as a savings medium. The Committee has, therefore, concentrated its attention on the steps to be taken to make life insurance viable as a savings medium in the faceof other competing savings media. If the recommendations made by the Committee in both these areas are accepted and early action taken thereon, the Committee is convinced that the LIC will be able to extend the coverage of life insurance at a much faster rate than at present and thus tap the potential for life insurance in the country, which is indeed vast, in an increasing measure.

Service to Policyholders

34. The main problem in the area of underwriting and issue of policies is the delay in issue of policies particularly in respect of proposals completed in the peak month of March. Such delays have serious adverse consequences on the other aspects of policy servicing as well. The Committee expects that if the concept of "effective" agent and the change in emphasis in fixation of targets from new business to increase in the business in force are accepted, they should go a long way in ensuring a more even spread of business. Meanwhile, the LIC should consider ways of ensuring expeditious issue of policies.

35. Preparation of advance receipts involves considerable amount of work and cost. Further, control over them at the branch offices is also not quite satisfactory and instances have been reported where receipts have been misused and premium collections misappropriated. A suggestion has been made that instead

of preparing receipts in advance the premium notice form itself should contain a small counterpart which could serve as a receipt. The branch office which is responsible for receiving premiums and issuing receipts should be supplied with Cash Register Machines which would endorse receipt of premium on the counter-part of the notice and simultaneously print out the details of the receipt on a scroll which would serve the purpose of a cash book. Such a system, it has been represented, would not only reduce considerably the work-load at the cash counter but would also provide stricter control on cash collections. The Committee recommends that the LIC should introduce such an alternative system on an experimental basis in one of its Divisions so that, on the basis of actual experience, it can decide whether the system is workable and if so consider its extension to all the Offices.

36. The Committee recommends that in all important rural centres where a full fledged branch office would not be economically viable, the LIC should open small offices which may be termed Development-cum-Servicing Centres. Such offices should have a small complement of staff consisting of an Officer-in-charge in the cadre of ABM, with one or two assistants in the HGA's cadre. These offices would be responsible for development of business as well as collection of premium and rendering of certain essential services to policyholders.

37. The Committee believes that one of the main causes of the large proportion of collections going into deposit is the lack of contact between the agent and the policyholder after sale. If the Committee's recommendations on the agent's role in the service to the policyholder are accepted and agent's help is sought in ensuring that premiums are paid in time and with full particulars and also in obtaining the necessary requirements for clearance of deposits, it should be possible for the LIC to reduce the amounts of collections going into deposit.

38. To improve the LIC's performance in regard to grant of policy loans, action will be required in the following areas:

(i) Completion of decentralisation of policy servicing functions to branch offices, including settlement of all policy loans,

(ii) Extending the decentralisation programme to city branch offices,

(iii) Reorganisation of the work relating to servicing of SSS business.

39. A large proportion of applications for policy loans are for very small amounts particularly under SSS policies. Since this work entails fairly high administrative cost, the Committee recommends that apart from raising the minimum amount of loan that could be sanctioned under a policy from Rs. 150/- to Rs. 250/-, no loan should be granted within three years of previous loan and not more than three loans in all during the currency of a policy.

40. As loans are availed of by only a section of policyholders, equity demands that the net rate of interest obtained by the LIC on its policy loans, that is, after

allowing for administrative costs for servicing such loans, is not lower than what is obtained on its investments generally. The Committee recommends that the LIC should immediately undertake a study of the unit cost of the operation involved and revise the rate of interest accordingly.

41. The LIC has shown a substantial improvement in the matter of claim settlement during the last ten years, and its performance compares favourably with that of leading Indian companies before nationalisation and even of U.S. insurance companies today.

42. The two major problems in the area of maturity claims are firstly to ensure that maturity intimations are sent in time and are accurate and secondly that the follow up by the field staff of maturity claims remaining outstanding for more than three months is made more effective. As regards the first, the problem is due mainly to the defective data processing system. As regards the second, the Committee recommends that the LIC should make a thorough review of its present scheme of servicing of outstanding claims by its field staff through issue of claim particular sheets (CPS) and take all possible steps to make the scheme more effective. The action taken on CPS and the number of outstanding claims settled through such follow-up action should be suitably included as one of the indices in appraisal of performance of the development officials.

43. As regards death claims, two major areas where improvements are necessary are firstly with regard to investigation of early claims and secondly in dealing with repudiation of claims............ considerable delay still occurs in investigation of early claims and also in taking decisions quickly. To reduce these delays to the minimum, the present machinery for claims investigation will have to be strengthened and the decision making process speeded up. According to the procedure laid down by the LIC the investigation can be entrusted to field officials and wherever necessary to members of the staff specially trained for the purpose. In practice the work seems to be entrusted to the former category only. The Committee recommends that the LIC reviews the present system, ascertains reasons for the delays and evolves necessary machinery as well as sanctions to ensure that the time limit it has laid down for completing the investigation is not exceeded and decisions are taken without delay.

44. We recommend that a committee consisting of a Managing Director of the LIC, the Controller of Insurance and an Actuary not currently in the service of the LIC should go into all the cases of repudiated claims where the courts have decided against the LIC or where the LIC has decided to compromise the case. In the light of a review of these cases, the said Committee should make specific recommendations regarding the policy to be followed in the matter of repudiation of claims.

45. The Committee notes that under Section 47A of the Insurance Act a provision already exists for referring disputes regarding claims upto Rs. 2000/ to the Controller of Insurance. The Committee recommends that this section may be amended to increase the limit to Rs. 25,000/- sum assured.

46. The Committee notes that currently the LIC pays interest at the rate of 6% for delay in settlement of claims, where the delay is attributable to the LIC only. The Committee recommends that the rate of interest for such delayed payment of claims should be the same as the rate the LIC charges for delays in payment of premia.

47. Though the procedure laid down for dealing with complaints are generally satisfactory, in actual practice they are not proving effective. The Committee recommends that the LIC should find out the reasons for this and take appropriate steps to see that the existing machinery is made more effective.

48. The Salary Savings Scheme provides the salaried class the most convenient method of payment of premium. The scheme is, therefore, becoming increasingly popular among this class. However, in actual working it has thrown up a number of administrative problems and as a result the service to the policyholders is far from satisfactory.

49. The committee recommends stricter enforcement of the conditions laid down by the LIC at the time of introduction of a salary savings scheme with a new employer. The responsibility should be fixed on the Divisional Manager/Branch Manager to see that all instructions are strictly complied with. Further, in respect of existing salary savings scheme, if it transpires that the employer is unable to comply with the conditions prescribed, the LIC should consider withdrawal of the scheme after giving due notice.

50. The Committee further recommends that the LIC must exercise strict control on the timely remittance of the premium deductions by the employer(in respect of policies under salary savings scheme) and whenever there is delay in remittance of premium by the employer interest at the rate usually charged on bank borrowing for working capital should be collected.

51. Under the SSS as it is operated at present, after issue of the policy, the agent has practically no role in servicing. Therefore, there appears to be no justification for payment of renewal commission to the agent. The Committee recommends that commission under SSS should be restricted to the first three years. Such commission should also be paid only after the full year's premium is paid in each of the three years.

52. The Committee also suggests consideration of another approach which is to restrict canvassing of policies under SSS in respect of each Paying Authority to a selected professional agent who will be responsible for both selling and servicing the policies. Entitlement to commission would then be conditional on the agent ensuring that premiums are remitted by the authority in time, with necessary supporting reconciliation statements. Such an arrangement would improve the administration of SSS business and also make the operation of commission settlement much simpler.

53. The Committee recommends that the LIC should undertake a detailed study of the cost of administration of SSS policies and if it is established that it is substantially higher than on ordinary policies, the extra charge for monthly payment should be made applicable to salary savings scheme policies also.

54. The Committee recommends that the minimum amount of instalment of premium under SSS should be fixed at, say, Rs. 10/- per month.

55. As regards, payment of commission on the existing policies under SSS, the Committee recommends that the payment should be released on yearly basis after receipt of the whole year's premium.

56. The Committee recommends that the LIC should pursue its policy of decentralisation of servicing functions to branch offices and ensure full coverage of all mofussil and city branch offices with a time bound programme.

57. The Committee also recommends that the LIC should open a number of Development-cum-servicing centres in the more important rural blocks where it does not have a branch office and where the present potential for business is not enough to support a full fledged branch office. These offices besides looking after development of business and agency organisation will also attend to certain essential servicing functions like collection of premium. This would help considerably in improving service facilities in rural areas and also help in spreading life insurance coverage both through individual assurances and group schemes to the rural areas. The Committee recommends that the LIC should draw up a definite programme for opening such offices, so that over a ten years period there is at least one such office in each Community Development Block. The Committee appreciates that opening of a large number of such small offices may increase the overall costs of administration at least initially. As this step is suggested in pursuance of the LIC's social objective of spreading life insurance business in rural areas, the Committee recommends that a part of these costs should be reimbursed by the Government from the share of valuation surplus at present being allotted to it.

58. Due to the inherent limitations of unit record-cum-adrema based data processing system, as also due to the increasing frequency of the breakdowns of the unit record machines, there is an increasing deterioration in the standard of service now being rendered to the policyholders as also in the financial and other controls on the LIC's various servicing operations. Some of these are listed below:

(i) Because of the inaccuracies in the premium master card and adrema files, omissions in issue of premium notices and preparation of premium receipts are becoming more frequent leading to serious complaints from the policyholders.

(ii) The work of issue of first default notices has to be handled manually because of the inadequacy of the present data processing system. Having regard to the volume of work, manual handling of this job is becoming increasingly difficult and in many of the offices this work is not being attended to at all.

(iii) The premium posting on policy ledger sheets has been discontinued in some of the Divisional Offices as a result of decentralisation and the Divisional Office has to entirely depend on Branch records to know the status of the policy. This involves some risk as the Branch Office records can be easily tampered with. Also if the records at the Branch Office are lost in any natural calamity like fire or flood, there is no alternative source to fall back upon. Under the unit record system, it is not possible to maintain premium payment particulars in the machine card files. The consequence is that even with the complete decentralisation of servicing responsibility to the Branch Offices, the Divisional Office will either have to continue with the premium postings on policy ledgers involving considerable amount of duplication of work or alternatively to discontinue the same and face the risks referred to above.

(iv) The Commission billing system also is becoming increasingly unreliable. Adequate controls are not exercised in stopping payment of Commission to terminated agents and there is a possibility of diversion of such commission to other agents by tampering with unit record card files. Further, reconciliation of monthly commission payments with premium collections, as also verifying the accuracy of commission paid by sorting the payment by policy year or commission year controls basis, which are the controls envisaged on commission payment under the existing Machine Department Manual procedures is becoming increasingly difficult and such reconciliation has been discontinued in most of the Divisional Offices. This again increases the risks of wrong payment of commission.

(v) It will not be possible under the present unit record system to provide for any future changes in commission rate pattern or commission payment procedures.

(vi) Settlement of bonus commission to agents is at present done manually at the Branch Office and there is practically no control on such payments. In the interest of adequate financial control, it is necessary to mechanise this work but it is not possible to do so on the present unit record system. Further, if the bonus commission procedure is to be changed on the lines suggested by us, these changes cannot be given effect to in the unit record system or even on the present manual system.

(vii) Due to lack of proper controls on updating card files the list of maturities, survival benefit cases under anticipated endowment plan and other automatic changes to be incorporated in the policies are becoming increasingly unreliable. Many omissions are noticed in the lists prepared by the machine department, leading to inefficient service to policyholders, and delays in the matter of settlement of maturity claims and survival benefits under anticipated endowment policies.

(viii) At present the machine departments are not able to generate timely and meaningful statistics about policy lapsation such as agent, development officer or Branch-wise lapse statements, analysis of lapses according to plan of policy, mode of payment of premium, month of issue of policy, etc. In the absence of such statistics it becomes difficult to decide upon appropriate policies to prevent or minimise lapsation or to take appropriate follow-up action for revival of lapsed policies.

(ix) Though the Machine Department manual of the LIC visualises mechanisation of a number of jobs like policy deposit accounting, loan accounting and foreclosure action, etc., most of the Divisional Offices do not find it possible to undertake these jobs on the machines because of the inadequacy of machines. As handling these jobs manually is very difficult because of the large volume of work requiring to be handled, these jobs are either not being done at all or are being done very inadequately.

(x) Because of the inadequacy of the present data processing system, salary savings scheme servicing has become extremely unsatisfactory as well as uneconomic.

(xi) Above all, the increasing failures of financial controls arising out of the inadequacies of the existing data processing system are opening up a fertile ground for possible frauds.

59. It will be seen that the existing unit record machines as well as the whole data processing system of the LIC have become totally obsolete, which is a major cause for the serious deterioration in the standard of policyholders' servicing in the LIC. The deterioration in the functioning of the data processing system is of such serious magnitude, that unless very urgent action is taken to replace the existing system by a more modern and reliable system, the LIC may have to face a complete breakdown in its data processing system in the not too distant future with very serious consequences on its service to policyholders as well as on its overall financial working.

60. The Committee strongly recommends that the LIC should arrange for a complete change over from the existing data processing system based on the Unit Record and Adrema machines to a versatile and modern system as early as possible. The system that the Committee recommends for consideration of the LIC is one based on installation of micro-processors at the larger Branch Offices and mini-computers at the Divisional Offices. The micro-processors at the Branch Offices will attend to the work relating to premium billing and premium and commission accounting, and will also replace the policy and the loan ledgers at the branch level. A consolidated data of the policy would be available on the floppy disc or the magnetic tape attachment to the micro-processor. The new system will replace the multiple file system obtaining at present where records of the policy

are spread over a number of files such as premium ledger, loan ledger, premium master card and demand receipt cards, valuation master cards, adrema plates, etc., by a single consolidated record maintained on the magnetic tape or floppy disc. The same consolidated record of the policy will also be available on the mini-computer at the Divisional Office which will exercise automatic control on all the operations of the Branch Offices. The mini-computer will also act as a servicing medium for the smaller branches which will not be in a position to install a micro-processor and for the still smaller Development-cum-Servicing centre in the rural area. The smaller Branch Offices will continue to maintain individual policy ledgers but all premium and commission billing work will be handled by the Divisional Office. The Development-cum-Servicing centres will not maintain any policy ledgers or other records but they will still be able to render essential services to the policyholders on the basis of updated status cards supplied by the Divisional Office.

61. Some of the important advantages of the new system in improving the service to the policyholders are indicated below:

(i) Apart from being more reliable and regular, the premium notices would be more in the nature of a statement of account and will include particulars of loan and interest dues, other outstanding dues like "X-charges", outstanding deposits, etc.

(ii) It will make it easier for the LIC to change the present system of preparing receipts in advance along with the premium notices, leading to substantial saving in cost.

(iii) It will enable the LIC to take automatic loan foreclosure action in cases where such foreclosure becomes necessary in accordance with the conditions of loan bond.

(iv) It will enable the LIC to exercise stricter controls on all agency commission payments including bonus commission payments and also enable the LIC to effect a change over in the commission payment system on the lines recommended by the Committee or in any other manner.

(v) It will ensure timely issue of maturity intimations and thus help expeditious settlement of maturity claims.

(vi) It will help considerably in improving the servicing of SSS business and reducing substantially the cost of its servicing.

(vii) It will eliminate duplication of functions and records between the Branch Offices and the Divisional offices, which still obtains to a great extent and provide automatic controls on branch operations.

(viii) It will make it possible for the proposed small development-cum-servicing offices in the rural centres to provide most of the essential services.

(ix) The financial control systems in the LIC are not at all working effectively leading to increasing mistakes involving losses to the LIC and also opening up possibilities of large scale frauds. A change over in the data processing system will help considerably in tightening up the financial controls and thus preventing losses.

62. The Committee is satisfied that such a change over would not reduce employment opportunities in the LIC......... As the LIC is now functioning life insurance has ceased to be viable as a savings medium and unless urgent steps are taken to restore its economic viability, the business is bound to be grievously affected with serious effect on the employment opportunities in the LIC. On the other hand, if the LIC is enabled to restore the economic viability of life insurance as a savings medium, and also to improve its services to the policyholders, it would result in increased business, with consequent increase in employment opportunities.

Expenses of Management

63. Taking all the aspects into consideration, it will be readily accepted that if life insurance is to remain as a viable saving medium, it is essential that the level of expenses of the LIC should be brought down to a level substantially lower than the present statutorily prescribed maximum level.

64. Though the number of staff per lakh of policies in force has been continuously going down, the staff salaries have been rising somewhat steeply. A part of this increase is undoubtedly due to inflationary trend and the continuous increase in the consumer price index. However, the staff salaries have increased far in excess of the rise in the consumer price index.

65. While expenses on administrative staff salaries per in-force policy has gone up in a proportion higher than the corresponding increases in the consumer price index, the expenses under other major heads have gone up to a much lower extent. If the corresponding increases in the sum assured and premium per in-force policy are also taken into consideration, then it would appear that all other expenses expressed as a percentage of premium have remained more or less steady and if the renewal expense ratio has gone up, it is mainly due to the increases in the administrative staff salaries on the one hand and increases in the development officers' salaries and other development costs on the other. The remedy for the increase in the expense ratio will, therefore, have to be found in tackling the problem of expenses under those two heads.

66. During an inflationary period staff salaries will inevitably increase more rapidly than the premium per policy in force, and to prevent the cost of servicing becoming burdensome to the policyholder, it would be necessary to improve the productivity of the staff so that the same staff can service a larger number of policies in force. The Committee, therefore, recommends that the LIC should

continually review:

(i) its administrative procedures,
(ii) its data processing techniques,
(iii) its methods of organising work, and
(iv) its general personnel policies as affecting staff attitudes and motivations,
so as to improve the overall productivity of the staff and to enable it to control effectively the number of staff required to service its business.

67. The Committee also recommends that decentralisation of servicing functions to Branch Offices should be completed soon. This should be accompanied by introduction of a more efficient data processing system for ensuring effective control on the functioning of the Branch Offices. This would also eliminate duplication of work and records between Branch Offices and Divisional Offices, which exists at present, and would thus help in reducing costs.

68. In respect of the other major head of expenses, namely, development officers' salaries and other development costs, the changes suggested in the pattern of field organisation involving elimination of one tier between the agent and the Branch, and the suggestions made for professionalisation of the agency organisation would help in reducing the number of Development Officers required by the LIC and thus help in reducing the total costs under this head.

69. As regards agent's commission ...... the Committee is of the view that the change suggested by it namely linking payment of commission to the agent's obligation to render certain services to the policyholders, would help in avoiding payment of renewal commission to a number of non-functioning agents, and thus help in reducing the total outgo under the head of commission. Further, controls on payment of commission to agents are not working satisfactorily at present and a number of cases of excess payments and payments where none are due are being reported. The Committee is convinced that introduction of a more efficient data processing system will ensure stricter control on commission payments and thus help in reducing the cost under this head.

70. The Committee further recommends that the LIC should undertake, on a continuing basis, a cost benefit analysis of various services rendered to the policyholders. Where it is found that the cost of a particular service has over the years increased substantially and it is not a contractual obligation and is availed of only by a small minority of policyholders, the LIC may consider whether it is essential to continue this service and, if so, whether any specific fee can be charged for such service. Instances of some of the services for which special charge can be considered are given below:—

(i) For certain types of alterations in policy contracts, the LIC now charges either a quotation fee of Rs. 5 or an alteration fee of the same amount. These charges were fixed at a time when the actual cost of these operations was low. The LIC should re-examine the fees now being charged in the light of the actual direct costs involved and consider whether and to what extent the existing fees should be increased.

(ii) At present, the practice is to insist on age proof being submitted along with the proposal. However, in a number of cases this is not being done. There are also a large number of old policies where the age has not been proved and admitted. When proof of age is received after issue of the policy and it transpires that the age originally given is wrong, a considerable amount of work is involved in endorsing the policy for appropriate changes and collecting or refunding the difference. In all such cases it would be justifiable to charge a fee, the amount of which can be decided on the basis of an analysis of the unit cost of this operation.

(iii) In certain types of cases the LIC permits an existing policy to be substituted by a new policy under the Married Women's Property Act. At present; the LIC charges only a nominal fee of Rs. 5 plus the actual policy stamp charges for giving effect to such a change. Considering the amount of work involved in giving effect to such a change, the fee charged by the LIC would appear to be inadequate and the LIC should consider increasing the fee suitably.

(iv) At present, a policyholder is allowed to have his policy records transferred from one Branch or Division to another on his changing his residence. The work and cost involved in effecting the transfer are substantial. The LIC should, therefore, consider charging an appropriate fee for such transfers of policies. In this connection it may be noted that the policyholder has the option to remit his premium by cheque to the original branch and the LIC accepts all outstation cheques at par. Therefore, a policyholder who has a bank account will in practice suffer no inconvenience even if the policy records are not transferred.

71. Suggestions made under para 70 are only by way of illustrations and are not intended to be exhaustive. Decisions should be taken by the LIC after examining all aspects of the problem. In general, the LIC should undertake detailed cost benefit analysis of all such servicing operations to enable it to control the costs of policy servicing and to preserve equity between different groups of policyholders.

72. The Committee recommends consideration of the following further suggestions:—

(i) Cost of servicing a policy with half yearly mode of payment is substantially higher than that of a policy with yearly mode and the cost of servicing a policy with quarterly or monthly mode is higher still. In the Committee's view, the present rebate for mode does not reflect adequately the difference in cost of servicing of policies with different modes of payment of premiums. The Committee, therefore, suggests that the rebate for yearly mode, which at present is Rs. 0.75 per Rs. 1000 sum assured, should be increased to at least Re. 1/- per Rs. 1000 sum assured and suitable extras charged where premiums are paid quarterly or monthly.

(ii) The cost of servicing depends on the number of policies serviced. It is, therefore, in the interest of the LIC that a policyholder insuring for a large sum is persuaded to take out a single policy for that sum and not split it up into a number of policies for smaller sums. For this purpose, the LIC is already allowing a rebate of Re. 1 per Rs. 1000 sum assured for policies of Rs. 25,000 or more. The result of this is that a policyholder insuring for Rs. 1 lakh and over, is advised by the agent to take out several policies of Rs. 25,000 each. The Committee, therefore, suggests allowing higher rebates for policies of Rs. 50,000 to Rs. 1 lakh.

(iii) At present, the LIC is charging interest at 7.5% for late payment of premium. As the LIC is today earning a gross rate of interest of over 7.5% on its existing investments and about 8.9% on its new investments, the Committee recommends that the rate of interest charged for late payment of premuim should be increased to a minimum of 9%. The Committee has also noted from an analysis of the Internal Audit reports that there is a considerable amount of laxity in many of the offices of the LIC in collection of interest for late payments. The Committee, therefore, recommends a stricter enforcement of the rules regarding collection of late fees in all cases.

(iv) At present, the LIC is required to affix on each policy a stamp of a value depending on the amount of the policy. This task is tedious, time consuming and in addition involves keeping control on the stock of stamps. The LIC has, therefore, taken up with the Government a proposal that it may be permitted to pay a consolidated stamp duty and exempted from individual stamping. The proposals is still pending with Government. There is another matter which bears on the rate of stamp duty itself. Now stamp duty is levied on Group Insurance policies on the same basis as on individual long term life insurance policies, that is, on the sum assured. As Group insurance provides only year to year risk cover at a very low rate, the stamp duty bears heavily on the Scheme. Group insurance policies are like General Insurance policies where the cover is from year to year and the LIC has represented to Government to change the duty on group insurance policies to bring them on par with General insurance policies. This proposal is also still under the consideration of the Government. The Committee recommends that the proposals of the LIC should be considered favourably and appropriate action taken early.

73. Apart from the above suggestions the Committee recommends that the LIC should undertake on a continuing basis a study of the unit cost incurred by

the branch and the divisional offices for the various operations required to be undertaken in the normal course of servicing separately for each office. The Committee has noted that there are large unexplained differences in the expense ratios of the various divisions. This study would, therefore, enable the LIC to investigate into the reasons for the wide differences and take appropriate corrective action wherever it is found that in certain offices unit cost of particular operation is unduly high. The study will also help in evolving simpler procedures based on practices of offices with low unit cost which can then be adopted by other offices.

74. Section 40B of the Insurance Act itself provides that in prescribing the limit on the expenses of management "regard shall be had to the size and age of the insurer and to the provision generally made for expenses of management in the premium rates of insurers"......... On the assumption underlying these premium rates and taking the average sum assured per policy and average premium per policy both in respect of new business and business in force on the basis of the actual distribution of business in the year 1978-79, the limit on the renewal expense ratio on the basis that it does not exceed the provisions in the premiums, works out to about 12.13%. From the point of view of size and age, the LIC must be considered as a giant insurer and that too with the advantage of monopoly. The limit on the expenses of the LIC should, therefore, be nearer to 12% and in any case substantially lower than 15%.

The Committee would like to reiterate the urgent need for conrol on the expenses of management by keeping a watch on the trend of expenses and the level of expenditure of all the Divisional and Branch Offices. The Committee is of the view that the adjusted renewal expense ratio may be accepted as a practical guide to judge the trend in the level of expenses of management of the LIC and that all efforts should be made to bring this ratio down to 12.5% or less.

Investment

75. The Committee feels that the statutory framework laid down for investment of life insurance funds is not in conformity with the basic principles that should govern the investment of life insurance funds.......... and also the objectives accepted by the Corporation relating to investment of its funds. In recent years, the LIC has had to face severe competition from other savings media such as Bank Deposits, Company Deposits, Unit Trust and National Savings. By its very nature, life insurance business will involve a higher level of selling and administrative costs than other savings media. Therefore, if life insurance business has to compete with other savings media, the return on the investments of life insurance funds has to be higher than that available on other savings media.

76. The LIC has so far been able to mobilise large amounts of savings which have been available to Government for its various plans and for other socially oriented projects. The annual accretions to the LIC Funds now exceed Rs. 700

crores. Such mobilisation has been possible hitherto mainly due to the high pressure salesmanship of the LIC's field force on the one hand and the lack of awareness of other options among the public on the other. This situation is not likely to continue and unless early steps are taken to make life insurance viable as a savings medium, we are afraid that the LIC will no longer be able to play its vital role in mobilisation of savings.

77. At present, the major avenues of long term investments in India are Government securities and term loans to State Governments and to public and private sector institutions for their development projects. As these investments do not provide any hedge against inflation, the only way the long term investors can protect themselves against the effect of inflation, is by introducing the concept of a variable rate of interest, a concept which has already been introduced by the LIC in respect of its mortgage loans and loans to State Electricity Boards. The Committee, therefore, recommends that the Government should review its policy in so far as the LIC is concerned regarding rates of interest on Government and approved securities and on long term loans for private and public sector projects and consider allowing a variable rate of interest linked to a suitable index on all such long term financial investments, where the possibility of any capital gain to offset the effect of inflation is not there. The nature of the linkage will inevitably have to be different for different forms of financial investments and is a matter to be decided by the Government and the Reserve Bank.

78. If the yield to the policyholder on his investments in savings linked life insurance policies is to be comparable to the investment in Public Provident Fund the gross yield on the life insurance fund should be at least 10%. At present the LIC is able to obtain a gross yield of about 8.9% on the average on its new investments. It would therefore, be necessary to change the pattern of investment of the LIC in such a manner that the LIC is enabled to earn at least 1.1% more on its total investments to enable it to compete with other savings media like Public Provident Fund.

79. The Committee submits the following recommendations for consideration of the Government:—

(i) At present, the LIC is required to invest about 50% of its total investments in Government and other approved marketable securities. The Committee has noted that approved trust funds like provident funds and gratuity funds are required to invest only 40% of their total investments in such securities. The Committee, therefore, recommends that for the LIC also this percentage should be reduced to 40%, 20% in Government Securities and 20% in other approved marketable securities.

(ii) In respect of the 25% of the investible funds which at present are required to be invested in socially oriented projects, different rates of interest are offered on loans to Government, loans which are guaranteed by Government and loans which are granted to public sector institutions like the State Electricity Board on the security of a mortgage. The Committee is of the view that this distinction is unjustifiable and it recommends that all such loans should be granted at the market rates of interest for such term loans, which also is determined from time to time by the Controller of Capital Issues in case of debentures and by the consortium of financial institutions in case of term loans. At best, a differential of half a per cent may be retained for loans to Government and also to semi-Government institutions, because of the implied Government guarantee.

(iii) As for the LIC's investments in the private corporate sector, the Committee has already noted that the LIC's investments by purchases from the market have been generally very satisfactory and the capital appreciation on such investments has enabled the LIC to offset the depreciation on its investments in Government Securities. However, the LIC's experience in underwriting of equities of new projects has not been satisfactory. The Committee, therefore, recommends that the LIC should restrict its participation in financing of new projects in the corporate sector to term loans and that too after closely examining the financial viability of the project. This should not preclude the LIC considering cases where an existing company, well-managed and successful, goes in for further equity capital for financing an expansion or new project where equity participation may be considered on individual merits. In short, the LIC should not be viewed as a developmental organisation.

(iv) So far as the balance of the funds is concerned, the Committee recommends that the LIC should consider increasing its investment in the housing field, both residential and commercial housing, subject to the condition that the net return on such investments after taking into consideration the expenses involved, is not less than what is obtainable on comparable investments in the socially oriented sector.

80. As regards the special Fund proposed by the Committee to be set up by the LIC for policies which will not be eligible for income-tax relief, the Committee recommends that the whole of this fund should be placed in a special deposit account with the government carrying a rate of interest of 2% more than what is at present available on National Savings Certificates of Seven Year term. Here again, the Committee would like to suggest that the rate of interest on such deposits should be variable and as and when the rate of interest on National Savings is changed, a similar change should also be made in the rate of interest available on this fund, subject to a certain minimum rate of interest being guaranteed.

81. As regards the ordinary life fund, a suggestion has been made to the Committee that whole of this fund, except for a portion to be retained for loans to policyholders, should be handed over to the Government who would guarantee a reasonable rate of interest on the fund. The Committee is unable to agree

with this suggestion because of various considerations discussed in the report. The Committee is of the view that the LIC should be allowed to continue the management of its investment function, subject to the modifications in the investment policy suggested by it.

Management Information and Controls

82. The Committee has noted that the LIC has been making continuous efforts for improving its management information and control systems, so that a close watch can be kept on the performance of the various offices. The main problems in this area are the delays in obtaining the information as well as the unrealiability or inadequacy of the information itself. These are due to the defective data processing system.

83. With the present data processing system, the LIC is unable to compile many items of essential information like the number of lives covered through individual assurances and the business in force in various centres, particularly in the rural areas. Again, because of the poor data processing system, the operating offices are not able to obtain agent-wise, development officer-wise and branch-wise statistics of lapses and it is also not possible to get analysis of lapses according to plan of insurance or month of issue or other similar analysis. Non-availability of such statistics makes any effective preventive or follow-up action in this important area extremely difficult.

84. A change over to a new data processing system as recommended by the Committee will naturally require careful planning and time for implementation. An immediate beginning must therefore be made in that direction. However, there is one area where immediate action is both imperative and fortunately possible as well. This is in the area of improving the data base for actuarial valuations and mortality investigations............The Chief Actuaries of the LIC in their Valuation Reports have during the last ten years repeatedly been pointing out the large extent of inaccuracies in the Valuation Master Card Files which is affecting the credibility of the actuarial valuations...... The Committee recommends that the LIC should immediately examine the possibility of maintaining, purely as a temporary measure, the valuation data at the Central Office on the Bombay computer.

85. Such a change over to a computerised data base for the basic valuation records would also enable the LIC to obtain various statistical statements required for management control purposes and also enable the Chief Actuary to experiment with different methods of valuation and analysis of surplus. The Committee recommends that the LIC should take immediate steps to effect a change over to a computerised data base for the actuarial valuations and mortality investigations.

86. At present the financial controls within the LIC are not working at all satisfactorily in many areas. Though in many cases the unsatisfactory working of the financial controls can be attributed to the limitations and

failures of the existing data processing system, the Committee feels that even under the present system it is both possible and essential to tighten up the existing controls. The Committee, therefore, recommends that the LIC should urgently undertake a detailed examination of the working of the existing financial controls based on a study of the Internal Audit Reports and take appropriate action for strengthening the existing controls.

87. The Committee is of the view that the Zonal Manager being the Chief Executive responsible for exercising supervision over the working of all the offices in the Zone on behalf of the Central Office, should be the officer responsible for ensuring that corrective action is taken on the defects and irregularities pointed out in the Internal Audit Reports. Responsibility for all corrective action to be taken on the Internal Audit Reports should, therefore, be vested completely in the Zonal Manager.

88. The Committee further suggests that in each Zonal Office, an Audit Committee should be constituted consisting of the Zonal Manager and two Members of the Zonal Advisory Board which would go into all the Internal Audit/Inspection Reports of the various offices of the Zone and indicate the lines on which corrective action should be taken.

89. The Committee is of the view that for budgetary control to be really effective, it should start at the Branch level. The Committee, therefore, recommends that the LIC should urgently consider making the Branch office an accounting unit, so that formulation of financial budgets at the Branch level is facilitated.

90. The Committee also recommends that from the point of view of proper financial controls and planning, it is essential that the expenses which relate to the handling of investments, including investments in mortgages and buildings, are debited to the capital or interest or rent account as may be appropriate and not to the expenses of management so that a correct picture of the actual return on the investments of the LIC is obtained.

91. The Committee further suggests that rent at "market" rates should be charged on all properties (owned and occupied by the LIC), so that the costs incurred are correctly reflected in the revenue account of the LIC.

92. The Committee recommends that the LIC should consider introduction of a detailed performance budgeting system covering all the important areas of the LIC's objectives and operations and also arrange for a continuous review to be made of the actual performance in relation to such budget.

Management of Human Resources

93. We have come to the conclusion that the LIC has not achieved much success in "involving all the people working in the Corporation to the best

of their capability in furthering the interest of the insured public and providing efficient service with courtesy" and "promoting amongst all employees of the Corporation a sense of job satisfaction" which are the two corporate objectives of the LIC in the area of management of human resources. In the Committee's views this is partly due to the general socio-economic environment in the country, partly a result of the continuing industiral unrest in the organisation and partly to a lack of any serious effort on the part of the management to understand and analyse the underlying problems and to develop personnel policies which could help in improving staff morale and attitudes.

94. The Committee is of the view that the present system under which responsibility for negotiations with its staff Unions is vested in the LIC while all decision making authority involving even minor changes in any of the terms and conditions of service is vested in Government in inherently unsound. The Committee accepts the need for having a measure of uniformity in service conditions and wage structures amongst the different public sector institutions. However, in the Committee's view this can best be achieved by Government laying down guidelines in this matter to be followed by all public sector institutions. The guidelines should be in broad terms so that while ensuring basic uniformity in wage structure, levels of remuneration and other service benefits, they do not affect the freedom of the public sector management to evolve its own personnel policies. Once such guidelines are framed by the Government and issued as directions to all the concerned public sector institutions, the management of the institution should be left free to evolve their own personnel policies and also to conduct negotiations with their staff unions and arrive at specific decisions within the confines of the guidelines. This will ensure that a level of uniformity is maintained amongst the various public sector institutions and at the same time will still leave enough freedom to the institutions to deal with their own problems and evolve effective personnel policies. It would then be possible to evaluate objectively their performance in the area of management of human resources.

95. If the Government finds that it is not possible to lay down guidelines on the lines suggested by us, an alternative is to set up common Pay Commissions for all public sector institutions of similar type. The awards of such Commissions, with such modifications as the Government may consider necessary in the light of its general economic policies, would then be binding on the institutions and the institutions would not be required to conduct separate negotiations with their staff unions.

96. The Committee is convinced that for an institution of the size and importance of the LIC, which is required to work on business principles, it is essential to have some continuity in the post of the Chief Executive. The Committee, therefore, recommends that the post of the Chairman of the LIC should be treated as a tenure post with a fixed term of five years.........
What we have stated regarding the post of Chairman of LIC would apply equally

to the posts of Chairman-cum-Managing Directors of the Zonal Corporations, if our recommendation of splitting up the LIC into five independent Zonal Corporations is accepted.

97. The Committee recommends that the LIC should review its policy regarding fixation of minimum and maximum periods for posting of Divisional Managers and other senior executives at a particular station and consider the desirability of avoiding frequent changes in these posts so as to ensure continuity in management.

98. An important area where a review of the existing procedure is necessary is the appraisal system and promotion policy for class I officers. The present reporting system is not satisfactory. A general impression exists that there is a lack of objectivity in reporting and most of the confidential reports are colourless. The need for a thorough review of the existing system has therefore, been recognised for a long time.

99. The Committee recommends that on the basis of the detailed suggestions made in the report as well as the studies which the LIC has itself undertaken in the past, it should take urgent steps for a thorough review of its existing appraisal system.

100. As regards promotion policy also, the Committee feels that there is an urgent need for a review..........An ideal promotion policy should also provide for more rapid promotions for the few officers who have outstanding abilities. This alone will ensure that some outstanding officers can reach the top positions of the level of Zonal Managers and above at a reasonably young age..........We suggest that besides a study of the confidential reports, interview by the promotion committee should be added as an additional factor, on the basis of which final decisions on promotions are taken. This will provide a corrective factor for any deficiency of the appraisal system as reflected in the confidential report.

101. The Committee also recommends that the LIC should evolve a properly planned management development programme for its management personnel at all levels so that the existing management personnel are given adequate opportunities for development and future needs of the LIC in various areas are properly identified and steps taken to meet them.

102. An important part of a management develpment programme is an adequate training programme which would prepare the management personnel for changes in the organisation and in their own roles in it. In our review we have indicated the three main areas where the existing facilities and programmes for training need to be strengthened. These are:—

(i) Training of all employees promoted from Class III and Class II to Class I so as to enable them to fully appreciate the nature of the change in their roles in the organisation and effectively function in their new roles.

(ii) Training of all officers who are being posted as Branch Managers in-charge of Branches for the first time.

(iii) Training of all officers who are being posted as Divisional Managers in-charge of Divisions.

103. As far as the first two items of para 102 are concerned, the Committee feels that the Officers' Training College with its present facilities is not equipped to handle these two assignments adequately. The Committee, therefore, recommends that the LIC should consider setting up of training centres at the Zonal headquarters also.

104. As regards the training of officers being posted as Divisional Managers, the Committee understands that a new apex institution called the National Insurance Academy is being set up with the support of both the LIC and the GIC with the specific responsibility of evolving senior management development programmes and this academy will be entrusted with the responsibility for organising training programmes for senior executives like Divisional Managers. The Committee recommends that the LIC and GIC should ensure that the academy starts functioning effectively at a very early date, so that this urgent task can be taken up without any delay.

105. Apart from the general question of management development, it is necessary for the LIC to examine its existing man-power resources, its current and future needs of man-power with specialised knowledge and experience and draw up specific plans for proper utilisation of existing man-power and for meeting its current and future needs.

106. There is, however, one area where the actual availability of technically qualified man-power is likely to be substantially less than the present and future requirements of the LIC. This is in respect of actuarially qualified employees. The Committee recommends that the LIC should undertake an urgent study of this problem, prepare an estimate of the number of actuaries which would be required for its various offices in the coming two decades and draw up a specific plan and programme, which would enable it to meet these needs.

107. The most important problem in the area of management of human resources is how to improve the attitudes and motivation of staff at all levels. The Committee was informed that one of the major causes responsible for the feeling of a sense of frustration and lack of involvement is the absence of adequate promotional opportunities among Class III personnel in the LIC. The Committee feels that the ratio of officers to class III staff is too low for a service organisation and, therefore, recommends that the LIC should review

its policies in the matter of relative strength of Officers and Class III staff with a view to providing additional promotional opportunities.

108. The Committee is of the view that splitting up the LIC into five independent Zonal Corporations as recommended in Chapter XX will by shortening the lines of communication help in creating a sense of identity and of belonging among employees of each of the Corporations. This would thus contribute to an improvement in staff motivation.

109. Further, the Committee's recommendation for complete decentralisation of policyholders' servicing functions to Branch Offices would also be a step in the direction of improving job satisfaction and staff motivation.

110. Generally, the Committee is of the view that if the LIC which has a large reservoir of trained and competent man-power takes steps to reorient its methods of organisation of work and evolve suitable man-power development programmes so that all the employees are given opportunities to utilise their qualifications, knowledge, experience and skills in their day to day work, and also given opportunities for self development, it would go a long way in removing the feeling of frustration at present prevailing among the employees and improving the overall staff morale and staff productivity.

Organisational Structure

111. In spite of large growth in its business, efforts made for improving its service to policyholders and achieving economy in management, the LIC has not been able to fulfil most of its primary objectives. The Committee is convinced that the present unitary structure has been a major factor in inhibiting progress. Some of the major considerations which have led the Committee to arrive at this conclusion are given below:-

(i) The LIC Act had visualised autonomous Zonal Offices with only policy making functions vested in the Central Office. In actual practice, however, there has always been a tendency to centralise both executive as well as policy making functions at the Central Office, the Zonal Offices having only limited supervisory and co-ordinating functions. This development should not occasion any surprise because the tendency to concentrate power in its own hands is inherent in all apex bodies.

(ii) Practically all the Committees that had gone into the working of the LIC have felt that the present four tier set up is both wasteful and cumbersome. This Committee shares this view. The recommendation of the ARC and of the Morarka Committee to reduce one tier by abolition of the Zonal Offices has also not proved workable and after a brief experiment, the Government and the LIC found it necessary to restore the status quo ante.

(iii) Because of overcentralisation of authority in the Central Office, which has endured notwithstanding Shri Deshmukh's confident pronouncement to the contrary, the lines of communication have become tenuous and there appears to be lack of identification and a sense of belonging in the management personnel at all levels. The Committee feels that with smaller Corporations it would be possible to build up a sense of belonging firstly because a smaller organisation does promote a feeling of belonging and secondly because shorter lines of communication between different levels give a feeling of participation.

(iv) The Committee feels that if each Zone is made a separate legal entity with its own accounts and other published performance reports it is likely that greater efforts will be made by the management of the Zones to improve the performance.

112. In the light of the general considerations contained in para 111 the Committee has come to the conclusion that it is desirable to split up the LIC into five separate Corporations.

113. The Committee recommends that the existing Zonal Offices should be set up as independent, non-competeing Corporations with their jurisdiction restricted to their present areas. All these Zonal Corporations will be working on the basis of common premium rates and policy conditions. They will also have a common actuarial valuation and uniform bonus rates will be declared for all the Corporations at least to start with.

114. The Committee recommends the following broad set up for the Zonal Corporations:—

(i) The management of the Zonal Corporation will vest in a Board of Management with the Chairman-cum-Managing Director of the Zonal Corporation as full time executive Chairman. The Board should consist of the Chairman-cum-Managing Director, two or more fulltime Functional Directors, a Central Government nominee and not more than 10 Directors selected on the basis of their expertise in related fields such as actuarial, accountancy, law, medicine, personnel management, etc.

(ii) The Central Office of the Zonal Corporation will handle all the functions which are at present being handled by the Central and Zonal Offices of the LIC.

(iii) The two lower tiers of Divisional and Branch Offices will continue. However, with the complete decentralisation of servicing functions to the Branch Offices, the role and functions of the Divisional Office will undergo a change. The role of the Divisional Office will be supervision and control over the Branch Offices, planning for the development of business and organisation and technical guidance in the areas of underwriting and policy servicing.

(iv) The bigger branch offices will perform all servicing functions directly with their own data processing systems based on micro-processors. The smaller Branch Offices will also render all essential services to the the policyholders but will depend upon the Divisional Office for certain mechanised services. The smaller development-cum-servicing centres will render limited services to policyholders.

115. Though all the five Corporations will be working as independent Corporations reporting directly to the Government, in certain areas co-ordination will be essential. ..... For providing such common services and ensuring coordination of working between the different Corporations, the Committee recommends that a Central Body to be called the Life Insurance Board (LIB) should be set up. The role it visualises for the LIB is not that of an apex body controlling and supervising the working of the Zonal Corporations but only that of a Co-ordinating body which will also be dealing with certain common functions. It will also provide a forum for discussion of common problems. The LIB will consist of a full time Chairman, three technical full time Directors dealing with the functions of investment, actuarial and personnel and a Member representing the Central Government. The five Chairman-cum-Managing Directors of the Zonal Corporations will also be Members of the LIB.

116. The LIB will handle all investments in Government and approved securities as also all investments in the private corporate sector. All decisions regarding investments in the socially oriented State sector would be taken by the LIB but actual investments will be channelised through the Zonal Corporations so that the Zonal Corporations can remain in close touch with the respective State Governments in which such investments are being made. Investments in mortgages and house building activities would be handled completely by the Zonal Corporations but within the budgetary allocations approved by the LIB.

117. The Committee would like to emphasize that the LIB would be only a co-ordinating body providing certain common services and not a controlling or a supervisory body, so that the general tendency for centralisation which has been apparent in the LIC does not recur and each Zonal Corporation is able to function as a completely independent Unit. Each Zonal Corporation will report directly to the Government and also be directly responsible to the Government for the management of its affairs.

118. The recommendation made involving splitting up of the LIC and setting up of five independent non-competing Zonal Corporations will involve statutory changes and will take time to implement. However, if the Government takes a decision in principle accepting the recommendation, certain immediate steps can be taken within the existing statutory set-up in the direction visualised. The Committee recommends that in that event immediate steps should be taken to curtail many of the functions of the Central Office and decentralise the same to the Zonal Offices.

The overall effects of the interim steps suggested would be that the functions and staff of the LIC Central Office would be curtailed substantially and the Zonal Offices' functions and authorities would be correspondingly increased.

119. With the proposed increases in the functions and authority of the Zonal Office, it would be necessary to strengthen the Zonal Advisory Boards and review their functioning suitably so that their role is made more purposeful and effective.

120. As regards the statutory provisions relating to the Policyholders' Councils and Employees' and Agents' Relations Committees, the Committee is of the view that these provisions require to be reviewed.

The Committee would recommend the deletion of both these provisions. As regards the general question of employees' participation in management, the matter may be reviewed by the Government in the context of its general policy.

Other Related Matters

(Government's relationship with the LIC, Role of the Controller of Insurance and Government's share of Valuation surplus)

121. The question of the relationship that should obtain between the LIC and the Government has received the most careful consideration at the hands of every Committee that has gone into the working of the LIC. The Committee is in general agreement with the recommendation made by the Estimates Committee (1960-61). The Committee realises that a large measure of consultation between the Government and the LIC would be necessary and that it is also inevitable that such consultation would include a number of suggestions from the Government to the LIC. However, a clear distinction has to be drawn between a suggestion made for consideration by the LIC and a suggestion which is really in the nature of an instruction to be complied with. So far as the first category of suggestions is concerned, it would be open to the LIC to accept or not to accept the suggestion after considering it on merit in the light of its own interests. As regards suggestions which are in the nature of instructions, the Committee accepts that all of them need not be issued as directives. However, when such instructions are received, it would still be the duty of the LIC to consider each instruction in the light of its business interests and the practical problems involved in implementing them. If the LIC comes to the conclusion that implementation of the instruction would affect its working adversely, it should write to the Government giving reasons why it feels that it would not be in its interests to carry out the instruction. In such an event, if after giving due consideration to the LIC's observations, the Government comes to the conclusion that in the interest of public policy it is still necessary to direct the LIC to carry out the instruction, the Government should issue necessary directions under Section 21 of the LIC Act. The Committee recommends that the above procedure should be followed both by the Government and the LIC.

The Committee trusts that all such suggestions, instructions or directions would relate to matters of policy or on any executive decisions which impinge on matters of public policy and not to matters relating purely to internal administration.

122. The Committee gathered the impression during the course of evidence that a convention appears to have developed that no proposal is passed by the Board of a Public Sector Undertaking unless there is specific concurrence of the Government representative on the Board, even on matters which do not impinge on public policy. If such a situation does really obtain in practice, the Committee feels that it would detract from the responsibility of the Board as a whole and the autonomy of the undertaking as well. The Committee is of the view that there should be a full discussion in the Board on the merits of every proposal before it.

The Government nominee may point out to the other members, the implications of any particular proposal as far as it impinges on matters of public policy so that this aspect is given due consideration by the Board before arriving at a decision. Where any decision of the Board is not found acceptable to the Government, the Government has got the authority first to issue instructions and then if necessary a directive, as already discussed previously. The Committee recommends that guidelines should be issued in the matter of the role of the Government nominee on the Board of Public Sector Undertakings.

123. The Committee is given to understand that financial institutions like LIC, GIC and Banks are outside the purview of the Bureau of Public Enterprises. However, the Committee was informed that in practice various circulars and instructions issued by the Bureau concerning many matters of general administration are being sent to the LIC through the controlling ministry. If these are meant as suggestions for consideration, the LIC should treat them accordingly and take a decision on the basis of whether acceptance of the suggestion would be in the interest of the LIC or not. However, if the circulars of the Bureau are meant to be instructions, they should be issued directly by the controlling ministry and not by the Bureau, and they should be dealt with in the same manner as other instructions emanating from the Government, as indicated earlier.

124. The Morarka Committee gave thought to the question of continuous scrutiny of the working of the LIC by the Controller of Insurance who is the statutory authority under the Insurance Act 1938. Their recommendation is given below:

> "It should be the duty of the Controller of Insurance to function as an evaluating Officer who continuously studies the working of the LIC in all its aspects and assesses the economic efficiency of the undertaking and its achievements and failing in terms of the objectives of nationalisation. As the officer responsible for the vigilance and evaluation, he should be charged with the duty to draw the Government's attention to the kind of directives that the Corporation may need from time to time."

Although this recommendation was accepted by the Government, the position continued to remain the same. The Committee is in complete agreement with the recommendation made by the Morarka Committee.

125. The Committee recommends that to enable the Controller of Insurance to discharge his duties under the Act in the manner the Parliament intended him to do, it would be necessary to make the Office of the Controller of Insurance independent of any other wing of the Finance Ministry in regard to its functions as the statutory regulating authority.

126. At present the LIC is required to submit its Annual Accounts as well as the report of the Chief Actuary on the valuation of the assets and liabilities of the LIC, in the forms prescribed under the Insurance Act. The Committee recommends that the forms prescribed for submitting the Valuation Reports should be suitably reviewed so that the LIC is enabled to carry out its statutory actuarial valuation by the Bonus Reserve Method for submission to the Controller of Insurance if it so desires.

127. On the subject of actuarial valuation, the Committee would like to refer to the recommendation made by the Committee of Actuaries in their report that the LIC should accept the obligation to return in full the surplus contributed by a policyholder at least when the policy results into a claim. The Committee is of the view that this principle should be accepted by the LIC, to ensure equity between different generations of policyholders. The Controller of Insurance should be required to satisfy himself that this principle is being adhered to.

128. The Committee has noted that while the functions of the LIC are strictly defined by the LIC Act and regulated by the provisions of the LIC Act read with the Insurance Act, there is no such regulation of the life insurance business transacted by the State and Central Governments and by the Post Office Insurance Fund. The Committee, therefore, recommends that the provisions of the Insurance Act should be applied to the Insurance Schemes transacted by the State and Central Governments with suitable modifications, so as to ensure that the schemes are actuarially sound and also that complete statistical information of the schemes is made available to the public.

129. The Committee recommends that the practice of publishing the Insurance Year Book should be resumed and the Year Book should contain the Controller's report on the working of LIC and GIC giving his detailed evaluation of their performance in terms of their objectives. The report should also give detailed statistics and information regarding the working of various insurance schemes of the Central and State Governments.

130. The Committee recommends that reports of actuarial valuations of private pension funds and gratuity funds should be required to be submitted to the Controller of Insurance and the Controller should also prescribe forms in

which the reports should be submitted. The Committee feels that this is necessary to ensure that these funds are run on scientific basis.

131. The Committee recommends that the Controller of Insurance should be vested with powers similar to those under Section 22 of the Insurance Act in respect of Valuation of Gratuity and Pension Funds also. This would be appropriate as the Controller is, in addition to his duties under the Insurance Act, also the Actuarial Adviser to the Government of India.

132. The Committee would like to emphasise that if the role of the Controller of Insurance is accepted as that of the Government Actuary, who is also responsible for regulation of the entire insurance industry in the country including the Central and State Government run insurance schemes, and evaluation and monitoring of the performance of the LIC and the GIC, it is essential that his office is strengthened by the posting of necessary complement of technically qualified staff.

133. The Committee has noted that even before nationalisation, leading insurance companies used to allocate more than 95% of the valuation surplus to the policyholders. The "Oriental" for instance, the largest life insurance company allocated 97½% to its policyholders. The Committee has also noted that there were many mutual insurance companies in India and elsewhere where the policyholders recieved benefit of the entire valuation surplus and that Section 6 B of the Insurance Act enabled companies "limited by shares" to convert themselves into mutuals. The Committee is, therefore, of the view that there is no justification for the Government taking away such a large share of surplus as 5%.

134. In the light of the background given in para 133 the Committee submits the following recommendation:—

(i) As regards the ordinary life insurance fund, the share of surplus to be allocated to the policyholders should be increased from 95% to 97½%.

(ii) Out of the 2½% share of the valuation surplus not more than Rs. 1 crore should be paid over to the Government which would give a 20% return on the paid-up capital of the LIC provided by the Government. The balance should be set apart to constitute a reserve fund which will be utilised for such special schemes for the development of life insurance business for the benefit of rural areas and of economically weaker sections of the community, as may be approved by the Government.

(iii) In the case of the special fund recommended by the Committee for policies which will not be eligible for income-tax relief, as these policies are meant for policyholders from the low income group, the entire surplus should be reserved for and allocated to the policyholders.

135. One scheme which would require a subsidy from the special fund referred to in sub-para (ii) of para 134 is the proposal made by the Committee for opening a large number of development-cum-servicing offices in the rural areas. In the initial stages these offices will not be economically viable and would require some subsidy to ensure that the higher expenses do not reduce the benefits available to the policyholders as a whole. The LIC should make a cost benefit study of the working of such offices and submit its proposals for a subsidy from this special fund for approval of the Government.