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REPORT

OF THE

POST-WAR SUB-COMMITTEE

OF THE

Insurance Advisory Committee

1947

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PART I

INTRODUCTION

This Committee was appointed to consider "all the problems relating to post-war India". In construing these words, we have assumed that we are to confine ourselves only to the comparatively narrow field covered by voluntary insurance as transacted commercially by private companies and that we are not required to explore the various other fields of insurance which are usually the responsibility of the State.

2. Nevertheless, we feel that we will not be transgressing our terms of reference in first making a few observations on certain closely allied topics. We feel that there are directions in which the field of insurance is so far unexplored in this country and these should be explored if the country is to ensure progressive economical improvement to the utmost limit possible. For example, cattle insurance is almost unknown in this country at present. Some years ago there was a number of cattle insurance co-operative societies in the rural districts of the Bombay Presidency and the Punjab, but they all failed, firstly because of the absence of adequate and reliable statistics on which to base operations, and secondly because the management of the societies left much to be desired in the matter of efficiency. We think that a fresh well-planned start should be made in this direction, and we strongly recommend that for this purpose the Imperial Council of Agricultural Research should be requested to collect suitable statistics so that in five to ten years' time adequate statistical material may become available without which the venture might prove a leap in the dark. The importance of this aspect of insurance would need no emphasis if it is realized that economically, cattle form the only valuable possession of and the only source of livelihood to the majority of the rural population.

3. Crop insurance is another direction in which this country is very much backward. We strongly recommend that the Imperial Council of Agricultural Research should be requested to collect the relevant statistics for this purpose. There are many other types of insurance transaction in the U. S. A., the most insurance-minded of all the countries in the world, and the list of the various types of insurance permitted under the New York State Act is indeed formidable. Credit insurance and export trade insurance are two which this country might usefully adopt even now.

4. A further field is that relating to sickness, unemployment and allied types of insurance for the industrial and other manual workers, included in the comprehensive description 'Social Security'. As this subject is already under the consideration of the Government we feel it unnecessary to make any specific recommendations thereon.

5. One direction in which we feel action can be taken is introduction of compulsory insurance of factory workers. At present most of the factory workers who are the main bread-winners for their families are not insured so that any accident either fatal or non-fatal, but involving complete or partial interruption of earnings involves the families in financial distress except for the meagre relief provided by the Workmen's Compensation Act. The contemplated Social Security plans, when put into force will partly fill this gap but the relief provided by the plans might not be fully adequate for the needs of the average working class family.

LIMITATIONS OF PLANNING

6. There is a fundamental difference between the development of the business of insurance in post-war India and that of Industrial activities mainly concerned with the production of material goods. In the case of industrial activities post-war development may take the shape of establishment of new industries either to overcome the great handicap owing to their lack which the demands of war have revealed, or because of the discovery, under the stress of war, of raw materials particularly suited to the starting of certain new industries. In the case of existing industries the development may take the form of rationalization leading to economy which the large-scale and accelerated production under the tempo of war might have engendered. Neither of these conditions exists in the case of insurance and any planning for this industry will have to take into account this limitation.

INSURANCE PUBLICITY

7. Of all the civilized countries of the world, India has the lowest *per capita* insurance. While this is no doubt due mainly to the poor economic condition of the masses, the fact that the general population has not been well informed about the benefits of insurance, is also a contributory factor. Concerted measures are therefore necessary to make the public acquainted with the benefits of insurance and to make them more "insurance-minded".

8. It has been suggested that the publicity work could best be undertaken by a board more or less similar to the Indian Coffee Board and supported by a levy from all insurers. We however feel that there is no necessity to associate the Government in this matter at least at this stage, and that the publicity could be achieved by voluntary joint effort on the part of all insurers. The insurers are at present spending fairly large amounts individually on publicity. While it is not suggested that such publicity should be done away with altogether, we feel that better results would be achieved if a part of the amount so spent by each insurer were pooled together and utilized to give publicity to the merits of Insurance in general and Indian Insurance in particular. Efforts made in this direction in the past have not met with appreciable success, but further efforts should be made by insurers with a view to achieving publicity for Indian Insurance. With a view to bringing in all insurers into the scheme, a board should be set up jointly by all the associations of insurers and this board entrusted with the scheme and its detailed working. Insurers who are not members of any of the associations should also be invited to join the scheme and contribute towards its expenses. It is hoped that the response will be good but if there are many recalcitrant insurers, it may then be considered whether any measure of compulsion should be adopted.

IMPROVED SERVICE TO POLICY-HOLDERS.

9. We would commend to the insurers the desirability, nay, the necessity of better service to the policy-holders. This improvement may be by way of liberalising the policy conditions in the contract or it may be by way of offering services outside the contract.

10. We believe that there is scope for further liberalising policy contracts and even with respect to old contracts where the conditions are too rigid it is hoped that companies will take an enlightened view and interpret the conditions in as liberal a manner as possible.

11. The attempt made recently by some insurers to disseminate knowledge on matters on health by publication of leaflets was the first step in the

direction of better service to policy-holders. The discontinuance of such service is probably only temporary and due to the war. This service should be revived and in course of time extended to cover medical service, not of course of such a complicated type as is now the case in some foreign countries, particularly the United States of America, but of a moderate type.

12. In this connection we recommend the creation of a joint medical research board to be financed by all insurers which will study diseases and suggest preventive measures. The measures that are suggested will have to take into account the conditions in this country which differ widely from those obtaining in other countries due to climatic and economic differences and should utilize to the utmost the indigenous resources so as to be within the reach of the poor masses of this country.

13. Service of this nature and in other possible directions to policyholders would call for great care and economy in the administration of life insurance companies. It cannot be too strongly emphasized that such services are never substitutes for the necessary reserves which alone would enable insurers to perform their main function, and the services can come only as luxuries provided by efficiency and economy of management after, but only after, all the reserves to meet the contractual obligations, actual or contingent, are fully set up. Once this limitation is fully realised by the insurers there is no reason why insurers should not extend these services more and more within limits. The advertising value of such service is immense, as, after all, the best advertisement an insurer can have is a satisfied policyholder.

INSURANCE EDUCATION LIBRARY AND RESEARCH

14. Satisfactory service to the policyholders can be rendered only if the insurer has a well-trained staff. At present owing mostly to lack of facilities, the staff of the average insurer is but poorly educated on matters relating to insurance. They have probably learnt something by experience but it will be admitted that this is hardly the ideal method. The examinations recently started by the Indian Life Assurance Offices Association constitute a welcome beginning in the matter of insurance education but it must be realised that this is only a beginning. The aim should be to bring into being an institute like the Chartered Insurance Institute of the United Kingdom. This Institute should provide an efficient tuition service, both oral and correspondence. It should also be an examining body the diplomas of which should be recognized by insurers as well as by the Government. Insurers should encourage their staff to appear at these examinations and success in these should be rewarded as is done in other advanced countries by increased salaries and improved prospects.

15. What is said above regarding the necessity of a sound insurance education for the staff applies equally to the agents. It is only the agent who in most cases, comes in contact with the policyholder and any opinion which the policyholders may form about the particular insurer or of insurance generally will be based to a considerable extent on the manner in which the agent deals with his prospects. More often than not it is the agent who has to study the insurance needs of the prospect and it is essential therefore that the agents should have a fairly good knowledge of matters relating to insurance. Suggestions have been made to the effect that no one should be granted a licence to act as an agent until he has passed an examination which need not necessarily be in English-for the purpose. While we consider this the ideal, we do not in the present circumstances favour giving effect to this suggestion immediately. It is however sincerely hoped that insurers will of their own accord strive to see that every agent of theirs acquires a working knowledge of the principles and practice of insurance.

16. The agent should pay special attention to the particular circumstances of his prospect and recommend to him the type of policy which would be most suitable to him even though this might mean that the commission is not so large as under another type of policy which is not suitable to the prospect. It is up to the insurer to see that there is a proper incentive to the agent to sell policies that will not lapse.

17. Special schemes of insurance have been evolved in different countries to meet differences in the needs of the population arising out of differences in race, and economic condition. In India we have only copied a few schemes from Britain. A knowledge of insurance practice in various parts of the world is sure to broaden our outlook and open new avenues for Indian Insurance. At present there is no place in India where the literature on this subject relating to the different countries is collected and kept ready for reference and study. Such a collection will prove useful in at least two ways. One is that a close study of the literature would stimulate thought and initiative in evolving new schemes and new methods to suit Indian conditions as outright adoption of any existing schemes would generally speaking not be suitable. The other is that this country can benefit by the experience of others and have the advantage of prior warning so that it can avoid the mistakes committed by others.

18. The lack of library referred to above should be remedied at once and immediate steps should be taken to start building up one. The progress may be a little slow during the war owing to delay in postal communications and also to many books being temporarily out of print but it should be possible to equip the library fully within a short time of the cessation of the hostilities. All books, pamphlets and other literature on the theory and practice of insurance should be collected and where the books are not in English some arrangement for getting them translated into English should be made. All schemes of insurance in every country whether operating as private or semi-private enterprise, or as State Schemes should be studied closely. Each scheme should be examined to see whether it can be adopted to suit Indian conditions and needs. A scheme obtaining in a foreign country even if unsuitable for adoption in this country may serve to stimulate lines of thought leading to some new idea worth exploiting. All material necessary for a correct appraisal of Indian conditions should be stocked and studied as a knowledge of such conditions is essential for modifying foreign schemes to suit this country.

19. As and when any scheme emerges out of such work, a pamphlet setting out the scheme and its origin should be prepared and circulated to associations, actuaries and others interested in insurance for opinions and criticism. In the light of such opinions and criticism the scheme or plan should be revised. Work of this type would stimulate constructive thought on lines beneficial to the business. Even if this research scheme yields one good idea per year and a few minor ones, the trouble is well worth it.

20. The library will be located at the place where the contemplated Institute is situated, with branches at such other places as that body may decide. The library may be thrown open to research workers even from outside who obtain the permission of the Institute.

21. Laws governing insurance business in the various countries of the world should also be examined with a view to finding out provisions which will promote healthy growth of insurance in India and their ultimate incorporation in the insurance law of the country. Ways and means adopted in foreign lands for putting down evasion of the provisions of law should be studied and adopted if necessary with suitable modifications.

22. It is also very desirable to have a Central Organization which would keep up-to-date information regarding all matters in the investment field and circulate the information to all insurers who desire to have it and are prepared to pay for it. This matter can also be entrusted to the proposed Institute or its Department which is in charge of the library and research.

MORTALITY INVESTIGATION

23. The importance of a mortality table based on the experience of all insurers in respect of Indian assured lives needs no stress. The only extensive investigations relating to Indian assured lives are those done with statistics available with the Oriental life Assurance Company Limited, on five different occasions in the past. No insurer can assume that the mortality of lives assured with him necessarily corresponds with that in the Oriental experience. A combined mortality table will furnish a better standard with which the individual experience of each company can be usefully compared. It is recommended that the work of compiling such a table should be undertaken by a committee of actuaries, under the auspices of all the Associations of life insurers. All the insurers operating in India should be asked to furnish data. The data furnished can and should be kept confidential and insurers may rest assured that since the actuaries will only deal with dry numbers in which the identity of the lives assured is not disclosed the clientele of one insurer will not be known to another. If insurers ultimately decide to have the deviations from the normal of individual insurers investigated, as was done in the United Kingdom, so that those that experience mortality much heavier than the average of all insurers, might get timely warning for improving their methods of selection, the actuaries could be depended upon to keep the knowledge acquired in the course of such analysis confidential. Such an investigation will also have its use in fields other than life insurance work. For instance it might enable comparison of mortality in this country with that in other countries on the basis of reliable statistics which comparison it has not at all been possible to make on the basis of the mortality investigations in connection with the decennial censuses owing to the extreme unreliability of the figures relating to Indian censuses. From the point of view of the Government of the country the figures will thus have their use in fields of this type. But as their main use will be in connection with the conduct of life insurance business in this country, the companies should contribute a major portion of the expense of conducting the investigation, the Government contributing the balance.

MEDICO-ACTUARIAL INVESTIGATION

24. In addition to a mortality investigation it is highly desirable to have a combined Medico-Actuarial Investigation on the lines of the one made in the United States of America a few years ago. That investigation enabled actuaries in that country to study the effect of different types of impairment on longevity. With the aid of the results disclosed by such an investigation they have been able to arrive at a system of numbers representing the percentage deviation from the normal that appertain to each of the factors that fall to be taken into account in assessing the risk while considering proposals for life insurance. This numerical system of assessment as it is called, enables even junior assistants to deal with the proposals for insurance quite mechanically and at the same time expeditiously and scientifically and eliminates entirely the play of personal factors as regards acceptance which elimination is very desirable at the initial stages at which the proposal is considered. The case comes before the senior official responsible for final acceptance well digested and in the form of a chart which enables him to fix his attention simultaneously on all the vital factors influencing the selection of the life and he is able to exercise his judgement

without having to give his attention to minor details. A member of this committee has personal knowledge of how this system has enabled insurers in the U. S. A. to dispose of a large number of cases within a short time, which would not have been possible otherwise.

25. The above investigation had another beneficial effect on insurance. With the knowledge as to the incidence of extra risk gained the actuaries in U.S.A. have been able to accept with suitable extra premiums most of the substandard risks which would normally be declined as uninsurable. It is the mission of insurers to offer insurance protection to those who apply for it and to decline a proposal unless the life is absolutely uninsurable is a confession of failure. It is not suggested that these risks should be accepted at an inadequate extra. If a proper extra based on scientific study of the case is charged, the proposer will be enabled to get without any loss to the insurer insurance cover which perhaps is more needed in his case than in others.

BIRTH AND DEATH STATISTICS

26. It is a well known fact that the Birth and Death records of this Country are lamentably deficient. This has already been commented upon by every one of the actuaries who were responsible for analysing the population statistics at the various decennial censuses from 1881 onwards and they have all recommended that accurate records of births and deaths should be maintained if not for the whole country at least for selected representative areas. If accurate records for the whole country are maintained insurance companies will be enabled to get a better proof of age than what they have been getting so far. But no action has been taken on these recommendations so far. These records will supply the basis for scientific working of insurance institutions in directions which remain unexplored at present on account of this serious handicap. For example in drawing up a scheme of sickness insurance for the industrial population to begin with and the general population later, the element of mortality plays a role second only to that played by sickness and disablement. We therefore feel that necessary steps should be taken by the Government without any delay to ensure keeping of accurate births and deaths records in the country.

27. This is, of course, not the place where we could go into a detailed discussion of all the various measures that would be necessary for achieving this object. But among those that readily occur to us in this connection, we may specially mention measures like countrywide campaign to educate the public about the necessity and utility of prompt registration of births and deaths with the proper authorities, improvement of the machinery for maintaining such statistics in rural areas and if necessary, making such registration compulsory.

LIMITATION OF EXPENSES

28. Of the three elements that enter into the calculation of the premium rates viz., mortality, interest and expense, the first, except for the improvement that would accompany a more careful selection of lives, is outside the control of insurers. The second factor of interest is also to a large extent beyond the insurers' control. In fact during the last few years insurers helplessly witnessed a fall in the gross yield obtainable on their investments which combined with a steep increase in taxes has reduced the net yield to a dangerously low level. With the high rate of 63 pies in the rupee at which ceiling for tax is fixed for insurance companies the prospect for insurers as regards interest earnings looks none too rosy. In view of this, if insurers are to be in a position to offer insurance protection to the public at attractive rates o

premium and to provide also the further service referred to earlier, a reduction in expenses, the only factor within the control of insurers, is essential.

29. We cannot help observing that the expense ratio of most insurers operating in India is higher than in other countries and higher than it need be even taking into account the conditions in India. One of the important reasons for the high expense ratio is the heavy cost of procuration. The main reason for this is the acute competition between insurers in grabbing the meagre business available. Either because of the craze for big new business figures or because of a feeling that insurers cannot exist without a large volume of new business competition has become unhealthy and uneconomic. In another part of the report we have suggested amalgamations as a remedy for this evil, and here we confine ourselves only to measures that will help insurers to write and maintain business at a low cost.

It has been suggested by some that the question of reduction in the present high expense can well be left to the voluntary effort of insurers themselves and that in any event the Superintendent of Insurance has wide powers under the Insurance Act enabling him to take action in any case where insolvency is feared or established.

31. As regards the first part of the above suggestion we have to observe that though during the last few years a slight reduction in expenses has been noticed, the position continues to be far from satisfactory. The fact that the position as regards expenses still remains unsatisfactory in the case of many insurers even though they have been in existence for a number of years points to the conclusion that Government should not rest content with a mere appeal to the insurers.

32. As regards the other part we must point out that the powers given to the Superintendent of Insurance can be exercised by him only after the financial position of the insurer has become precarious. The object however should be to take steps which will impose a check on an insurer who is drifting to that state as soon as the drift commences.

33. We are therefore forced to the conclusion that legislation is the only remedy. At the time the Insurance Act, 1938 was passed commission to agents was exorbitantly high and the legislature hoped that by limiting the agent's commission the total expenses of management would diminish. The last few years subsequent to the passing of the Act have belied this hope as insurers barring a few exceptions have only discovered methods to evade the provisions of section 40 by appointing a large number of intermediaries between the agents and the insurers with the result that the reduction in the agent's commission effected by the Act was not in fact reflected in the expenses of management of insurers. The only solution for the evil is in our opinion, a limitation of the total expenses of an insurer. We might mention here that the State of New York adopted limitation of expenses as a cure for the disease of extravagance as long ago as 1906.

34. We might add that statutory limitation of expenses is independent of and in addition to the supervisory powers vested in the Superintendent of Insurance under the Insurance Act, 1938.

35. To help the insurers to reduce expenses limitation of commission of licensed agents and chief agents will also be necessary. We also recommend that the intermediaries between the branch office or the chief agent and the insurance agent should be restricted to the barest minimum on the basis of

the volume of business and the number of agents the aim being to have only bonafide intermediaries. Our recommendations accordingly are :

- (i) Further limitation of agent's commission.
- (ii) Limitation of chief agent's commission.
- (iii) Limitation of number of intermediaries.
- (iv) Limitation of over-all expenses.

36. This report is not the place to consider the actual detailed formula for the limitation of expenses but we would like to mention the general principles which should govern such limitation. No insurer should be allowed to spend more than what is provided for expenses in the premiums received, except that during the first few years of their existence insurers may be allowed to spend a little more but the additional amount should not exceed the provision for bonuses in the premium.

37. The position as regards expenses of management of insurance companies transacting non-life business in this country is also unsatisfactory. Even though the companies are having some underwriting profits during the war period, their past experience was very bitter. The Indian general insurance companies had prior to the War practically no underwriting profit, and the reserve position of the companies is not what it should be. To the evil of underwriting on an uneconomic basis is added that of excessive cost of administration and these two leave little or no margin for additional reserves and underwriting profits. Unless immediate steps are taken as regards this class of business also for imposing statutory limitation of expenses we are afraid the general insurance business in this country will make no headway and will be doomed in the post-war period and this will mean a substantial drain on the resources of this country as an invisible import. The limitation of expenses above referred to should take the shape of a limit separately on the ordinary agent's commission, commission to chief agents and the over-all working costs. Unless this is done by the Government it will be difficult to put Indian general insurance companies on a par with institutions of this kind in other countries of the world.

AMALGAMATION AND TRANSFER

38. One of the reasons, though not the main one, for the high expense ratios of many insurance companies in India is that they are too small and therefore are uneconomic units. We recommend that they should combine with strong units. It will be remembered that some years ago a tendency towards elimination of smaller units by amalgamation was in evidence in the United Kingdom and although the volume of insurance business transacted in that country has considerably increased there has not been any significant addition to the number of insurers with the result that the insurance needs of the United Kingdom are met by a comparatively small number of strong insurers. Persons at the helm of affairs of smaller and weaker units will do well to consider whether those units should continue their separate existences or whether they should transfer their business to big and sound companies. The latter also have a duty towards the well-being of Indian insurance and they should consider sympathetically proposals for transfer from smaller companies in the realization that any harm done to the policyholders, confined though it may be to those of a unit however small, will undermine the confidence in insurance and undo the good work of several years in making the masses insurance-minded. Those in charge of the management of smaller companies also should view the whole question from the point of view of safeguarding the interests of policyholders and not of their self-interest. Cases are known where good propositions for

transfer have foundered on the rock of inability to provide high positions in the official cadre of the absorbing company for those associated with the management of the weaker company. The position as regards the clerical staff is, however, different and it may in most cases be possible to fit them into the clerical grades of the amalgamated company which will ordinarily go on expanding. The transfer of the business of a weak company to another company is, generally speaking, a painful process in so far as the insurance contracts of the former may fall to be reduced to a certain extent so as to avoid any injustice to the policyholders of the absorbing company. Where the business of a weak company is transferred to a strong company the policyholders of the former could expect that their contracts would almost certainly not be further reduced. But where the amalgamation is of two weaklings, apart from there being no guarantee that there would not be a further reduction of contracts the chances are that the two together will produce a unit no stronger than the weaker of the two.

39. What has been stated above applies with even greater force to the case of Provident Societies. Excepting a few the others are too small to be able to function economically. Even the minimum overhead expenses weigh heavily on them. Their finances are naturally in a bad way, and the valuation reports only confirm what is obvious viz., that most of the institutions are insolvent. High expense ratios are inevitable when the units are very small and it is hoped that the smaller and the weaker provident societies will take steps to transfer their business to stronger ones in their own interests and in the interests of the poor men whom they seek to serve. While one might raise the bogey of monopoly as an argument against combinations, it is also possible to overdo the contrary aspect and create several weaklings warring with each other for the meagre business available thereby spoiling the field and confidence.

INVESTMENT POLICY

40. While we recognise the basic soundness of the premises on which the present restrictions of investments under section 27 of the Act have been built, we nevertheless are of the opinion that the restrictions have at present been imposed in a manner which unduly curbs the freedom of the industry as a whole. Though generally speaking, we would be averse to the complete removal of these restrictions, or even to any great relaxation of the requirements, we think that in the interests of the industry a modification is called for in this respect. At present a life insurer has to invest 25% of his policy liabilities plus outstanding claims less deposit and policy-loans in Government securities, a further 30% in Government or other approved securities and the remaining 45% in any investments which the insurer may choose. We feel that either the 55% to be invested in Government and approved securities should be scaled down to a lower percentage or alternatively the definition of approved securities should be enlarged, but only for the purposes of this section, to give a wider scope for the investment of the funds of life insurance companies. For example, Head Office buildings, Trustee securities and first mortgage debentures of limited companies might be included under the definition of approved securities.

CAPITAL STRUCTURE AND VOTING RIGHTS

41. As we are recommending the removal of certain restrictions on the investments of life assurance funds, it has to be ensured that such removal does not lead to any undesirable consequences. The life assurance fund of any well established company is several times larger than the share capital and in many cases it runs into crores. Investment of these funds which are virtually trust monies, must be made solely in the interests of the policy-holders

and it should be ensured that the control of these huge funds does not pass into the hands of any one individual or group of individuals who can manipulate the funds to their own advantage without any regard to the interests of the policy-holders.

42. Under the law as it stands (except for a 25% representation to the policyholders which in practice has not given the results hoped for) the shareholders, or to be more precise a bare majority of them, have an absolute control of the company. If any individual were to acquire 51% of the shares, he can get absolute control over the huge funds of the company even though his investment in the company forms but an insignificant proportion of its total funds. The consequences can well be imagined. Cases have occurred where the assets of the life fund have been used to further the ventures of the controlling interest. In other cases companies have changed hands without any reference to the interests or the will of the policyholders. It is therefore necessary to see that the control of an insurance company transacting life insurance business which is virtually a trust institution cannot pass to or remain with any one individual or group and the suggestions given below are made to achieve that end.

43. We recommend that the principle already adopted in the case of the Reserve Bank of India namely that no shareholder can have more than a certain number of votes irrespective of his holding, should be followed in the case of insurance companies transacting life insurance business and that the maximum number of votes may be fixed at ten. To prevent some insurers getting round this provision by raising the face value of the share we also recommend that the face value of each share should not be allowed to be changed so as to exceed Rs. 100/-.

44. An allied problem that has arisen is that of the shareholder who has no real interest in the company and who uses his statutory rights as a shareholder against its interests. He may be the tool in the hands of a rival company or he may try to utilize his "nuisance value" as a blackmailer. It is recommended that the insurer must have the right to remove such a shareholder subject of course to certain necessary safeguards. The Superintendent of Insurance or the Court may be given the necessary power to authorise such removal. Provision for the award of compensation to such expelled shareholders at a figure to be determined by the Superintendent of Insurance or the Court as the case may be must also be made.

45. Although a few insurers, started in the past with a small capital, are functioning now with success it has to be admitted that a larger number started with an inadequate capital, had to go into liquidation. In explanation of the success of the few in the first category it has to be stated that competition in the past was not keen, if not non-existent. Since then state of things has altered, and new insurers will find it very difficult to make headway unless they come into existence with adequate capital at their back. We therefore recommend that both life and general insurance companies should be adequately capitalized before they commence underwriting business. Such a provision will strengthen the position of the industry as a whole and incidentally will also have the effect of making the companies less vulnerable to the designs of some capitalists to gain control of its funds.

DIVIDENDS.

46. As a natural corollary to what has been detailed above viz., that the policy-holders have an enormously larger stake than the shareholders in a life insurance company, the question arises as to what proportion of the profits disclosed by

the periodical valuations should belong to the shareholders. No one would grudge a small part of the profits disclosed being paid to the shareholders as proper remuneration to them for the initial risk they undertook. But the position becomes grossly inequitable when the proportion of the profits belonging to shareholders is fixed by the constitution of the insurer at a high percentage presumably on the basis of the meagre profits anticipated in the earlier years of his existence. Most of the profits disclosed as a result of the valuation is really contributed by the bonus loading contained in the larger premiums paid by the with-profit policyholders to whom a substantial part of the profits should legitimately be returned in the form of bonuses. There is therefore no real justification for shareholders absorbing a large part of that profit merely on the basis of a provision in the Articles of Association which might have been inequitably drafted and to which the policyholders were not a party. We therefore recommend legislation to the effect that no insurer can utilize more than 10% of the surplus for the benefit of shareholders.

47. This limit of 10% should be progressively reduced when the surplus is so large that even 10% of such surplus would result in a very large return on the capital.

TAXATION.

48. The law as it stands now provides that life assurance companies pay tax on the interest income less restricted expenses, or the total surplus disclosed less 50% of the amounts distributed to the policyholders, whichever is greater. This is a departure from the practice in the United Kingdom in the following respects :—

- (i) Restricted expenses, instead of actual expenses, are taken into account for the purposes of "interest less expenses" basis and
- (ii) Under the "surplus" basis only 50% of the amounts distributed to the policyholders is allowed as a deduction from the surplus disclosed, instead of 100%.

49. The first though objectionable in principle may be allowed to stand in view of the high expense at which some companies conduct their business. As regards the expenses of management allowed we have recommended in another section of the report statutory limitation of expenses of life insurers and the actual limits adopted in pursuance of that recommendation should be substituted for the existing maximum limits of expenses under the Income Tax Act.

50. With respect to the second we feel that allowing only 50% of the amounts distributed to the policyholders as a deduction from the total surplus disclosed is highly inequitable. It is well known that the 'surplus' is in no sense a profit in the generally accepted sense of that term. The bonus to the policyholders is merely a return of the excess premiums paid and the inequity of the basis of taxation in this respect will be clear when it is remembered that with-profit policyholders are charged higher premiums than the non-profit policyholders and that these premiums contain a specific bonus loading. The Government themselves recognized the force of this contention when, in the year 1939 they allowed 50% of the profits distributed to the policyholders as a deduction from the surplus instead of taxing the entire surplus as was the case previously. It is urged that the Government should lose no time in removing the inequity that still remains and bring the 'surplus' basis of taxation in line with the practice in the United Kingdom.

51. All life insurance contracts are based on the assumption of a certain net rate of interest being earned and if an insurer is to be in a position to fulfil his contracts he should earn on his funds at least this minimum rate of interest. The interest income is thus essential to the fulfilment of his obligations. Had this interest income been earned by the individual policyholders as a result of separate investments, in most cases, it would not be taxable at all, and even in the few cases where it is taxed, the rate of tax attracted would generally be much lower than the rate of tax for life insurance companies even taking into account the ceiling rate fixed recently. The above consideration distinguishes life insurance companies from other companies and the fixing of a ceiling for tax in the United Kingdom as well as in India for life companies is in itself a recognition of this principle but we feel that the ceiling has been fixed at too high a level and should be brought down.

52. In this connection we would also refer to the provision in the Income Tax Act in terms of which premiums paid by an assessee in excess of Rs. 6000/- are disallowed for purposes of rebate of income tax. The changed economic conditions of the country have rendered this limit rather low and we urge that it should be raised to Rs. 10,000/-.

ADDITIONAL RESERVES IN THE CASE OF NON-LIFE COMPANIES.

53. The necessity for building up Additional Reserves, that is, reserves additional to the usual ones for unexpired risks is realised by one and all and the recent disastrous explosion in Bombay has only served to emphasise this necessity. Insurers have been asking that transfers to such reserves should be exempt from taxation but such a request made when the insurers are distributing the major part of the profits arrived at before providing for such Additional Reserve lays them open to the criticism that they are asking the Government to subsidise indirectly the dividend declarations. In order not to give any ground for such criticism, we strongly advise insurers not to distribute any part of the profits disclosed before such additional reserves have reached adequate levels.

54. On the other hand with the present high rates of taxation we feel that the companies will not be able to build up Additional Reserves of an appreciable size within a reasonable period in the future unless transfers to such reserves are exempt from taxation. The laws of probability, however, teach us to expect and provide for major losses which do occur though once in a number of years and this would show that the Additional Reserves are as essential as the normal reserves for unexpired risks and insurers are on strong ground when they claim that transfers to such Additional Reserves should be exempted from taxation till the reserves attain a certain size.

55. After considering these two points of view which are to some extent conflicting, we urge that the insurance companies should be encouraged as far as possible to build up a special reserve out of their underwriting profits, in addition to the customary 40% for unexpired risks, and that transfers to such special reserve should be exempt from tax by being taken as items of expenditure till such reserve reaches 100% of the annual premium income for Fire and Accident Departments and 150% for Marine Department. If any portion of the Additional Reserves is transferred to the Profit & Loss account at any time that portion should be subject to tax.

LOSSES DUE TO WAR.

56. It is well known that Indian insurers who have been carrying on business in enemy occupied territories have suffered losses due directly or indirectly to the acts of the enemy. It is too early to say whether these insurers will be able to

get any compensation for these losses suffered but it is suggested that some arrangement should immediately be made whereby full information can be collected in regard to the details of all such losses so that when the time of signing the peace treaty comes, necessary information might be readily available.

REINSURANCE FACILITIES FOR NON-LIFE COMPANIES.

57. Reinsurance facilities in a country determine to a large extent the prospects and possibilities of developing general insurance business. We therefore considered the question whether the existing reinsurance facilities for Indian Companies are adequate keeping particularly in view that, in the post-war world rapid growth and development of Indian general insurance companies is indispensable. We came to the conclusion that they are not and in fact it would not be too much to say that one of the main causes for the tardy development of general insurance business in this country is the absence of adequate facilities for reinsurance arrangements for Indian companies. Various suggestions to remedy this have been put forward before us. One suggestion is the setting up in this country of an Indian Reinsurance Corporation either State—controlled or as a private enterprise actively supported by Indian general insurance companies and fully supported by the Government. A plea has also been made in this connection that the amount at the credit of the War Risk Insurance Fund which has been built from the contributions of the mercantile community in this country and which rightfully belongs to them, should be utilised for the purpose of forming the nucleus of a fund for starting a reinsurance corporation. The establishment of such a reinsurance corporation will doubtless facilitate the placing of their excess reinsurance by the Indian companies while at the same time it will obtain for them reciprocation in respect of the large premium ceded by them at present to foreign insurance companies which deny this privilege to Indian companies.

58. The need for such a corporation is urgent in view of the fear that foreign insurers established in India may bring pressure to bear upon reinsurers abroad to limit reinsurance facilities to Indian companies with the object of restricting their ability to accept business freely whilst at the same time fully conserving their own underwriting facilities. While it is not at this stage suggested by us that any such reinsurance corporation should cut across the normal channel of existing reinsurance facilities available to Indian companies both inside and outside the country, there is a case made out in favour of starting such a Reinsurance Corporation to help those Indian Companies which find it extremely difficult to place their excess reinsurance after exhausting their normal reinsurance facilities as well as to help those Indian companies which are unable to obtain reinsurance facilities at all, either with or without reciprocation. An additional advantage of such a reinsurance corporation would be that it would reciprocate an equal amount of premium to its constituents.

59. There is yet another important consideration in favour of starting such a reinsurance corporation. We have recommended in another section of the report that Indian insurers should commence transacting new classes of insurance such as Crop Insurance, Cattle Insurance and Credit Insurance. It will be very difficult for them to get reinsurance facilities for these classes and the establishment of a reinsurance corporation would solve this difficulty.

60. We are, however, aware that the subject is not without difficulties, technical and otherwise. We, therefore, suggest that before any final decision and steps are taken to form such a reinsurance corporation the Government should appoint a Committee consisting of representatives of Indian general insurance companies to study the problem in all its aspects and make detailed recommendations in this regard.

NON-MEDICAL BUSINESS.

61. One direction in which insurers can practice economy is by the issue without medical examination of policies of which the sum assured does not exceed Rs. 1,000/- to begin with. An enquiry made into the duration of the persistence of medical selection in connection with an investigation into the mortality experienced by those insured with the Oriental Government Security Life Assurance Company covering the decennium 1925-1935 has proved beyond doubt that the effect of medical selection on lives assured does not on the average, last for a period much longer than one year. There is no reason to assume that the experience of other insurers in this respect is any better than that of the 'Oriental' which may be assumed to be a feature of medical selection at least for the present for assurance purposes in India. This being the case insurers would not be taking any great risk if they transact non-medical business subject inter-alia to the following conditions:—

- (1) The sum assured does not exceed Rs. 1,000/-.
- (2) The business is confined to lives not older than 35 at entry, to begin with.
- (3) A declaration of good health is taken in every case and properly scrutinised.
- (4) In case of death in the first year only a part of the premiums paid is returned according to a sliding scale.
- (5) The papers relating to the personal and family history of the proposers are subjected to a very careful scrutiny and the insurer reserves the right, in cases where these are not entirely satisfactory, to call for medical examination.

62. This would call for concerted action on the part of all insurers. After investigating the experience acquired by the issue of non-medical policies for Rs. 1,000/- over a period of say 5 years and finding it satisfactory, insurers may extend the principle to policies not exceeding Rs. 2,000/- and we do not advise extension of the issue of non-medical policies exceeding Rs. 2,000/- for a considerable time.

PROVIDENT SOCIETIES.

63. It would have been noticed even on a casual examination of this report that we have made specific mention of provident societies only in a very few places. This is not to be construed to mean that provident societies have received insufficient attention at our hands or that we do not value the commendable service which well conducted provident societies are capable of rendering to the lower middle and the poorer classes of the population. Since provident societies render the same service as life insurance companies except that they issue policies for smaller amounts therefore confine their activities to the poorer section of the population the technical nature of their administration and activities are identical with those of ordinary life insurance companies. Consequently all that has been stated above should be taken as applying to the provident societies also with such obvious modifications as are necessitated by their smaller size and the smaller amounts for which they issue policies of insurance.

64. Two points referring to provident societies, however, need specific mention. One is the necessity of raising the limit of the sum assured by the policies which provident societies are entitled to issue. The limit holding at present viz., Rs. 500/- is in our opinion too low to enable provident societies to

transact business economically. We recommend that the limit should be raised to Rs. 900/- and as a corollary the lower limit for insurers should be raised to Rs. 1000/-. This lower limit should also apply to mutual insurance companies. Co-operative life insurance societies may however continue to enjoy their present privilege of issuing policies for any amount.

65. The other point relates to section 85 of the Act. We recommend that the "Government securities" referred to in that section should be replaced by "approved securities" and the latter expression should include the items already recommended for inclusion for the purposes of section 27.

66. In concluding the Report we desire to place on record our great appreciation of the help rendered to us by Mr. A. Rajagopalan, B. A., F. I. A., the Secretary, both during the course of our deliberations and in drafting the Report.

L. S. VAIDYANATHAN (Chairman)

M. A. AZIZ ANSARI.

J. C. SETALVAD.

S. C. MAJUMDAR.

N. V. NAYUDU.

T. C. KAPUR.

T. M. STURGESS.

ASHUTOSH BANERJEA.

K. M. NAIK.

K. C. DESAI.

} Subject to their
} note of dissent.

Secretary,

A. RAJAGOPALAN.

PART II.

MINUTES OF DISSENT

Investment Policy.

The problem of investment of Insurance Funds arises mainly in the case of Life Insurance business. Funds in respect of other classes of insurance business merely represent the balances from year to year of a trading account comprising only short-term contracts and there is no urgency to earn any specific rate of interest on such funds. In life insurance, on the other hand, funds continue to grow and accumulate for a considerable length of time even if there is no inflow of new business and these funds must be invested and kept growing at a minimum pre-determined rate of interest, in order to satisfy the contracts when they mature for payment. Further, life insurance funds represent the savings of the policyholders and an important portion of the savings of the people as a whole. With the increasing insurance consciousness of the people and insurance reaching the bottom strata of society, these funds are bound to get more and more identified with national savings, and become more akin to national debt. Such savings must naturally be harnessed to serve the needs of the people. There is no case for entrusting the control of these funds to private investors and entrepreneurs. These funds, would, in due course, represent the basis of the structure of national finance and, being built upon the savings of the people, it is the people, or their will as expressed by the State, that should control the disposition of such funds.

It is now assumed on all hands that planned development is the essential pre-requisite for economic and industrial progress. Planning involves control over investments and money market in the interests of national economy. The Planning authorities will, therefore, set up an investment board to assist planning in its financial aspects. As institutional investors and as custodians of the savings of the people, insurance will be represented on such a board. The Board will draw up a list of investments in industrial and other enterprises which it would be in the interests of the nation to promote and insurance will take its due share in their promotion. The Board will also scrutinise Government borrowings and determine the purposes, issues and redemptions of Government loans.

When we are all agreed on planning and all that planning involves, private enterprise and private control of investments must needs subject themselves to the guidance and control of the planning body. Not to recognise this principle is a negation of planning.

This committee is only one of the several committees to assist in Postwar planning for India and we cannot go against the very principles involved in planned development.

One can view this in the light of accepted canons of insurance investments and consider whether the course suggested above satisfies those canons; viz., security of capital, the necessity of earning a pre-determined minimum rate of interest, a fair proportion between readily convertible and not readily convertible securities investment to aid life insurance business and the spread over of investments over as wide a range as possible. Absolute security of capital is ensured with the securities of the State behind the planned economy envisaged above. The rise in the standard of living of the people and the promotion of industrial enterprises aid insurance business inasmuch as they create wealth, increase the per capita income, enable tiding over slumps and economic crises and ensure the health and well-being of the nation. These factors will, in due

course, improve both the quality and the volume of insurance business transacted in the country. As planning develops in various industries and economic activities, the spread-over of investments over a wide range is ensured. The insurance representative on the National Investment Board will press for ranges of securities as to yields, maturity dates and terms of issue and redemption in order to meet the needs of insurance funds' investments; if necessary, securities open only for insurance investments may be floated, should the industry require such subsidy from the State. The problems of insurance investment will be brought for the consideration of the Board and its peculiar nature explained by the Insurance Representative therein.

With this procedure the need for keeping Government Securities, approved securities and other assets in water tight compartments vanishes.

DIVIDENDS.

I am unable to see the rational of the practice of basing dividends to shareholders on surpluses in life insurance funds. By its very nature the life insurance fund is built up out of premiums paid by the policyholders and the interest earned thereon, less outgo in terms of the contract with the policyholders and the expenses of management. Surpluses in the fund so built up arise out of two major factors :

- (a) the Bonus loading provided in the premiums
- and (b) the favourable experience of the fund in regard to mortality, expense and interest as compared with the respective underlying assumptions.

The part of the surplus attributable to the first factor, viz., the Bonus loading, does not really arise out of the valuation : it is deliberately provided in the premiums for being given away as bonuses and the distribution of surplus in a valuation so far this loading is concerned is only a return of this deliberate provision to the policyholders in a different form. In other words, the bonus loading is returned in successive valuations (assuming that the Company is working within the assumptions) in such a form that the cash value of the reversionary bonuses in the earlier policy durations is less than the bonus loading paid by the policyholders and in the latter durations more. The shareholders can have no more claim to the part of the surplus attributable to the bonus loading provided in the premiums than to the amount paid by way of premiums themselves.

The next source of surplus, viz., favourable mortality, interest and expense is one for which credit must go both to the shareholder and to the policyholder : to the former, in as much as they guide the policy of the company under the law in particular regard to careful selection of lives, sound investment policy and economic management so far as life policies are concerned ; and to the latter, in so far as it is the mortality among them and it is the interest earned on the funds contributed to by them that most of the surplus is earned.

On this reasoning, I would suggest that the shareholders' part on any surplus of a life insurance company should be arrived as follows :

Firstly, the valuation should be made reserving bonuses at the rates underlying the premiums. The distinction at present made between the expense provision for without profit policies and expense and bonus provision for with profit policies in life office valuations does not always bring out the above bonus reserve ; the expense provision on without profit policies seldom conforms to the

experience of the Company and the difference between the provisions for with and without profit policies to the bonus loading. If a bonus reserve valuation is not made for any adequate reason, the valuing Actuary should be asked to state what bonus reserve his method of valuation would approximately provide. It should not be difficult to give this estimate in the light of researches made comparing reserves on net premium and bonus reserve bases on various assumptions. The surplus emerging after the reserve has been strengthened by these should be distributed to the policyholders and the shareholders *pro rata* the life insurance fund and the share capital or in some other equitable ratio.

In the case of composite companies, the question may arise as to what portion of the capital should be treated as pertaining to life business for the purpose of this argument. But it should not be difficult to apportion equitably, taking into consideration any demands made by non-life business on the capital, by way of statutory deposits, security deposits with banks, the reserve position etc. In the case of young companies with large capital the policyholders' portion will be small as the life fund will be low. The bonus being an attraction for securing more business, the shareholders may have to give up for business considerations part of their portion of the surplus.

(N. V. Nayudu).

It is a matter of regret to me that I have to append this note of dissent. If my differences with my colleagues had pertained only to some matters of details regarding the recommendations made in the report, I would have reconciled myself to the idea of not appending this note, but unfortunately, there are certain matters regarding which my disagreements are major and of far reaching importance. I, therefore, think it necessary to place my point of view before the Government as also the public so that the points raised by me may receive due consideration and may perhaps prove useful, if not immediately, at least in the future.

The business of life insurance is, in several respects, different from the business of a trading or a manufacturing concern. One important difference is that in the case of trading and manufacturing concerns, the entire capital is supplied by the shareholders. There may be cases where the capital is augmented by borrowing, but the amount borrowed cannot ordinarily exceed the capital. In the case of life insurance companies, however, the position is just the reverse. Although under the law at present, there is some need for some capital when a company is started, yet as soon as the business commences, its necessity decreases and later on when the business expands, its importance pales into insignificance. By mere transaction of business, funds keep accumulating in the hands of a life office and the Life Fund of a Company goes on increasing year by year and the percentage of its capital to the Life Fund goes on decreasing.

The policyholders of Life Offices have long term contracts. The financial implications, therefore, are not restricted to the present or even to the immediate future; they range in influence and importance to a large number of years. Any adverse circumstance caused by the negligence or the policy of the directors may have repercussions occasioning heavy losses and the shareholders no doubt will have to share those losses but their portion of the losses cannot be of such a magnitude as will have to be borne by the policyholders. A shareholder may sell his shares and minimise his future losses but a policyholder cannot do so. It is not easy for a policyholder to withdraw from an office because apart from the financial disadvantage, he may have become impaired in health or an adverse

feature may have crept in in his family history. Due to these changes, he may find himself uninsurable. Further, life insurance is of such a great importance that its benefits must be made available to all classes and strata of Society. Taking into consideration all these factors, it is clear that this is the business which is fit for being nationalised. If it be not possible to nationalise it now, at least all necessary steps should be taken to make nationalisation possible and easy at a later stage.

The funds in the hands of a life office are the savings of the policyholders and the position of a life office generally and of its directors particularly is that of Trustees. Trustees cannot be permitted to utilise trust funds in their hands for their personal purposes or to aid their personal financial ventures. This principle was recognised in 1937 and by Section 29 of the Insurance Act, giving of loans by a life insurance company to its directors and officers, or to concerns where some or all of its directors, and or officers were directors or officers, was stopped and even the then existing loans were required to be repaid within one year failing which office was required to be vacated. Unfortunately, however, the provision then made was not so comprehensive as to prevent the funds being used by directors or officers for buying shares and debentures of a company, where they were interested. Funds of life offices are being, in some cases, used to finance the Companies started by the Directors and in some cases, for purchasing majority of shares of other companies for gaining controls. This feature of the investments of a life insurance company is not in the best interests of the policyholders. It is essential that this practice must be stopped.

With the above object in view, it is necessary that rigid control must be exercised over the investments which a life office can make in the shares or debentures of other companies. In my opinion, no company carrying on the business of life insurance, should be allowed to hold more than ten per cent of the capital, including debentures stocks if any, of any other company and no company should be allowed to buy shares of another company to an extent which will give it more than ten per cent of the voting rights of that company. Where, however, the directors or officers of an insurance company are directors or officers of another company, the insurance office should be prohibited from investing its funds in the shares or debentures of that company and if some of the directors and officers of a life office are directors or officers of a bank, the life office should not invest funds even in deposits for fixed term or current, beyond a nominal percentage of the capital of that bank. Objection may be raised by some persons to these recommendations on the ground that there are some very good companies, shares of which offer a good source of investment and to prohibit investments in the shares or debentures of such companies because some directors may happen to be common, will deprive life offices of a good source of investments. My objection is to the furthering of financial ventures of directors and not to investments. I, therefore, do not object to exception being made to the rule where at least the following conditions are satisfied :—

1. The other company should have been in existence for a period of at least 15 years.
2. The other company should have given a dividend on its ordinary shares at a rate not below 5%, at least for ten years continuously before the date of purchase.

The limit of ten per cent referred to hereinbefore should, however, be applicable to all cases.

Life Offices which handle the funds of the people should be broad based. Its management should be such that in the event of mal-administration, it should

be capable of replacement. The holding of majority of shares by an individual or groups of individuals acting together is not a happy state of affairs and cannot be in the interest of the policyholders.

Of late there is a tendency towards the shares of life insurance companies being concerned and majority shares being held by individuals or groups of persons working together. The capital of a life office being small, it is easy to pay fancy and tempting prices to buy shares, because the total outlay, even if the purchase is effected at abnormally high prices, will not be very large. This move is a real danger to the policyholders whose savings are in the hands of a life office. Realising the gravity of the situation, it has been recommended by the committee to restrict voting rights. This recommendation has my wholehearted support. But I do not agree with my colleagues when they say that the face value of the shares should be Rs. 100/-. If the face value of the shares is allowed to be kept at that figure, the number of shares in the case of several companies, will be small, and in such cases, it will be possible to control the votes and continue to dominate over the companies. My fears are that unless the face value of the shares is reduced to Rs. 10/- the very object which is sought to be achieved by recommending the restricting of voting rights will be nullified. No new company should be allowed to have shares of more than Rs. 10/- and all existing companies should be required by law to change the capital structure and reduce the face value of every share to Rs. 10/- and the shareholders should be allotted proportionately larger number of shares keeping the percentage of uncalled capital to the face value of the shares the same.

The Committee has recommended that a limit should be imposed on the portion of the surplus which can be absorbed for giving dividends to the shareholders. The profits which accrue to a life office are not mainly the result of its working. Substantially large portion of the profits is due to the contributions made by participating policyholders who insure under participating plans. The premiums charged for participating policies make a provision for a certain amount of bonus being given to the policyholders. This contribution, to a very large extent emerges in the surplus. To give a percentage of this surplus to the shareholders as dividend is to make the shareholders keep with them a part of the premiums paid by the policyholders. Justice and fairness demand that the valuating actuaries should be asked to deduct from the surplus the amount which would be necessary to give to the policyholders the bonus for which they have paid and the shareholders should be entitled to the dividends out of the surplus so left. The second point that arises is what portion of such surplus should be allocated to the policyholders. The recommendation that ten per cent of the surplus be given is penalising the policyholders very much. The fair proposition would be that the profits so arrived at should be shared between the shareholders and the policyholders in proportion to their funds. After all, the profits accrue due to the working as a result of the funds which a life office has. Shareholders do not contribute to the profits in a proportion higher than the proportion which the capital bears to the policyholders' funds and as such the shareholders should be entitled only to that percentage of the profits which their capital bears to the life fund. The question incidentally will arise as to what should be the capital of a company for life business if it is also transacting some other form of insurance business. For non-life insurance companies, bigger capital is required and some of the companies have very huge capital. Rs. 10 lakhs as capital is much more than what a life office needs. A company like the "Oriental" has a fully paid-up capital of six lakhs. It is necessary that provision should be made that for the purposes of fixing the shareholders' portion of the profits, capital in excess of Rs. 10 lakhs be ignored and in the case of composite offices only that portion of the capital be taken into consideration which is ear-marked for life business but not exceeding ten lakhs.

Recommendations have been made that the overall expense ratios of the companies should be fixed by law and it has also been recommended that the rates of commission which are paid to the agents may be reduced and some limitation should be imposed on the commissions payable to the Chief Agents. Unfortunately, I do not agree with these recommendations. I do not deny that it is essential for every office to work economically and not to spend beyond the margin provided for the purpose of expenses in the premiums. The premiums charged by a life office are prepared on certain assumptions regarding mortality which it expects to experience in the future, the rate of interest it will be possible to earn and the expenses which are likely to be incurred. These assumptions do not relate to the experience for any one year. The assumptions are based on the experience which an office is likely to have for a fairly large number of years. If by legislation, expenses of life offices are fixed, it will amount to changing the very basic conception on which life offices work. It will make the work of life offices depend on the basis of an individual year rather than on the average of the experience of a long duration. For this reason, I feel that fixing the overall expense ratio is approaching the problem in a manner which is contrary to the basic principles of the business. The proper test to ascertain whether a life office is working on the right lines or not, is to judge its actuarial valuation. The Act, as it stands at present, gives enough power to the Superintendent of Insurance, to interfere and ask for new valuation of an office, if he is not satisfied with the one filed. My colleagues on the committee have not shown that the position of the life insurance companies today is so bad as to necessitate a change in the law or to take other steps to safeguard the interests of the policyholders. If reference were to be made to the latest blue book, one will find the valuation reports of 123 companies. The valuations show divisible surplus in the case of 22 companies, surplus without distribution of bonus in the case of 41 companies and deficit in the case of 60 companies. The previous valuation of these companies showed divisible surplus in the case of 64 companies, surplus without distribution of bonus in the case of 31 companies and deficit in the case of 28 companies. This does not indicate that the position has worsened. The results are due to the strengthening of valuation basis by reducing the rate of interest. In the previous valuations, 23 companies assumed $3\frac{1}{2}\%$ and lower rate of interest, 50 companies assumed interest higher than $3\frac{1}{2}\%$ but not exceeding 4% and 50 companies assumed interest at a rate higher than 4%. In the case of current valuations, 80 companies assumed $3\frac{1}{2}\%$ and lower rate, 39 companies assumed a rate higher than $3\frac{1}{2}\%$ but not exceeding 4% and only 4 companies assumed a rate higher than 4%. A study of the expense ratios of the companies for the last five years will also show that there is a marked improvement in the matter of reducing the expenses by the companies. That being so, there does not appear to be any justification for the State to interfere. But even if there was some justification, the proper course would be to strengthen the hands of the Superintendent of Insurance in the matter of forcing the companies to have proper valuations rather than fixing arbitrary percentages of premiums which could be absorbed in expenses. In extreme case of abnormally high expenses, or even heavy adverse mortality power to suspend license may be given to the Superintendent.

The recommendation that the remunerations payable to the Chief Agents should be limited by law is not a correct approach to the problem. There are two well known systems of developing the organisation and the business of a life office. One is through paid employees which may be named as branch system and the other is to organise the business with the help of Chief Agents. Substantially large number of chief agents carry on the same type of work which is carried on by the branch offices. The only difference between the two is that in the case of branch offices, all expenses are directly borne by the companies themselves and in the case of chief agencies, they are paid certain percentages of the

premiums as commissions and other remunerations and they are required to meet all the expenses out of the payments made to them. To limit the chief agency commissions without imposing a similar limitation on the expenses which the branch offices can incur and or the companies may incur on behalf of the branches would be discriminating between these two systems.

The suggestion has also been made that some limit should be put on the number of persons who can be appointed as intermediaries between branches and the chief agents on the one hand and the agents on the other. Branch Offices and Chief Agencies usually control big areas. It is impossible for the Branch Officials and the Chief Agents to develop the areas under their control personally. Intermediaries are necessary. There should be no limit on the number of persons which a life office may appoint in a territory. Such a limit will cripple the growth of business. The evil which this recommendation aims to meet is different and its remedy is not what is being recommended. The real evil is that some companies are appointing indiscriminately persons as Employers of Agents under diverse designations. Several of these employers of agents are not bonafide workers. They merely do business personally in the names of dummy agents and earn a rate of commission higher than that prescribed by the law at present. The most unfortunate thing is that companies make such appointments knowing that this amounts to evasion of law. If this evil has to be stopped, and it must be stopped, then the proper course would be to fix some criteria which a man must satisfy before being appointed or treated as an employer of agents. An employer of agents should be given no credit of the business which he does personally or he does through dummy agents. By "dummy agents", I mean the persons who are agents only in name and the real work is done by the employer of agent himself. An employer of agent should be entitled to over-riding commission only if he secures a certain minimum volume of paid for business and this business is done by a certain minimum number of bonafide agents and each such agent contributes a minimum amount of business.

I do not agree with the recommendations regarding the change in the limits of business which can be transacted by insurance companies and the provident societies. There is no justification for raising the minimum limit in the case of insurance companies as the average of the values of the policies issued is still very small and consequently younger and smaller companies will be handicapped in the matter of doing business. Further, mutual companies are nearer to nationalisation than proprietary companies. To impose restrictions on mutual companies will be a retrograde step and I being convinced that the life business should be nationalised, cannot support this retrograde recommendation.

The business of non-life insurance is more like the business of a trading or a manufacturing concern. Non-life assurance contracts are for a short period, usually not beyond one year. The considerations for protection or state aid to such business should be the same which are applicable to ordinary trading or manufacturing concerns. The Government of India has a set policy in this matter. Before any industry is given protection or aid, the Government examines certain important factors. All those factors should be examined before deciding whether non-life business deserves any aid or protection. One of the important consideration for state aid or protection is utilisation of raw material and the employment of a large number of a people and raising their standard of life. In the case of non-life business, there is no raw material and the number of people employed is very small. The rules of the Tariff Association even limit the number of agents that can be appointed by a company. That being the case, I do not understand what justification there is for any protection or state aid to non-life business. I do not agree with the recommendations made by my colleagues that the expenses which a non-life office can incur should be limited. Will the state

legislate for limiting the expenses which Textile Industry or Sugar Industry or other allied industries have to incur? Whatever limitations have been imposed, are more for the protection of labour, in which term, I include the workers in the factories as well as the persons who grow raw materials and not for benefiting the shareholders of the companies. In the case of non-life business, the benefit which will accrue to the companies by the limitation of expenses will go directly to the shareholders only. Is there any justification for the State to legislate to benefit the shareholders of the Companies? There can be only one reason to limit the expenses and that is to make insurance cheaper. If the Policyholders have to be benefited, it should be provided that the rates which insurance companies charge from the policyholders at present should stand reduced to the extent to which the expenses of the insurance companies, are reduced by law.

The suggestion has also been made that the State should set up a reinsurance company and absorb that business which individual insurers cannot reinsure either in this country or outside this country. If the State has to set up a reinsurance company for aiding the existing companies, it will be better if the State sets up a company and absorbs all the insurance, rather than take the business which may be given to them by the Companies in this country. I have no quarrel with the companies themselves setting up a reinsurance company of their own and giving their surplus to that company; but I cannot reconcile myself to the suggestion that the State should enter on a venture to help the companies and utilize the balance of War Risk Insurance Fund for the purpose. There are so many other things which require much greater and more urgent help of the State and the said Fund should be utilized for ameliorating the condition of the people at large.

Notwithstanding the views expressed above, I agree with the recommendations regarding giving the companies the benefit of no income tax being charged on the amounts which they might transfer to reserves, provided it is made clear that if the reserves are utilized for any purpose other than paying claims which cannot be met out of the normal reserves, that amount should attract income-tax.

There are several other points on which my opinion is different from what is stated in the report. But as my disagreement is more in the matter of details rather than about the principles involved I do not propose to detail them here.

(T. C. Kapur)

I must, however, just mention two points: (1) Whilst I am in principle in favour of over-all limitation of expenses, that is to say, commissions and Management Expenses of General Insurance Companies, I am quite convinced that it is absolutely impossible to arrive at any formula which would bear equitably on the large number of Indian General Insurance Companies of different sizes, ages and capital structures, and (2) whilst I certainly approve the setting up of a Committee to study the usefulness or otherwise of an Indian Reinsurance Corporation, and the ways and means of working it, I do not agree with all the reasons given in the Report as to why such an institution should be set up.

(T. M. Sturgess)

I fully endorse the view that a scheme for the compulsory insurance of factory workers is of imperative necessity. The Adarkar Report has no doubt recommended certain schemes of sickness insurance for workers, but the recommendations of the Report seek to cover only a very limited group of workers. Further, the extent of benefits offered is also not wide or comprehensive enough. There is no doubt that for amelioration of the economic condition of the workers we must have comprehensive scheme of unemployment insurance, sickness insurance and also a liberal scheme of workmen's compensation. But even so the death of a working member will always leave the dependants quite helpless and unless compulsory labour insurance is introduced this aspect of the matter cannot be remedied. I would, therefore, suggest that a scheme for compulsory insurance of all factory workers should be introduced, and I feel that a Committee consisting of employers and employees as also of insurers and Provident Societies should be formed immediately to consider the details of such a scheme.

LIMITATION OF EXPENSES.

I am in favour of the principle of limitation of expenses as laid down in the report viz : "No insurer should be allowed to spend more than what is provided for expenses in the premiums received, except that during the first few years of their existence insurers may be allowed to spend a little more but the additional amount should not exceed the provision for bonuses in the premium". But once this principle is laid down and accepted, further piecemeal restriction of individual items of expense become useless. Thus I do not think there is any necessity for imposing limitation (a) on chief Agent's commission (b) of number of intermediaries (c) of overall expenses not to speak of further limitation of agent's commission. The agency profession is not a very highly profitable profession even now and any further reduction in the agent's remuneration cannot but have prejudicial repercussions not only on the agency profession but on the insurance business itself. The object of limitation of expenses is obviously to see that companies do not indulge in uneconomic expenditure. This will be adequately secured if provision is made on the lines indicated in the beginning.

INVESTMENT POLICY.

I wish to be more explicit on this point and suggest that the insurers should be permitted to invest 25% in Government Securities and 30% in Approved Securities. To give a wider scope for the investment of the funds of Life Insurance Companies the definition of Approved Securities should be enlarged so as to include Head Office Buildings, Trustee Securities and first mortgage debentures of limited companies, as well as the shares of Joint Stock Companies which have regularly paid a dividend of at least 5% in the previous five years.

PROVIDENT SOCIETIES.

I quite agree with the view the existing limit of Rs. 500/-, of the sum assured by the policies which Provident Societies are entitled to issue is too low to enable the Provident Societies to transact their business economically and that this limit should be raised. But in my opinion instead of raising this limit to Rs. 900/- and as a corollary raising the lower limit for the insurers to Rs. 1000/-, the maximum and the minimum limits for Provident Societies and the Insurers—be it Proprietary, Mutual or Co-operative—respectively should be raised to Rs. 1000/-.

Regarding investment provision of Provident Societies, it should be laid down that 50% of the assets are to be invested, in Approved Securities as per

new definition for the purposes of Section 27 suggested above and the Act should be amended accordingly.

(Ashutosh Banerjea)

While every one will concur with the view that Life Assurance Funds are virtually trust monies and as such should not be controlled by persons who do not have any regard for the interests of policy-holders, I cannot bring myself to believe that the suggestion made to restrict voting rights is in any way a solution of the problem. In this minute of dissent I cannot discuss the benefits that have accrued to Insurance business by the existence of a share capital and the interest taken by shareholders to strengthen the business position. In that the Committee do not recommend the abolition of shareholders and nationalization of Insurance, it follows that they consider the continued existence of shareholders as an important instrument in the development of insurance business. It is understandable to provide the necessary powers to deal with a bad management but to sterilize the surplus shares over the prescribed maximum is, I fear, inequitable. In the case of the Reserve Bank, to which reference is made, in the report, the shareholders subscribed to the shares with the fullest knowledge of restrictions on their voting rights. Application of such restrictions to the existing body of shareholders, is in my opinion, unfair. The Committee have appreciated the increased rights that this restriction of voting rights would provide to the minority shareholders, but the suggestion mooted for dealing with those who misuse such increased rights are cumbersome and in practice not easy to give effect to. Taking all points into consideration I am not convinced that there is a strong ground to depart from the existing principle of 'One Share One Vote'.

A legal restriction on dividends may become necessary only when it is found that companies are distributing a big proportion of the surplus to their shareholders. We all know that 'Bonus' has become a luxury and may remain so for an indefinite period. I agree with the recommendation that no insurer can utilize more than 10% of the surplus for the benefit of shareholders, but do not see any need, particularly in the prevailing circumstances, for suggesting progressive reduction.

(K. M. Naik)

COMPULSORY INSURANCE OF FACTORY WORKERS.

In any social security plan the sickness and unemployment insurances may be taken up by the Government but the regular Life Insurance business should be left to private enterprise in which India is not lacking. Group Life Insurance should be encouraged even by compulsion in factories for which all Indian companies registered under the Indian Insurance Act should be qualified.

INSURANCE PUBLICITY.

It is true that India has the lowest per capita insurance amongst all civilized countries of the World. The Society on the whole benefits if the per capita insurance is increased. The State also therefore should play its part in popularising life insurance. This publicity cannot be compared with the sale of tea or coffee, because insurance is a social service also. It should therefore be suggested that the State should bear the expenses of the publicity work for which a special Committee may be appointed.

LIMITATION OF EXPENSES.

I do not agree with the view expressed in the report on page 7 stating that ".....insurers barring a few exceptions have only discovered methods to evade the provisions of Section 40 by appointing a large number of intermediaries between the agents and the insurers." I further say that any limitation on the lines of the New York State Act will not be practicable in India. If in view of several new companies having come into existence after 1939 or for any other reasons it is found necessary to have limitation of expenses, the details have to be settled with interests concerned. The position as regards non-life companies is quite different and I agree to the suggestion made.

PROVIDENT SOCIETIES.

I believe that in the Scheme of Insurance Service in India Provident Societies do not fit in. They are issuing generally the same sort of policies as regular insurers but for a smaller amount of Rs. 500 and below. They cannot thrive well under the circumstances even if the amount is raised from Rs. 500 to Rs. 750 or even to Rs. 1000. I therefore suggest that no new Provident Societies should be registered and the existing ones should be allowed to bring more capital so as to become full fledged life insurance companies. For the purpose they may be allowed to amalgamate inter-se or with existing insurers. A time limit of three years should be given to them for the purpose.

(K. C. Desai)