A Study of Financial Management in LIC of India

A

THESIS

Submitted for the Award of Degree of

DOCTOR OF PHILOSOPHY

IN

COMMERCE

Under Supervision of

Dr. M.L. Choudhary

Principal

Late Shri Kishorilal Verma Memorial College

Pandhana (District East Nimar) Khandwa

Submitted by

Mr. Sulabh Kumar Jain

SCHOOL OF COMMERCE

DEVI AHILYA VISHWAVIDYALAYA, INDORE

(A State Govt. Statutory University of M.P.)

Accredited by NAAC with grade 'B'

2013

Declaration by the Candidate

I declare that the thesis entitled **"A Study of Financial Management in LIC of India"** is my own work conduct under thesupervision of **Dr. M.L. Choudhary** (Supervisor) at Devi Ahilya Vishwavidyalaya, Indore, approved by Research Degree Committee. I have put in more than 200 days of attendance with the supervisor at the centre.

I further declare to the best of my knowledge the thesis does not contain any part of any work which has been submitted for the award of any degree either in this University or in any other University/Deemed University without proper citation.

Signature of the Supervisor

Signature of the Candidate

Head

Signature of Head UTD/Principal

DAVV, INDORE

Certificate of the Supervisor

CERTIFICATE

This is to certify that the work entitled **"A Study of Financial Management in LIC of India"** is a original piece of research work done by **Shri Sulabh Kumar Jain** under my guidance and supervision for the award of degree of Doctor of Philosophy in Commerce. Devi Ahilya Vishwavidyalaya, Indore (M.P.) India. That the candidate has put-in an attendance of more than 200 days with me.

To the best of my Knowledge and belief the thesis:

(1) embodies the work of the candidate himself;

(2) has duly been completed ;

(3) fulfills the requirements of the Ordinance relating to the Ph.D. degree of the University; and

(4) is upto the standard both in respect of contents and language for being referred to the examiner.

Signature of the Supervisor

Forwarded

Signature of Head U.T.D/Principal

Head
School of Commerce
D.A.V.V. INDORE

ACKNOWLEDGEMENT

I express my deep sense of gratitude to Dr. L.K. Tripathi former Dean & Head of the school of commerce, Devi Ahilya Vishwavidyalaya, Indore, who led me to this arena and continued to provide me his indispensable advice. I am also thankful to him for his valuable advices which enabled me to submit this thesis work in the present form.

I further take this opportunity to convey my deep gratitude to Dr. M.L. Choudhary, Principal, Late Shri Kishorilal Verma Memorial College, Pandhana (District East Nimar) Khandwa, (M.P) for his kind co-operation and immense help, simultaneously guiding and approving my complete research work. I am also thankful to him for encouraging me finally to submit this research work in the present form.

I must acknowledge further assistance provided to me by various officers of the Life Insurance Corporation, particularly Mr. Prasanna Paranjape, Branch Manager, Mr. Amit Shrivastava, Asstt. Administrative Officer, Shri Sanjay Gupta Asstt. Branch Manager Branch-I, Sagar, for their valuable assistance, guidance and kind co-operation provided at various stages of work. I also owe my obligation to other officers and staff membersfor their help in the work and to have an assessment of the related records of the Life Insurance Corporation of India.

I have also derived a great inspiration form various authors whose work I studied during my research work and who must be acknowledged and credited for what all they had written on Life Insurance Corporation Of India.

I am indebted to my parents who inspired me and sacrificed their comfort to complete the work. I owe a special debt to my uncle Dr. Ramesh Jain, Rtd. Principal, Govt. College Harsud, who always inspired and whipped me up for completing thesis work.

I owe my gratitude to Dr. Pratap Rao Kadam, Prof. of Commerce, M.L.C. Govt. Girls P.G. College Khandawa, who showed his keen interest in my thesis work and helped me a lot on this subject.

I offer my grateful acknowledgement to Prof. Dr. H.C. Sainy, Director Academics & Professor Emeritus, LNCT Indore & Former Dean & Head, Faculty of Management Studies Dr. H.S. Gour University Sagar (M.P.) for pains taking help and guidance in completing my present work. He has closely taken personal interest in going through the manuscripts and has been a continuous source of inspiration for completing this work.

I offer my special thanks to Dr. K.K. Rao, System Analysist, Department of Computer Science, Dr. H.S. Gour Central University, Sagar, for his kind support and valuable guidance from the beginning of my research work.

My special thanks to Dr, Sangeeta Kaul, Network Manager, DelNet, J.N.U Campus, New Delhi, for providing me valuable research material on the Life Insurance Corporation of India.

It is a matter of pleasure to state that my family members even, my wife Anita Jain, my daughters Shreya and Divya, also shared me by their several activities to keep myself fresh and pleasureful while working at home.

My thanks are due to my numerous colleagues and friends, Shri Mitendra Singh Sengar (Sr.Librarian, GSCE, Sagar), Shri Abhishek Soni (system administrator, GSCE, sagar), Dr. Jayant Dubey (H.O.D Deptt. of Buss. Administration, BTIRT, Sagar), Dr. Rajendra Jain (Asstt. Prof. SVNIT University Sagar) and Ram Kishan Rajak (Computer operator, GSCE Sagar).

Lastly, I once again extend my deep sense of gratitude to all those who related directly or indirectly in completing this thesis work at all stages.

Date: *(SULABH KUMAR JAIN)*

0417

INDEX

LIST OF TABLES

LIST OF GRAPHS

PREFACE

Life Insurance in India is a dynamic instrument in safeguarding the wall – being of the Indian population as well as a creator of resources for financing the gigantic developmental plans of the country. Life Insurance Corporation has been described as a singular organization which eliminates perils of life, curtails risk and substitutes certainty for uncertainty. It turns the grief of a family into a continuous source of livelihood as an umbrella of financial protection to the family in distress.

In a socialist society, which India has pledged to usher in, public sector is bound to dominate. Since independence each five year plan has witnessed ever greater investment in the public sector. Of the various public undertakings Life Insurance Corporation occupies a very pivotal position. The nationalization of life insurance business in India took place on 1st September, 1956, and the corporation was set up by amalgamating 245 private insurance companies, both Indian and foreign.

The main objectives of nationalization were to spread the message of life insurance far and wide in the country and to mobilize the savings of the public so as to channelize theminto nation buildings activities.

In 1955, the total new business recorded was only Rs. 260.84crores whereas during 2009-10 the total new business of the Corporation was Rs. 481250.89crores(comprising Individual Assurance worth 396701.12crores and Group business worth Rs. 84549.77crores). Similarly the business in force which was Rs.1220.00Crores in 1955, has now exceeded Rs. 2061033.71crores. The number of policy in force rose to 2260.58lakhs in 2009-10, from 48lakhs in 1955.

About 26.39% of L.I.C's individual insurance business originates from rural sector. In 2009-10 the business done from was of the size of Rs.78895.11crores.

It has been the privilege of the LIC to contribute to many of the vital projects and schemes coming under the 20 point Economic Programme by way of its investments in socially purposive sectors.

Under the advice of my supervisor Dr. M.L. Choudhary I, therefore, selected to write a thesis on "A study of Financial Management of LIC of India". By its very nature this subject lends itself to an empirical study. The sources of data collection have been the following:

Acts, Rules, Regulations, Circular orders, Reports etc. I have relied for much of my information on these primary sources. In order to elicit different shades of opinion the following methods are used:-

(i) **Observation:** I actually sat in various offices for some days to observe at first hand the working of the offices and their dealing with the customers.

The thesis is divided into twelve chapters. The first chapter is introductory in nature and contains a brief description of the meaning, nature and importance of life insurance as well as the main features and principles underlying it. Chapter two focuses on historical review of life insurance in India. It discusses the progress of life insurance industry from 1870 to 1956 when it was nationalized and also traces the development of this business since its nationalization. Chapter three makes an attempt to explain the administrative set-up of life insurance Corporation in India at various levels – Central, Zonal, Divisional and Branch. Fourth chapter focuses on the research methodology and various tools used for the analysis of data for the study.However, the next chapter is concerned with the discussion on the financial review of revenue earned by Life Insurance Corporation of India in India as well as outside India.The investment pattern of life funds before and after nationalization of Life Insurance Corporation of India is discussed in Chapter Six. Chapter seventh discusses the promptness in various claim settlement which is very important in procuring and promoting new business.Dreams and Aspirations—we are constantly driven in our pursuit of theseand the best way to fulfill them is through easy loans available at today's low interest rates.The chapter eight discussed the process of loan to fulfill the needs of insured customer of LIC. After the formation of IRDA private players started entering the life insurance industry in India.The Ninth chapter evaluates the financial performance of LIC. The Tenth chapter is an exercise in evaluating the working of the Life Insurance Corporation – its achievements and operational problems. Attention has been drawn towards the various opportunities and challenges against the corporation.While eleventh chapter shows observations, findings, conclusions for solving the problems and prevalent issues andthe twelthchapterdiscussed the suggestions for present research work.

I feel great pleasure in submitting this research work as an outcome of my doctoral research which includes various points of view and provides a new insight into Life Insurance Corporation of India which is playing a catalytic role in the rapid development of India.

CHAPTER-I

INTRODUCTION

CHAPTER-1

INTRODUCTION

The sovereign democratic republic of India is on the threshold of a great industrial revolution. The entire country's economic fiber has received an altogether different structural base on account of the great noble experiment in progress through a series of Five Year Plans in the country. At the initial stages the financing of five year plans were rather a ticklish task because the indigenous sources of finance were most sluggish and much inadequate for the country.

The number of financial institutions operating in the country in the beginning period was also quite meager to meet the requirement of "plan – finance". The other sources open before the planner was to look for external aid which was also not so very promising.

No country can depend on foreign aid permanently because foreign aid brings in its wake a lot of constraints and limitations. The third source left open for financing economic development of the country was foreign trade, which was in its infancy in the 1950s. The internal capital market was very much shy and the habits of thrift and saving in the Indian population did not provide for much scope through domestic resources. The import bill in the beginning for taking up the technological projects was extremely high and hence the financial requirement of the country compelled the administrative lantern – bearing authorities to adjust the coat according to the size of the cloth for the First Five Year Plan. Import substitution could also not be given a practical shape for effective means of industrialization.

It was rather a complex task to manage for plan finance at the initial stages and for such gigantic project of economic emancipation which were highly unproductive to begin with. Most of the plan projects were framed on the basis of extending welfare amenities to the down – trodden masses, correcting the disequilibria in food production and supply and looking to the immediate necessities that arose an account of the partition of the country.

The commercial, fiscal and other policies of the country were not well – defined and the national industrial structure was in a most shattered and underdeveloped stage. The industrially developed countries were practicing protectionist restrictive policies which resulted in enhanced tariffs and duties, fiscal charges, quantitative restriction, administrative controls, preferential systems, intra – regional agreements and protocols.

All this affected India's foreign trade quite adversely. The foreign exchange resources particularly the starting balances left with the country were fast depleting gradually.

Agriculture which is considered to be the mainstay of rural population does not provide adequate surplus finance for meeting the plan requirement, as in 1950s agricultural operations were being undertaken on completely stereotype and traditional methods.

Thus agriculture also did not provide adequate surplus finance to the country for financing plan – requirements. The production at the agricultural front was so slow and discouraging that it was not possible to meet the annual food requirements of the country and an import bill of food grains put severe strains on our foreign exchange resources for long time.

Since the country lagged far behind in the field of technological improvements and productivity, the industrial costs could not be lowered. It was not possible for the administrative authorities to make available additional plan-finance through increased taxation in 1950s due to poverty situation.

Moreover, banking habits were not at a developed stage among the Indian rural and urban population and hence the banks also could not secure deposits through savings. It has already been pointed out plan – finance was not easily available from internal domestic resources and the gross domestic product did not generate satisfactory exportable surplus.

The reason for slow growth of Indian exports related mainly to lop-sided financial assistance to the Indian exporters because never before the important factors like availability of finance, cost of credit, risk of export finance and prospects for establishment of an all-important Export-Bank for the country were examined deeply. There were no incentives available to exporter and the First Five Year Plan was completely silent on growth through exports.

All these factors provided for a sound back-ground to create such an institution in the country which could collect domestic savings from the Indian citizens and provide them a cover for uncertainties and hazards of life. As has been discussed later insurance was badly mismanaged in the country in the life hands of private business magnets and no centralized governing or controlling supervisory institution was available in the country to regulate the working of such insurance – units. This resulted in tarnishing the image of the insurance business in the country where as on the other hand finance was being wrongly channelized for unproductive private purposes. After examining the pros and cons seriously it was finalized that no better source of providing plan finance was left available with the country except through insurance business. This premise gave birth to the Life Insurance Corporation of India.

The crucial importance of the public sector undertaking to the economic development of our country needs no emphasis. Increasing intervention by the state in the economic field has been a characteristic feature of the twentieth century, particularly after the end of the world war-I. The trend got accelerated after the termination of the worldwar-II. These days state intervention of the industries and service has become a prominent feature of world-wide dimension in India and also this general trend has been in operation for quite some time. It was at its Karanchi session in 1931 that the Indian National congress for the first time attempted to define the social and economic content of the swarajya, it was striving for, and in its resolution on economic and social programme laid the foundation of future nationalization. At this session it was resolved that, "The state shall own or control key industries and services, mineral resources, railways, waterways, shipping and other means of public transport."[1]

[1] B. Pattabhi sitasamayya: The history of the National congress volume I (1885-1935), Bombay, Padma Publications ltd, 1964, P465.

According to the Encyclopedia of Social sciences, "A Corporation is a form is a form of organization which enables a group of individuals to act under a common name in carrying on one or more related enterprises, holding and managing property and distributing the profits or beneficial interests in such enterprises or property among the associates. Its structure is defined and sanctioned by a statute, certificate or charter granted by the state; its shares are transferable, its life is independent of the lives of the individuals; and its debt does not usually create a liability for the latter."[1]

DEFINITION OF INSURANCE[2]

The term 'insurance' has been defined by different experts on the subject. The views expressed by them through various definitions can be classified into the following three categories for the convenience of the study:

I. GENERAL DEFINITION

The general definitions are given by the social scientists and they consider insurance as a device to protection against risks, or a provision against inevitable contingencies or a cooperative device of spreading risks. Some of such definitions are given below:

1. In the words of Sir William Bevridges, "The collective bearing of risks is insurance."
2. In the words of Boone and Kurtz, "Insurance is a substitution for a small known loss (the insurance premium) for a large unknown loss which may or may not occur."

II. FUNDAMENTAL DEFINITION

These definitions are based on economic or business oriented since it is a device providing financial compensation against risk or misfortune.

1. In the words of D.S. Hansell, "Insurance may be defined as a social device providing financial compensation for the effects of misfortune, the payments being made from the accumulated contributions of all parties participating in the scheme."

---

[1] Dr. Om Prakash: The theory and working of state corporations with special reference to India, Landdongeorge Aller and Unwin ltd, p.1
[2] M.J. Mathew (1998) Insurance, RBSA Publications, Jaipur B.S. P. 1-3

2. In the words of Robert I. Mehr and Emerson Cammack, "Insurance is purchased to off-set the risk resulting from Hazards which exposes a person to loss."

III. CONTRACTUAL DEFINITION

These definitions consider insurance as a contract to indemnity the losses on happening of certain contingency in future. It is a contractual relationship to secure against risks. Some of such definitions are:

1. In the words of Justice Tindall, "Insurance is a contract in which a sum of money is paid to the assured as consideration of insurer's incurring the risk of paying a large sum upon a given contingency."
2. in the words of E. W. Patterson, "Insurance is a contract by which one party, for a compensation called the premium, assumes particularly risks of the other party and promises to pay him or his nominee a certain or ascertainable sum of money on a specified contingency."

CHARACTERISTICS OF INSURANCE

Insurance follows important characteristics. These are as follows:

1. SHARING OF RISK

Insurance is a co-operative device to share the burden of risk, which may fall on happening of some unforeseen events, such as the death of head of the family, or on happening of marine perils or loss by fire.

2. CO-OPERATIVE DEVICE

Insurance is a co-operative form of distributing a certain risk over a group of persons who are exposed to it (Ghosh & Agarwal). A large number of persons share the losses arising from a particular risk.

3. EVALUATION OF RISK

For the purpose of ascertaining the insurance premium, the volume of risk is evaluated, which forms the basis of insurance contract.

4. PAYMENT OF HAPPENING OF SPECIFIED EVENT

On happening of specified event, the insurance company is bound to make payment to the insured. Happening of the specified event is certain in life insurance, but in the case of fire, marine or accidental insurance, it is not necessary. In such cases, the insurer is not liable for payment of indemnity.

5. AMOUNT OF PAYMENT

The amount of payment in indemnity insurance depends on the nature of losses occurred and conditions contracts made in.

6. LARGE NUMBER OF INSURED PERSONS

The success of insurance business depends on the large number of persons insured against similar risk. This will enable the insurer to spread the losses of risk among large number of persons, thus keeping the premium rate at the minimum level.

7. INSURANCE IS NOT A GAMBLING

Insurance is not a gambling. Gambling is illegal, which gives gain to one party & loss to the other. Insurance is a valid contract to indemnity against losses. Moreover, insurable interest is present in insurance contracts& it has the part of investment also.

8. INSURANCE IS NOT CHARITY

Charity pays without consideration but in the case of insurance, premium is paid by the insured to the insurer in consideration of future risk covering.

9. PROTECTION AGAINST RISKS

Insurance provides protection against risks involved in life, materials & property. It is a device to avoid or reduce risks.

10. SPREADING OF RISK

Insurance is a plan, which spread the risks & losses of few people among a large number of people. John Magee writes, "Insurance is a plan by which large number of people associates themselves & transfer to the shoulders of all, risks attached to individuals."

11. TRANSFER OF RISK

Insurance is a plan in which the insured transfers his risk on the insurer. This may be the reason that Mayer son observes, that insurance is a device to transfer some economic losses to the insurer, and otherwise such losses would have been borne by the insured themselves.

12. ASCERTAINING OF LOSSES

By taking a life insurance policy, one can ascertain his future losses in terms of money.

13. A CONTRACT

Insurance is a legal contract between the insurer & insured under which the insurer promises to compensate the insured financially within the scope of insurance policy, & the insured promises to pay a fixed rate of premium to the insurer.

14. BASED UPON CERTAIN PRINCIPLES

Insurance is a contract based upon certain fundamental principles of insurance, which includes utmost good faith, insurable interest, contribution, indemnity, cause a proxima, subrogation etc., which are the basis for successful operation of insurance plan.

15. INSTITUTIONAL SETUP

After nationalization, the insurance business in the country is in operation under statutory organisational set up. In India, the Life Insurance Corporation, the General Insurance Corporation & its subsidiary companies are operating in the various fields of insurance.

16. INSURANCE FOR PURE RISK ONLY

Pure risks give only losses to the insured, & no profits. Examples of pure risks are accident, misfortune, death, fire, injury, etc., which are all one-sided risks & the ultimate result in loss. Insurance companies issue policies against pure risks only, not against speculative risks. Speculative risks have chances of profits or losses.

17. SOCIAL DEVICE

Insurance is a plan of social welfare & protection of interests of the people. Riegel & Miller observe, "Insurance is of social nature".

18. BASED ON MUTUAL GOODWILL

Insurance is a contract based on good faith between the parties. Therefore, both the parties are bound to disclose the important facts affecting to the contract before each other. Utmost good faith is one of the important principles of insurance.

19. REGULATION UNDER THE LAW

The government of every country enacts the law governing insurance business so as to regulate & control its activities for the interest of the people. In India the Life Insurance Act 1956 & General Insurance (Nationalization) Act 1972 are the major enactments in this direction.

20. WIDE SCOPE

The scope of insurance is much wider & extensive. Various types of policies have been issued in the country against risks on life, fire, marine, accident, theft, burglary, etc.

To conclude, insurance is a device for the transfer of risks from the insured to the insurers, who agree to it for a consideration (known premium), & promises that the specified extent of loss suffered by the insured shall be compensated. It is a legal contract of a technical nature.

OBJECTIVES OF LIC OF INDIA[1]

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

- Maximize mobilization of people's money by making insurance-linked savings, adequately attractive.

[1] LIC Dairy 2006

- 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.
- Conduct business with utmost economy and care with the full realization that the moneys belong to the policyholders.
- Act as trustees of the insured public in their individual and collective capacities.
- Meet the various life insurance needs of the community that would arise in the changing social and economic environment.
- Involve 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 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 Objective.

SIGNIFICANCE OF INSURANCE

Insurance plays significant role for not only an individual or for a family but it has spread over the entire nervous system of the nation. According to the famous philosopher J. Royce, Insurance Principles come to be more and more useful in modern affairs. Not only does it serve the ends of individuals, it tends more and more both to pervade and transform our modern social beneficial order. It brings into new synthesis, not merely pure and applied sciences, but private and public interests, individual prudence and a large regard for. The general welfare, theft and charity.

1. INVESTMENT OF FUNDS

In the course of business, insurers by the way of premiums collect vast sums. Especially in life business much of it can be invested profitably over long periods. This benefits the nation as a whole because insurers are required by law to invest the major portion in government securities & other approved investments plans, out of which nation-building activities are undertaken.

2. REDUCTION IN COST OF INSURANCE

Income earned by investment of accumulated funds further increases the fund & goes to reduce the cost of insurance for otherwise the premiums would have to be higher to that extent.

3. EFFECT ON PRICES

Manufacturers pass on the consumer, the cost of insurance along with other production cost. Still it is beneficial to the consumers because without insurance the cost would have been much more.

4. INVISIBLE EXPORT

Providing insurance service overseas is our invisible export, like export of material goods, & the profit brought in is a contribution to the favorable balance of trade.

5. REDUCING COST OF SOCIAL SERVICES

The sum assured often goes to persons who have lost earning members & there by relieves their dependents in distress that would otherwise be an additional burden on social security & other public funds.

FUNCTION OF INSURANCE INSTITUTION

Insurance becomes very useful in today's life. It plays significant role in this competitive era. One should know the functions of insurance. According to Sir William Beveridge the functions of insurance can be divided into three categories as under:-

1. PRIMARY FUNCTIONS

(A) TO PROVIDE PROTECTION

The most important function of insurance is to provide protection against the risk of loss. It is one type of guarantee that it will make good of the losses if they occurred. Insurance: can check the reality of the misfortune happening, and pay the cost of damages of losses.

(B) TO PROVIDE CERTAINTY

We know future is totally uncertain. Any misfortune happening may occur at any stage of life. The amount of loss and time of losses both are uncertain. No doubt better planning and administration-can reduce the chances of happening these types of accidents but it requires lots of attention towards strengths and weaknesses, special knowledge of the field. After all these precautions, the uncertainty remains steady. Insurance provides certainly towards the losses. The policy holders pay the premium to buy the certainty in the form of policy.

(C) DISTRIBUTION OF RISK

It is a cooperative effort where the risk is distributed among the group of people. Thus, no one have to bear the losses occurred due to uncertainty.

2. SECONDARY FUNCTIONS

(A) HELPS IN ECONOMIC PROGRESS

Insurance plays an important role in economic progress. It gives fully certainty to the industrialists towards the risks. The entrepreneurs can more concentrate on innovative and profitable techniques of the production. They should not require thinking over the risks. Thus, industries develop trade and commerce of the nation.

(B) PROMOTE INVESTMENT

Insurance provides certainties towards risks in entrepreneurship. It gives confidence in general public. It is one of the important source of investment which develops .the trade and commerce of the country.

(C) IT PREVENTS LOSSES

Insurance plays vital role in preventing the losses. The amount of premium may be minimized by using such appliances like the Fire Extinguisher. If one uses interior machinery which may be cause misfortune, the amount of premium will be high. Thus, indirectly, insurance provides help to minimize the chances of risks.

3. INDIRECT FUNCTIONS

(A) A FORCED SAVINGS

Life Insurance is also a method of savings. In India Income Tax Act gives relief in payment of income tax because government wants to habituate general public to save money. It encourages the habit of thrift and savings among the people.

(B) PROMOTE FOREIGN TRADE

It is compulsory to take marine insurance policy in foreign trade in India. Foreigners can't issue the foreign trade bill unless the cargo is fully insured. Thus foreign trade is totally depending upon the insurance sector of the country. It gives relief to entrepreneurs from the uncertainty of foreign trade.

GENESIS AND EVOLUTION OF LIFE INSURANCE:-

Men work to provide themselves with basic needs – clothes, food and shelter as well as other comforts that make life worth – living. But men wish to provide not only for today's needs but every prudent citizen has an inclination to transfer a part of his earnings for tomorrow's contingencies. They do not guard against the temptation to spend on unnecessary comforts and luxuries. It is only too easy to let one's money out and painfully difficult to preserve it against one's propensity towards extravagance.

Life insurance is a legal – contract by which one saves in small, regular but easy installments, with the sure knowledge that a definite and large sum of money will be available at sometime in the future whether one survives or not.

The moment one's life is insured the foundation of financial security is laid. The amount insured is paid in full even if one dies after having paid the first installment (called the premium). Thus a person with a life Insurance policy is a person with an estate.

The fundamental purpose of life insurance is to lessen the impact of such calamities befalling on the dependent of the principal wage earner.

Shri W.A. Dinsdle observes, "Insurance is a means of spreading over the many, losses which would otherwise is borne by the individual. It provides, in effect, a pool to which the many contribute, and out of which the few who suffer losses are compensated."[1]

Life Insurance is purchased not because someone is going to die but because someone is going to live. If one outlives the policy period the money so collected will come in use during one's old life time. If one does not live one leaves behind an estate to provide the living needs of one's dependents. Life Insurance defies time – it carries earning power beyond the grave. It is a Triumph over death. Life insurance creates the habit of thrift and guarantees the conservation of money.

The whole basic of insurance is that all who are insured must share the losses which are insured. The first and most essential feature of every insurance plan, of whatever kind, is the cooperation of large numbers of persons those, in effect, agree to share the particular risk against which insured are desired. Mr. Joseph B. Maclean observes that "Every plan of insurance is, in its simplest terms, merely a method of spreading over a large number of persons a possible financial loss too serious to be conveniently borne by an individual."[2]

---

[1] Dinsdale, W.A : Elements of Insurance, London, Sir Isaac Pitman and sons ltd. P. 1

[2] Joseph B. Maclean: life insurance, Mc Graw hill book company inc new York Toronto, London p. 1

THE FUNDAMENTAL PRINCIPLES OF INSURANCE[1]

The mechanism of insurance involves a contractual agreement in which the insurer agrees to provide financial protection against a specified set of risks for a price called the premium. And though the policy document does give the comfort that the coverage is on; The fundamental principles are:

1. THE PRINCIPLE OF UTMOST GOOD FAITH

The principle of utmost good faith, uberrimae fides (in Latin), literally means perfect good faith or abundant good faith. The phrase is used to express that an insurance contract must be made in perfect good faith, concealing nothing. The principle is mostly discussed in the context of the duty of the insured towards the insurer, though it is equally applicable to the insurer's duty towards the insured.

The insurer thus should not attempt to mislead the insuring public about the terms of the contracts and scope of their cover." The prospectus and other documents issued, like the policy, should carry a full and accurate disclosure of the terms of contract. Similarly, the proposer (one seeking to buy an insurance policy) has to disclose everything that is relevant to the subject matter of insurance.

2. THE PRINCIPLE OF INSURABLE INTEREST

The second major principle of insurance is that of insurable interest. The existence of Insurable interest' is an essential ingredient of any insurance contract. Insurable interest is the legal pre-requisite for insurance. A common definition used for insurable interest is "the legal right to insure arising out of financial relationship, recognized under law, between the insured and the subject matter of insurance".

3. THE PRINCIPLE OF INDEMNITY

The principle of indemnity, as applicable to general insurance policies, means that the policyholder, after experiencing a loss, is compensated so as

[1] Ashutosh bishnoi (2007), "Insurance products (Including pension Products), Indian Institute of Banking and Finance, Taxman, New Delhi p. 6-12

to put him or her in the same financial position as before the loss. This is possible since the economic value of an asset at the time of the loss as well as the extent of loss can be determined and compensation payable determined accordingly.

In the case of life insurance, however, the economic value of a human life cannot be measured precisely before death. It could in fact be unlimited. Hence, life insurance cannot strictly be a contract of indemnity. This does not, however, mean a person can be granted life insurance for an unlimited amount. For the purpose of arriving at this amount, as stated earlier, a concept called the Human Life Value (HLV) has been developed. As we saw, this is based on the fact that premature death would cause loss of earnings in case of an employed or self-employed person or loss of services and support provided to the family.

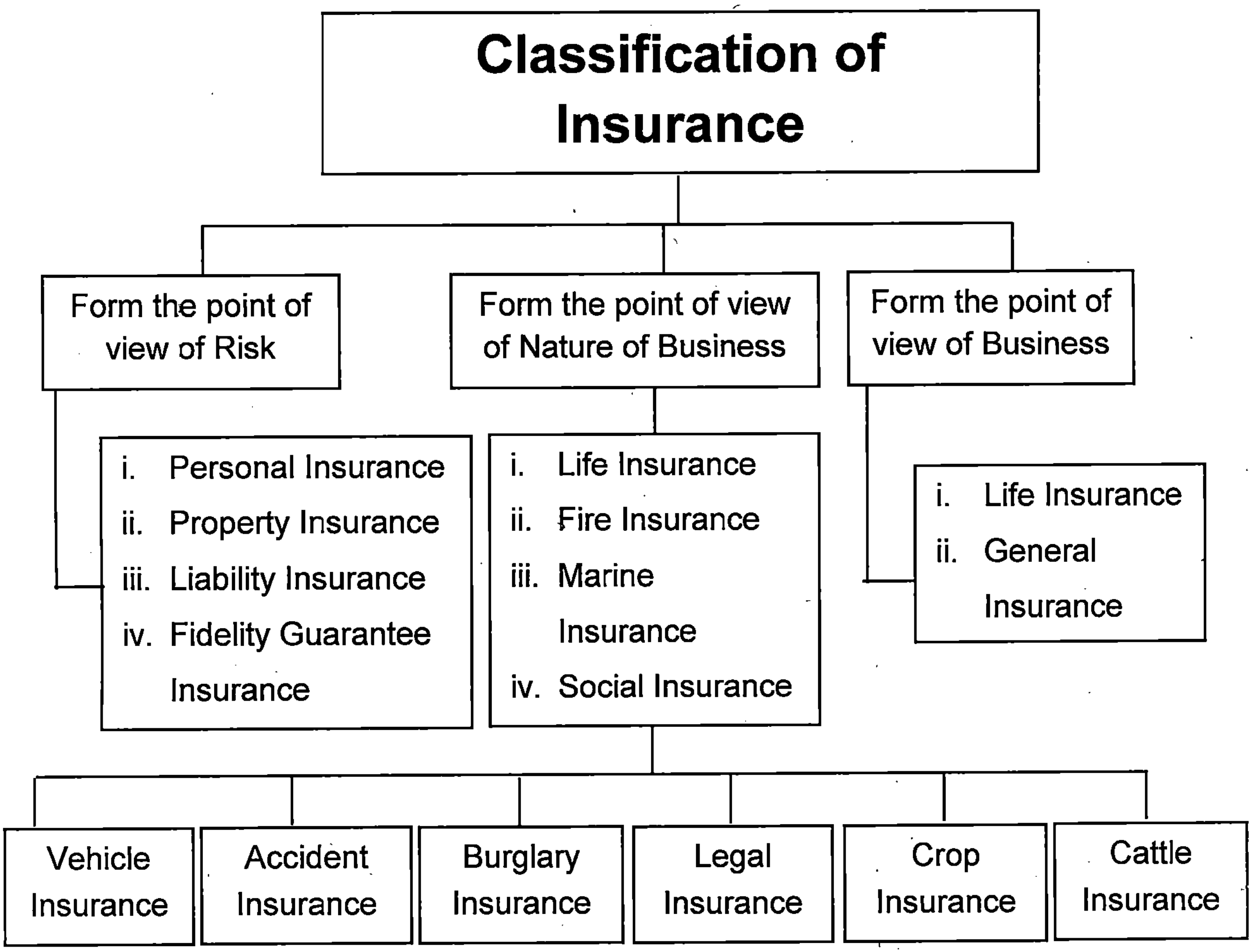
4. THE PRINCIPLE OF SUBROGATION

This is another principle that is peculiar to general insurance is the principal of subrogation. Subrogation is the legal right of the person (the insurer, for example) who has paid for the damage caused by another (say, the ship-owner) to recover that money from the ship-owner. Subrogation is thus the right of the insurance company that pays the claim to recover the same from those who are responsible for causing the loss. Contribution, in fact, is a corollary of the principle of indemnity.

5. THE PRINCIPLE OF CONTRIBUTION

This is another principle that is peculiar to general insurance is the principle of contribution. Contribution, again, is a corollary of the principle of indemnity. Contribution implies that if the same property is insured with more than one insurance company, the compensation paid by all the insurers together cannot exceed the actual loss suffered.

CLASSIFICATION OF INSURANCE[1]-1.1



[1] K. Ravi chandran (2007) " Recent Trends in Insurance sector in India, abhijeet Publication Delhi p. 174

IMPORTANT ASPECTS OF INSURANCE BUSSINESS[1]

1. ACTUARY

Actuaries are technical experts whose given special training in the mathematics of insurance. Their job is to ensure that the insurance products provided by the company are mathematically sound. They undertake various activities like calculation of mortality rates, estimating expenses to be incurred by the insurance company in administrating various policies, and determining the rate of return that will be earned by the company on its investments. Based on the above, they decide on the premiums to be charged on various policies.

2. UNDERWRITING

An UNDERWRITER scrutinizes, analyzes and takes the decisions on the proposals received for insurance. While analyzing the risks arising from the insurance applications, the underwriters ensure that the company issues the maximum possible policies while keeping the risk of loss within acceptable limits. An applications that pose reasonable risks are accepted and those posing lower or higher than average risks are accepted at lower or higher rates" of premium than normal. An application posing unreasonable risks is declined. The job of accepting or declining the proposal of insurance received by a company and deciding on the premium at which to accept the proposals is done by the underwriting department.

3. POLICY OWNER SERVICES

The employees in this area are the ones who issue the actual policy documents can rectify the mistake. They also ensure customer satisfaction by attending to various requirements arising during the duration of a contract like nominations, assignments, alterations, etc. These employees are basically responsible for maintenance of policy records, process customer requests and informing policy-owners about any material changes that affect their policies.

---

[1] Ashutosh Bishnoi (2007), "Insurance products (Including pension Products), Indian Institute of Banking and Finance, Taxman, New Delhi p. 16-20

4. CLAIM ADMINISTRATION

The employees in this area are responsible for the actual settlement of claims. They analyze the claims received against various policies. After thoroughly studying the claims, they decide whether the claim is valid. They calculate the benefit amounts for settlement of all valid claims. Claims that are found invalid are rejected.

5. MARKETING

The marketing department studies consumer behavior needs and wants. On the basis of these studies, they give suggestions for new products which can satisfy their needs. The marketing executives also develop marketing plans, design promotional material for the different products, market the products to the customers and provide them services. The marketing department's role starts even before the inception of a product and carries on well after the product has been sold to the customer.

6. INVESTMENT

The employees in this area manage the company's assets and investments. They study the financial markets in order to give recommendations on the best avenues of investments so that the company can maximize its returns.

7. ACCOUNTING

Accountants in an insurance company keep records of the income and expenses like others. They keep track of the income from premiums and investments as also the expenses for running the office, agents' commission, claim payments, etc. They prepare the reports and statements which show the financial position of the company.

8. INFORMATION SYSTEM

The employees looking after this area provide their services to all the departments of an insurance company. They design and maintain computer systems so that any required information can be easily retrieved at any time. They also develop new systems and procedures for the company, install them and ensure that they operate efficiently and effectively.

9. LEGAL AND COMPLIANCE

The employees in this department play an important role in ensuring that the company is complying with all the regulations and laws in practice in the country. They develop the policy forms, contracts for agents, etc., in line with the existing rules and regulations and also advise the staff and management on any legal issues. In case there is any dispute arising out of a claim, the attorneys from the legal department defend the company's position. These are the different activities carried out by the various departments in an insurance company.

10. DISTRIBUTION CHANNELS

There are so many routes by which the product prepared by the producer reaches the ultimate customer. Thus, the distance between the producer and the consumer is bridged by the distribution channel.

11. AGENTS

An insurance agent is an agent licensed under section 42 of the Insurance Act, 1938. He/she receives payment by way of commission for procuring insurance business. He/she is also responsible for business relating to the continuance, renewal or revival of policies of insurance. An agent could also be a corporate agent i.e. a company or firm could also be an agent.

12. INSURANCE BROKERS

An individual or firm, whose full-time occupation is the placement of insurance business with insurance companies, is known as an insurance broker. The broker receives brokerage as a percentage of the premium from the insurer. The main difference between an agent and a broker is that there are no restrictions on the procurement of business by a broker for various different insurance companies, while the agent can only procure business for that particular company which he represents. Insurance brokers give advice to the insured without charging them.

13. INSURANCE CONSULTANTS

Insurance consultants are usually specialists whose give advice to consumers whose wish to buy insurance products. However, unlike the brokers, they get paid by the insured for this advice.

14. BANKING OUTLETS

These days, there has been a trend of using outlets of banks for distribution of insurance products. The logic behind this is that, as both banks and insurance companies target the same segments of population, using the bank outlets for distribution of insurance products, it can help in saving overheads as well as infrastructure costs. The concept of banc assurance has gained importance in the banking sector which is good for the insurance sector.

LIMITATIONS OF INSURANCE

In spite of number of advantages of insurance, it has certain limitations. On account of such limitations, the benefits of insurance could not be availed in full. These limitations are:

- All the risks cannot be insured. Only pure risks can be insured & speculative risks are not insurable.
- Insurable interest (financial interest) is the subject matter of insurance either at the time of insurance or at the time of loss, or at both the times must be present, in the absence of which the contract of insurance becomes void.
- In case the loss arises from the happening of the event cannot be valued in terms of money, such risks are not insurable.
- Insurance against the risk of a single individual or a small group of persons are not advisable, since it is not practicable due to higher cost involved.

- Another important limitation is that the premium rates are higher in our country & as such, certain category of people cannot avail the advantage of insurance. The main reason for the higher rate of premiums is the higher operating cost.
- It becomes difficult to control moral hazards in insurance. There are certain people who mystifies the insurance plans for their self-interest by claiming false claims from insurance companies.
- Insurance is not a profitable investment. Its main object is to provide security against risks; insurance business cannot be a source to acquire profits.
- Certain specified risks can be insured with co-operation of the government only; such as, unemployment insurance, insolvency of banks, food insurance, etc.

THE ESSENTIALS OF LIFE INSURANCE CONTRACT ARE:

(1) **CAPACITY TO CONTRACT**:-

The parties to an assurance contract must be capable of entering into contracts. Every person is competent to contract who is major by age, which is of sound mind and is not disqualified from contracting by any law to which he is subject. A person shall include a legal person, any company or association or body of individuals. A corporate body is, therefore, competent to contract. Under the Indian Majority Act, the age of majority is attained where an individual completes 18 years but where a guardian is appointed the ward shall be deemed to attain majority when he completes 21 years.

(2) **CONSENT TO THE CONTRACT**:-

The parties must be of the sound mind and should agree regarding the subject matter of the contract. Two or more persons are said to consent when they agree upon the same thing in the same sense. This is meant by the phrase that parties to the contract must be ad-idem, i.e. of the same mind. A contract must be founded on a true agreement.

(3) **LEGALITY OF CONSIDERATION AND OBJECT:-**

Every agreement wherein the consideration or object is unlawful is void. The consideration or object of an agreement is unlawful if:

(a) It is forbidden by law;

(b) It is of such a nature that if permitted it would defy the provision of any law;

(c) It is fraudulent;

(d) It involves or implies injury to the person or property of another;

(e) The court regards it as immoral or opposed to public policy.

(4) **OFFER AND ACCEPTANCE:-**

A contract of Life Insurance like any other contract begins with the proposal or offer. If the insurer, after considering the proposal and other related documents containing required information, is willing to issue a policy, he sends a letter of acceptance. The letter of acceptance is a counter offer and the proposer accepts it by paying the premium within the stipulated time. Offer and acceptance constitute an agreement and agreement enforceable by law is a contract.

(4) **CONSIDERATION:-**

It is related to consideration of premia on the part of the life assured, and sum assured on the part of the insurer. Actually consideration is something which moves from one party to the other in return for what the other party gives. In life insurance contract, the payment of the premium is consideration for the contract on the part of the life assured and the undertaking of the insurer to pay a sum of money when the claim arises is consideration on the part of the insurer.

In life insurance, the policy is a stamped document which states the terms of the contract of insurance between the insurer and the insured. The contract comes into existence when the proposal from a party is accepted by the insurer and the terms of the acceptance are complied with by the party. The contract will have to be interpreted according to the policy document.

What is really insured, therefore, is the pecuniary interest of the insured in the person in whose life the event may happen. This interest is called the insurable interest in the life and is the subject matter of the contract. Although there is difference among the different forms of insurance as to when it is necessary to have interest. In the case of life insurance the insurable interest is a must and is governed by statue (Life Assurance Act, 1974). The need for insurable interest is one of the essential points of distinction between a contract of insurance and a wager, the parties to which need not have any pecuniary interest in the subject – matter. The happening of the event is essential to the success of a wager, whereas neither party to a contract of insurance desire the event to happen and indeed both of them take all possible steps to prevent its happening.

The Life Insurance Corporation of India is fulfilling the enshrined goals of socialistic pattern of society and is functioning as a landmark public sector corporation. The Industrial policy Resolution of April 30, 1956 clearly pointed out that "this would provide the economic foundation for increasing opportunities for gainful employment and improving living standards and working of the masses of the people. It would also reduce disparities in income and wealth and prevent private monopoly and the concentration of economic power in the hands of small number of individuals. Accordingly, the state must progressively assume a predominant and direct responsibility for setting up new industrial undertakings and for developing transport facilities."[1]

The Life Insurance Corporation of India is proving quite instrumental in achieving the above goals. As has been the experience of developed countries which have attained the present stage through planned

[1] Economic policy Resolution at the abadi session of the Indian national congress held in January 1955, Quoted by Nabagopal Das: The public sector in India: Asia publishing house Bombay, 1961, p. 8

development approach, the successful implementation of development plans is a baffling issue and it must involve production plans and distribution plans both through state – owned enterprises."It requires a rational balancing of conflicting consideration and their dovetailing into the resources, actual and potential, which are available. Many of the countries are passing through a period of experimentation and it would be unwise to say categorically that a particular method or technique has been found to be the most successful. As a matter of fact the various problems of organization and control continue to baffle the government of these countries."

At present the L.I.C. is equipped with most sophisticated administrative apparatus with a pool of technically qualified workers. It is being looked after by expert officers at the top level and an all – out experiment is in progress to review, rationalize and recast the entire working structure of the corporation for gaining satisfactory results. The emoluments are also tagged with price Index number and the L.I.C. has not lagged behind to give incentives and lucrative remunerative opportunities to persons working under its control. It is one single organization, unique in nature, different in administrative set – up and altogether an exception in the developing economics so far as its field of work and turnover and structural bases are concerned. It is gaining the shape of a sound business nucleus on the field side and is recognized as one of the top – ranking public corporations the country possesses at its credit.

development approach, the successful implementation of development plans is a baffling issue and it must involve production plans and distribution plans both through state – owned enterprises."It requires a rational balancing of conflicting consideration and their dovetailing into the resources, actual and potential, which are available. Many of the countries are passing through a period of experimentation and it would be unwise to say categorically that a particular method or technique has been found to be the most successful. As a matter of fact the various problems of organization and control continue to baffle the government of these countries."

At present the L.I.C. is equipped with most sophisticated administrative apparatus with a pool of technically qualified workers. It is being looked after by expert officers at the top level and an all – out experiment is in progress to review, rationalize and recast the entire working structure of the corporation for gaining satisfactory results. The emoluments are also tagged with price Index number and the L.I.C. has not lagged behind to give incentives and lucrative remunerative opportunities to persons working under its control. It is one single organization, unique in nature, different in administrative set – up and altogether an exception in the developing economics so far as its field of work and turnover and structural bases are concerned. It is gaining the shape of a sound business nucleus on the field side and is recognized as one of the top – ranking public corporations the country possesses at its credit.

CHAPTER-II

INDIAN INSURANCE: THE HISTORICAL PERSPECTIVE

CHAPTER-2

Indian Insurance: The Historical Perspective

"The present and the future invariably grow out of the past and bear its stamp, and to forget this is to build without foundations and to cut off the roots of national growth."

Pt. Jawaharlal Nehru

The urge to provide protection against the loss of life and property have prompted people / groups to make some sort of sacrifice willingly in order to achieve security through 'collective co-operation'. In this sense, story of insurance is as old as the Story of knowledgeable Mankind. The instinct of security against loss and disaster existed in primitive man also. He sought to avert the evil consequences of natural risks likewise accident, incidents of fire and flood and loss of life by making provision to achieve safety and security. The instinct for security against such risks is one of the basic motivations determining human attitude. As a sequel to this quest for security, the concept of insurance must have been born.

The Biblical story of Joseph or the Islamic story of Yusuf during the famine in Egypt has been cited as the first insurance plan in recorded history. Fearing the dream he saw of seven fat cows and the seven lean and hungry cows coming out the river Nile, interpreted by Joseph as seven years of good crops and seven years of famine, the Pharaoh was advised to collect one fifth of the crop of each prosperous year to be used in the years of famine. It symbolically illustrates- the insurance principle of spreading the risk and the wisdom of preparation in the prosperous present for the needs of an uncertain future.[1]

The concept of general insurance was perhaps thought of earlier than the insurance of life. In Ancient Commerce, even 6000 years ago, the Babylonians of the Tigris-Euphrates valley-had developed business practices in trade (the silk route) from China, India, Babylon, Egypt etc. Caravans came laden with merchandise and the group developed arrangements to provide safety and security to moving caravans. The travelers by land or water were

[1]Dharmandra Kumar (2005) India insurance Report series – 1, Allied publisher private limited P- 17

exposed to the risk of robbery and piracy in the high seas and against vagaries of winds and tides; they needed to be provided safety on the route and compensated for the losses suffered. Human ingenuity was set to work and in course of time, a practice developed that absolved the trader of his debt, both principal and interest, should certain specified contingencies occur, with the help of state and mutual collaboration and contribution.

HISTORICAL PERSPECTIVE -2.1

The British opened general insurance in India around the year 1700.

Bombay Insurance Company Ltd was established in 1793.

In 1818 it was conceived as a means to provide for English Widows.

The Bombay Mutual Life Insurance Society started its business m 1870.

The Oriental Assurance Company was established m 1880.

Insurance regulation formally began in India with the passing of the Life Insurance Companies Act of 1912 and the providen fund A of 1912.

By 1938 there were 176 insurance companies

The first comprehensive Legislation was introduced with the Insurance Act of 1938 that provided strict State Control over insurance business.

The insurance business grew at a faster pace after independence.

The Government of India in 1956, brought together over 240 private life insurers and provident societies under one nationalized monopoly corporation and Life Insurance Corporation (LIC) was born.

Nationalization was justified on the grounds that it would create much needed funds for rapid Industrialization.

By about 2000 BC, the Babylonian as well as the ancient Hindus was familiar with the essentials of the contract of 'bottomry or respondent', as indicated in the codes of Hamurabi and Manu. They referred to the codes of caravans and both sea-borne and overland traffic (Manu). By 900 BC even the Greeks inherited their knowledge of the contract of bottomry.[1]

ANCIENT CONCEPTS IN INDIA

Collective co-operation among persons exposed to a particular risk in order to share risk, is as old as the dawn of human civilization. The Aryans hadevolveda communitarian life which was proof against the ravages of time and gavesustenance to everyone. It has been stated that *Yogakshema,* in Rigveda, conveys the idea of security and well being or prosperity as also some kind of insurance, which was practiced by the ancient Indian society and states, more than 3000years ago.

This protection (rakshana or palana), means primarily the protection of the person and property of his subject (citizens). The Hindu family and society traditionally through mutual co-operation, rested on this principle for thousands of years, in some forms of insurance against any uncertainties.

तेनभृताराजानः प्रजानां योगक्षेमवहाः॥

In Kautilya's Arthashashtra, it has been mentioned;-

There were people agreed to pay taxes and to be ruled by the king in order that they are "maintained by that the king brings about the well-being and security of the subjects". (1-13-7).

बालबृद्ध व्यसन्यनाथांश्चराजाविभृयात्, स्त्रियमप्रजातांप्रजातायाश्चपुत्रान्॥

And the king should maintain children, aged persons and persons in distress when these are helpless, as also the women who has borne no child and the sons of who has when these are helpless. (2-1-26).

---

[1]Dharmandra Kumar (2005) India insurance Report series – 1, Allied publisher private limited P- 18

बालद्रव्यंग्रामवृद्धा वर्धयेयुराव्यवहारप्रापणात्, देवद्रव्यंच।

The elders of the village should augment the property of the minor till he comes of age, also the property of the temple. (2-1-27).

अर्थ्यप्रतिकाराः कारुशासितारः संनिक्षेप्रारः स्ववित्तकारवः

श्रेणीप्रमाणनिक्षेपंगृहणीयुः।विपत्तौश्रेणीनिक्षेपंजते।

वैवान्यष्टौमहाभयानि-अग्निरुवकंव्यधिर्दुर्भिक्ष।

मूषिकाव्यालाः सर्पा रक्षांसीति।तेम्योजनपदं रक्षते्।

The chapters IV of the Arthashastra, called 'Kantaka - Shodhana', is concerned with such protection of people from anti-social elements such as deceitful artisans and traders, thieves, dacoits and murderers, as well as from natural calamities such as fire, flood etc. (4-1-1/2/3).

On the aspect of risk management in chapter IV, Arthasastra mentions of eight great calamities and presents steps toward them off. They are - fire, floods, disease, famine, rats, wild animals, serpents and evil spirits. (4-3-1/2). It also presents various remedial measures to be undertaken during calamities.

सर्वत्र चोहतान पितेवानुगृहणीयात्।

Further, it is said that when the subjects are struck down by natural calamities, the ruler should take care of them like a father. (4-3-43).

पुरुषोपकरणहीनायामसंस्कृतायां वा नाविविपन्नायांनावध्यक्षेनष्टंविनष्टंवाभ्यावहेत्

The fact that the state is to concern itself with the welfare of the subjects might lead one to suppose that we have here something like the idea of a 'welfare' state. This may seem to be supported by the reference "to those who have necessarily to be maintained by the state" and the duty of the state "to maintain minors, aged persons and those in distress, when these have no one to look after them".

Manu, The ancient lawgiver, in his 'Dharmashastra' enjoined that a special charge be made on goods carried from one place to another place, to ensure their safe carriage until handed over to the consignee at destination.

The traders experienced similar risks of robbers and pirates. Manava-Dharma Shastra (Manu) and Arthashshtra(Kautilya's) contain rules to protect against the risk involved; whereby loanswere advanced to meet the liability in case of losses by piracy etc. Kautilya, in his *Arthshashtra,* had also laid down several rules and regulations to this effect.

कृषिपशुपाल्येवणिज्या च वार्ता, धान्य पशुहिरण्य कुप्याविष्टिप्रबदानावौपकारिकी।

Agriculture, cattle rearing and trade- these constitute economies which are beneficial, as they yield grains, protect cattle wealth, forest produce and labour. (1-4-1).

पण्याध्यक्षः स्थलजलजानांनानाविधनांपण्यानांस्थलपथवारिपथोपयातानां

सारपफल्ववर्घान्तरंप्रियाप्रियतां व विघात्, तथाविक्षेपसंक्षेपक्रयप्रयोगकालान्।

आपदिसारम्त्मानं वा मोक्षयेत्।भयप्रतीकारपण्यत्तनचारित्राण्युपलभेत्।

The Director of Trade should be conversant with the difference in the prices of commodities of high and low values and the popularity or unpopularity of goods of various kindly, whether produced on land or water and whether they have arrived along land routes or water routes. They also should know about suitable times for resorting to dispersal or concentration, purchase or sale (2-16-1). In case of calamity rescue the goods of high value or himself (22) precautions against dangers and regulations at the ports (2-16-24).

वण्डविष्टिकरबाधैरक्षेवृपहतांकृषिम्।स्तेनव्यालविषग्राहैर्व्याधिमिश्चपशुब्रहान्।।

बल्लभैः कार्मिकैः स्तेनैरन्तपालैश्चपीडितम्। शोधयेत्पशुसंघेश्च क्षीयमाणंवणिक्पथम्।।

He should protect agriculture that is oppressed by fines, laborours and taxes, and herds of cattle (oppressed) by thieves, wild animals, poison and crocodiles as well as by diseases. (2-1-37). He should keep trade- routes clear that are harassed by (the king's) favorites, works-officers, robbers and frontier chiefs or are reduced by herds of cattle. (2-1-38).

पत्तनाध्यक्षनिबद्धं पण्यपत्तनचारित्रं नावध्यक्षः पालयेत्।

मूढवाताहतानावः पितेवानुगृणीयात्।उदकप्राप्तंपण्यमशुल्कमधशुल्कं वा कुर्यात्।

The concept of commercial insurance has become evident in the following verses: The controller of shipping shall observe the regulations in a port town as fixed by the Commissioner of Port. (2 -28 -7). He should rescue boats that have gone out of their course or are tossed about by gale, like a father. (2-28-8). He should indemnify losses of goods that have fallen in water either by making it duty free or pay half the duty. (2-28-9).

पुरुषोपकरणहीनायामसंस्कृतायां वा नाविविपन्नायांनावध्यक्षेनष्टंविनष्टंवाभ्यावहेत्।

When a boat that is lacking in men or equipment or is unworthy, comes to grief, the controller of shipping shall make good what is lost or ruined. (2-28-26).

चोरहितमन्ययूथप्रविष्टमवलीनं व नष्टम्।

The concept of cattle insurance too gets explained in the following verses: An (animal) that is stolen by thieves, has gone into another herd or has disappeared is lost. (2-29-12).

पंकविषमव्याधिजरतोयाहारावसन्नं वृक्षतटकाषशिलाभिहतमीशानव्यालसर्पग्राह

वावग्निविपन्नंविनष्टम्।प्रमादादभ्यावहेयुः। एवं रूपात्रं विधत्।

An (animal) that has sunk in mud or has suffered because of water or flood or is struck by tree, a bank, wood or rock, or is struck by lightening or killed by a wild animal, a serpent, a crocodile or in forest conflagration, is considered destroyed.(2-29-13). They should make good (what is lost or destroyed through negligence). (2-29-14). Thus he should be cognisant of the numbers of animals. (2-29-15).

स्तेनव्यालसर्पग्राहगृहीतंव्याधिजरावसन्नंचावेदयेयुः अन्यथा रूपमूल्यंभजेरन्।

They should report cattle seized by robbers, wild animals, serpents or crocodiles and cattle that have died because of disease or old age otherwise they shall he liable to pay the price of the animal. (2-29-24) [Arthashasthra-Kautilyaj.

INSURANCE IN BRITISH INDIA

It is interesting to note that the earliest known policy in English is expressed as "on the good ship Sancta Crux from any port of the isles of India of Calicut into Lixporne". Marine insurance was thus the first to develop in this country. The first plan to form some sort of an insurance company in this country was, however proposed at the Government level in late seventeenth century, without any success.

Sir' John Child (1681-1690), Governor of Bombay, was instructed by the court of directors of the East India company to constitute an insurance office on the (Bombay) island. But nothing is known about what came of this suggestion. But a few leading European merchants in the Bombay island established in 1793 the earliest known insurance company "Bombay Insurance Society".

Life insurance in its modern form came to India from England as far back as 'in 1818. The Oriental Life Insurance Company started operation in Calcutta to help the widows of their community. The Bombay Life Insurance Company was founded in 1823. The Madras Equitable was founded in 1829 while the Madras Widows was started in 1834. Medical Invalid and General were established in 1841, and the Albert Life Insurance Company in 1860.

The period of fifty years commencing with 1818 was one in which sincere efforts were made to find ways and means to write life business scientifically.

The year 1870 heralded the birth of the first Indian insurance company, the Bombay Mutual Assurance Society, which came into existence to cover Indian lives at 'normal' rates. The Hindu Family Annuity Fund was started in 1872 by Pt. Ishwar Chandra Vidyasagar in Calcutta. The next most important Indian life office was the Oriental Government Security Life Insurance Company in 1874.

In general insurance, the Triton Insurance Co. Ltd., was the first British General Insurance company established in 1850 in Calcutta. The first Indian general insurance company, Indian Mercantile Insurance Co. Ltd., was established in Bombay in 1907.

FIRST INSURANCE LEGISLATION

At the turn of the century, inspired by the unusual national fervor, many insurance companies were born and thrived. To regulate the activities of insurance companies the British Parliament had passed an Act in 1909. Similarly, in India, the Insurance Companies Act, 1912 to this effect was passed. Prior to 1912, India had no legislation regulating insurance. It brought a measure of control over Indian life offices by requiring that their rate tables and periodical valuations should be certified by an Actuary. All life offices should make uniform statements every year in a prescribed form and the Actuarial reports periodically. A deposit of £ 20,000 was compulsorily to be made for every company.

The *Swadeshi Movement* (1905), the non-cooperation movement (1919) and the civil disobedience, movement (1929) were milestones in the history of nation as well as the Indian insurance. Intensive propaganda of "Be Indian and Buy Indian", influenced by the cult of Swadeshi, encouraged many Indian insurance companies to start their operations, under the patronage and guidance of the national leaders. The business growth in concrete terms of business-in force recorded for Rs 22.44crore (in 1914) to Rs 298 crore (1938).

Mr. Sushil C. Sen, a well known Calcutta solicitor, was appointed to report on the amendments necessary to modernize Insurance legislation and practice in India. His report was duly presented and was considered by the Advisory Committee appointed by Government from representatives of all branches of insurance in India and presided over by the Law Member Sir N. N. Sircar. Immediately following the conclusion of the meetings of the Advisory Committee, Government prepared a bill, and introduced it in the Legislative Assembly in 1937. The Bill was keenly debated by the Assembly insurance interests and the public at large, and passed in 1938, making the first really comprehensive law on the subject in India.

INSURANCE ACT, 1938

In 1938, with a view to protect the interest of insuring public, earlier legislation (1928) was consolidated and amended by the Insurance Act, 1938 with comprehensive provisions for detailed and effective control over the activities of insurer. For the first time in the history of insurance in India, the whole business was brought under a unified system of control and its structure strengthened by statutory regulations. Weaker elements were weeded out; indiscriminate promotion was checked and speculative insurance was eliminated. The best proof of the soundness of the law was the effective check on large scale liquidations which had marred the name of insurance in the thirties. In due course, various amendments were made in the Indian Insurance Act 1938 in subsequent years to improve the regulatory mechanism. The Act of 1938, which in many respects codified and modernized the laws relating to insurance in the country; suggest the same noteworthy changes in regulation and organization of business. It was considerable step forward in the direction to envelop all forms of insurance.

Although some attempts were made to discriminate against the non-Indian Companies especially the United Kingdom companies which are in majority among the non-Indian Insurance Companies they failed on account of Section 113 of the Government of India Act. The points of special interest in the Act are as follows:

DEPOSITS

Requirement of a deposit before insurance business can be started. Government held the view that the primary necessity of deposit was to prevent insurers of small financial resources or speculative concerns from commencing business. The amount of Deposits is substantial and required for all classes of business.

The creation of a Superintendence of Insurance with wide power of supervision and control

In the 1938 Act there was the provision for the appointment by the Central Government of an Officer who must be a qualified Actuary as Superintendent of Insurance. All annual and quinquennial returns are to be made to him in the prescribed form and he is given wide power to reject all incomplete and inaccurate returns etc.

The Superintendent was to be a qualified actuary but in 1946, an amendment was made in this respect that the Superintendent need not be a qualified actuary till 31st day of December 1953.

INVESTMENTS

The Act provides that 55% of the net life liabilities of an Indian or a British insurer should be invested in Indian Government and Approved securities with at least 25% in Indian Government Rupee securities. All other companies' i.e. foreign companies must invest 100% of their Indian liabilities in Indian Government and Approved securities with at least 33-1 /3% in Indian Government Rupee securities.

POLICYHOLDERS IN DIRECTOR'S BOARD

There is a provision in the Act which makes it possible for the representatives of policyholders to be elected to the Board of Directors, the proportion being one-fourth of the total number of Directors of the Company.

RETURNS SUBMITION

The various annual returns and quinquennial returns are to be submitted to the Superintendent of Insurance and these have been found to be complete, concise and effective in most cases.

ABOLITION OF MANAGING AGENCY

The Managing Agency system was abolished by the Act but the creditor or Managing Directors or Director-incharge or paid Chairman of the Board of Directors has meant that the persons in charge of management get all their remunerations, though in a different form.

VARIOUS AMENDING ACTS

The various amending Acts were passed in 1939, 1940, 1941, 1944 and 1946; the principal amendments were:

1. The position of the Superintendent of Insurance to be occupied by the non- actuary also. This amendment was passed in 1946.
2. The Act did not provide for the renewal of registration every year but in 1941the provision was made for the renewal of the registration.
3. Minor changes were made in Sections dealing with deposits, separation of accounts and balance sheets, actuarial report and abstract and other matters.
4. Section 27 was amended with a view to clarify the position of the various companies but the percentage remains unchanged.

NATIONAL PLANNING COMMITTEE (1938-46)

The Indian National Congress in 1938 appointed the National Planning Committee with Pandit Jawaharlal Nehru as its Chairman, to go into the various aspects of the National economy to deal with all parts and aspects of the national life and work in accordance with a predestined plan"; and to discuss on such varied topics as agriculture, industry, human resources, exchange and finance, public utilities, social services, health and housing, education and women's role in planned economy, currency and banking etc. There was a sub-committee on "Insurance", which was headed by Sir Chunilal V. Mehta and submit its report. The sub-committee enquired into the working of the insurance industry and discussed the concept of insurance, its potential, its place in the national economy, the scope and need for social security etc.

After some delay the various sub-committees submitted their reports, which were considered at the Plenary Session of the National Planning Committee in1940. But meanwhile the World War II and the quit India movement, the arrest and long confinement of the prominent leaders in jail interrupted further progress still 1945; when they were released. However, the Committee submitted its report in 1946. A fresh look was given to these issues and revised instructions were issued to the sub-committees to incorporate further developments and update the facts.

With the extension of the role of the state in all facets of our national economy, in initiatives, organization as well as administration, the scope of insurance and function of insurance in the economic structure of the country attained progressively increasing importance after independence.

The sub-committee also realized that insurance services like all other parts of the national economy would be an integral part of the system of planned economy which the National Planning Committee was setup to formulate. Under such planned system of national economy, which carefully guarantees of all parts of the material as well as the cultural life of the nation to be simultaneously organized and developed, there will necessarily be large scope for expansion in the insurance services as in other service of all social character.

The committee proclaimed that "they were called up on to organize a system of insurance for the entire Indian nation as an integral part of the country's economy- If that service is to be properly organized and provided on a national basis, it will have to be made universal, comprehensive, and compulsory.

The forms of insurance could be listed in five main categories accordingly as it affects and concerns;

1. Individual
2. Property concerned
3. A running business or commerce or services
4. Miscellaneous activities, and
5. Productive activities of agriculture and industry

They could further be sub-divided into;

a) Individual, with special reference to

- Life
- Accident to health / permanent disability
- Health in general
- Education
- Marriage and maternity
- Old age unemployment

b) Property - with special reference to

- Fire, flood, risks in transit of goods by land, sea, and or air
- Earthquake
- Riot or civil commotion, and disturbances
- Burglary, Theft or Robbery
- Automobile insurance, including loss by theft, fire, collision in transit, confirmation and liability for compensation of loss etc suffered by third party
- Any "act of God" or the "king's enemies" causing loss or damage to life or property, e.g. War risks

c) Business – including

- Stability profits
- Adventitious, interruption to business by strikes, or any such occurrence beyond the control of the owner, or manager of the business; also unemployment
- Workman's compensation
- Consequential loss and third party damage
- Credit
- Fidelity of employees
- Security of title

d) Mixed Categories:- Mixed categories, including such provision as that against heavy burden of taxation taking at once (e.g. Death duties, Estate Duties etc.) or such against loss or damage or special assets for earning an income by individuals, e.g. dancers legs, singer's, throat etc.

e) Risks of productive activities both in industry and agriculture. The final report of the Sub-Committee analyzed and reported on the general basis of insurance: "the focus and methods of insurance related to life, accident fire, marine and other miscellaneous focus; which by the growing complexity of modem social organization, create/risks that needed to be insured against, if a tolerable stability and continuity of life and work are to the assured". It encompassed among the traditional classes of insurance, risks related to joint life assurance, annuities, group life assurance, industrial insurance, accident insurance etc. The other forms of insurance mentioned above relating to the individual, may he described as 'Social Insurance'.

Social Insurance again included not only insurance against accident and injury, health to the workers etc., but also made a provision for the general health and welfare of the industrial workers as well as the chances of their being thrown out of employment. It also covered health and unemployment insurance in general; as part of the insurance for social security, which though commonly undertaken by the state in one form or another in all advanced industrial countries, was yet almost unknown in this country.

The system of national health insurance was usually provided on a compulsory basis, beginning with workers, under a given wage level. It may progressively be extended to include all citizens. Other items of insurance effecting the Individual included education of children and marriage and its risks like maternity, old age insurance, unemployment insurance etc. In the non-life insurance section, emphasis was given in areas of property insurance, business insurance and liability insurance etc.

ON THE FORMS OF INSURANCE COMMONLY TAKEN OUT

The common and popular forms of insurance prevailing in the country were Life Insurance in all its forms. Fire Insurance, Marine Insurance, Accident Insurance, including Automobile Insurance and Workmen's Compensation Insurance. Annuity even though offered by some Indian companies, was not very popular with the Indian public. Burglary, Robbery and Theft Insurance were confined only to a very small class. Earthquake, Business Interruption, Riot and Civil commotion were very commonly written particularly in times of troubles. The habit of the people was generally to give up Riot and Civil Commotion and Earthquake Insurance after the panic subsided.

There was practically no business in accident, health Plate-glass, Cattle Insurance and Credit Insurance. Disability Insurance a few years ago it was the practice with certain companies to offer special benefits for disability.

Fidelity and Bonds were confined practically to liquidators, receivers and people holding such appointments through High Courts. Bonds were being taken out by employees where security was required by the employers and where no cash security was forthcoming.

There was enough room for expansion of the existing forms of insurance business by creating the insurance habit amongst the peoples. Property insurance was mostly confined to merchandise and in case of buildings only to those owned by companies or where they were mortgaged. To achieve this, propaganda/ awareness were very essential.

SIR COWASJI JAHANGIR COMMITTEE

Further, in April 1945, a committee was appointed by the Government, under the chairmanship of Sir Cowasji Jahangir, to enquire into the undesirable development in the management of insurance companies in India and to recommend measures that could be taken to check manipulation of funds interlocking between banks and insurance companies by the financiers having acquired control of the companies, and proliferating short term management policies.

The committee in their report recommended important amendments in the provision of Insurance Act containing, inter alia:

(1) Restriction on transfer and acquisition of shares and certain provisions regarding capital structure of companies.

(2) Restriction on investments of the remaining 45% of funds of life insurance companies.

(3) Restriction on emoluments of financiers or officers of the companies. The Insurance Act 1950, based on the Sir Cowasji Jahangir committee report, incorporated many reforms as mentioned earlier such as:

(a) Drastic changes were introduced in the regulations for control of insurance companies.

(b) The Superintendent of Insurance was re-designated as the Controls of Insurance, with wider powers.

(c) Statutorily recognized bodies like Life Insurance Council and General Insurance Council were setup as autonomous bodies to guide matters of limitation of overall expenses through respective Executive Committees.

(d) The appointment of Administrator to manage the business of financially unsound concerns was provided for.

(e) Interlocking of interest between insurance companies and banks was prevented.

(f) Controller of Insurance was given the power of inspection of the insurer's books.

(g) A class of approved investment was instituted and minimum proportion of Indian life fund that should remain invested in Government securities and securities of approved investment were refixed.

The Act 1938 was thus comprehensively amended in 1950, making far reaching changes such as i) requirement of equity capital for companies carrying on life insurance business, ii) ceiling on shareholdings in such companies, iii) stricter controls on investments of life insurance companies, iv) submission of periodical returns relating to investments and such other information to the controller as he may call for, v) appointment of administrators for mismanaged companies, vi) ceiling on expenses of management and agency commission, and vii)incorporation of the insurance association of India and formation of councils and committees thereof.

By an amendment, the percentage of assets equivalent to policy liabilities required to be invested in Government and approved securities was reduced to50%, but simultaneously restrictions were placed on the nature of investment of the balance fund. A significant provision was incorporated in the Act by which a proprietary company could convert itself into a Mutual company.

The Executive Committee of the insurance councils set up under the Act of 1950, made serious efforts to ensure higher standards of conduct and sound business practices. Yet, the 'dark deeds' of the unscrupulous insurance men helped to intensify public prejudice that manifested itself at the beginning of the first decade of independence and invited public demand for nationalization.

THE PRAGMATIC APPROACH: NATIONALISATION OF LIFE INSURANCE

With the dawn of independence, the Government of India, under the leadership of Pandit Jawaharlal Nehru, spelt its approach for the economic development of the country in clear terms. The key concept was of 'mixed economy' with both public sector and private sector having their respective niches carved out for them. One of the principles announced at the time was that all those activities which occupied a strategic position in the economic development of the country were to be managed by the public sector. It is significant to quote the observation of the Speaker in the Lok-Sabha at the time of considering the 1950 Insurance Amendment Bill.

"A regulatory economy is from one point of view in the larger interest of the community; so far as the economy of this country is concerned, it is evident that we have accepted a sort of regulation in the matter of industry and business and it is now no longer valid to raise this question either in the sphere of insurance business or in any other. The fact must be accepted that the progress of the country is on the tines of regulation. The stages by which ultimately the capitalist economy can be turned into an economy of the people may be slowed down and quickened according to the colour of the Government that may be in power at that particular moment".

A reference to nationalization of insurance is available in a letter dated 22nd March, 1953, addressed by Shri Jayaprakash Narayan to the Prime Minister as a forwarding note to the draft 'Fourteen Point Programme for Socialism', almost following the lines of the Karachi Congress (1931), on fundamental rights and economic policies; *which suggested nationalization in two spheres (1) Banking and Insurance and (2) Mining. The State must occupy the strategic point in the economy.*

The then Finance Minister, Dr. Deshmukh, while piloting the Bill for nationalization (1956) outlined the objectives of LIC thus: "to conduct the business with the utmost economy; in a spirit of trusteeship; to change premium on higher than warranted by strict Actuarial considerations; to invest the funds for obtaining maximum yield for the policyholders consistent with safety of the capital; to render prompt and efficient service to policyholders; thereby making insurance widely popular".

Dr. Deshmukh explained the rationale of nationalization of life insurance business to the Parliament (1956) thus; "The nationalization life insurance business was felt to be a need in the public interest as a public utility and as a social service."

"Nationalization is justified on many other grounds of ideology, philosophy and the objective of welfare state". It was also based on a desire to mobilize the savings of the community for meeting the objectives of the plans, i.e utilization of resources from the point of view of the development of economy. Nationalization of insurance had been a long felt need in orders that the interest of insuring public, and the industry, could be safeguarded, the country's economy promoted and more funds "provided for economic development" (Parliament debates, 1956).[1]

"Having launched a planned programme for the country's development, it was necessary for the Government to ensure that the mechanism of finance, including banking, insurance, stock exchanges and other investing institutions fit into the scheme of development. The process and instruments of mobilizing savings and utilizing them to the best advantage of the country had to become socio-purposive. As a nation's savings are the prime mover of its economic development, the widening and the deepening of all possible channels of public savings came to be viewed as of paramount importance. A beginning was made in this direction in 1955, with the nationalization of the Imperial Bank. The nationalization of life insurance in the wake of it, in 1956, was intended to accelerate the pace. The Government's approach to the subject was a positive one, nay, it can be claimed a creative one."

ECONOMIC LIBERALIZATION AND GLOBAL INTEGRATION

Since in the middle of 1991, there has been wide-ranging development in India's economic policies in the direction of deregulation and liberalization, notably the structural reforms in areas of policy governing the industry, the public sector foreign direct investment and trade, the exchange control and payments regime, taxation and financial sector. Along with the on-going

[1] Finance minister's Broadcast: Asian Recorder, January 14-20, 1956, Vol. 1 Number 55 p- 6-7

programme for consolidating the fiscal position and balance of payment situation, the structural reforms have now started contributing to higher productivity, competitiveness, and export orientation of the economy, enhancing the role of the private sector and promoting greater play of the market forces.

In his budget speech for 1993-94, the then Finance Minister, had indicated the need for reform in the insurance sector and observed; "with reforms underway in the banking sector and in the capital markets, it is necessary to address the need for similar reforms in the insurance industry aimed at introducing a more competitive environment to suitable regulation and supervision".

It was in this context that the Government of India had appointed a Committee on the "Reforms in the Insurance Sector" in April, 1993 headed by Shri R.N. Malhotra, former Governor, Reserve Bank of India, to examine the structure of the insurance industry and recommend changes to make it more efficient and competitive keeping in view the structural changes in other parts of the financial system of the economy. The committee broadly touched on the (i) Regulation of Insurance business; (ii) Restructuring of the existing insurance organization; and (in) Liberalization of insurance industry for global integration.

Malhotra Committee in his recommendations clearly wanted the monopoly of public sector to go with the opening of the insurance sector for the private players. The objective being 'while nationalised insurance companies have done a commendable job in extending their presence and services throughout the country and are handling large volume of business introduction of competition result in better customer services, and help improve the variety and price of insurance products'.

The history took a full circle, for better. Until March 2000, insurance business in India was largely a domain of the Public Sector insurance companies, LIC and GIC. Things started to change in insurance since the submission of the Malhotra Committee (1994) Report. With the enactment of Insurance Regulatory and Development Authority Act, 1999, the door was opened for the entry of the Private Sector majors and the Joint venture participation by the multi-national insurance companies- In insurance sector, with this, begins the phase of liberalization and globalised insurance operation in India, To sum up the narration with a quote from Judith M. Brown:

"Legacy is handing on goods to a succeeding generation. Each generation has to do that working out in its own context, rather than inheriting things, institutions etc".

ROLE OF INSURANCE COMPANIES IN NATIONAL ECONOMY

With the extension of the role of the State in all facets of our national economy, in initiative, organization as well as administration, the scope of insurance, and function of Insurance in the economic structure of the country attains progressively increasing importance. It is no longer a matter for each individual to provide for himself on the best possible terms he can obtain. Whether it is some provision for an individual's own old age and consequent incapacity to work with normal efficiency; or for his family and dependents; their health, education, marriage or settling life; accident or ill-health for himself; or for his business and its continued prosperity, including the provision of security of some kind for his workers or other business associates, tax-burdens, and other such well-known contingencies of business life, the individual had in the past to make his own arrangements.

Instead, the obligation to provide sufficient safeguard and assurance is becoming, rapidly and extensively, a matter of national concern. In many modern industrialized countries making such provision on a collective basis, provision for an individual's security in work and person is being enforced universally and compulsorily against some of the commonest contingencies of modem industrial life. This provision, once made, is administered collectively by the State, or by a specially created organization on its behalf.

Even where the entire insurance business of the country is not collectivized, in all its forms, the State, as the organized representative of the community collectively, closely controls and regulates all those sectors of Insurance business, which are owned and managed by private concerns for the profit of their proprietors.

In primitive society, based on local is not individual self-sufficiency, there was no need of such provision. As social organization became more complex, and Division of Labour increased; as exchange began to dominate the economic system and the hazards of enterprise increased, this business was developed in all its forms, mainly by individual initiative motivated by profit, in a variety of ways. The main purpose was to minimize the known risks of a given individual or enterprise, as measured in terms of money.

ROLE OF INSURANCE IN NATIONAL ECONOMY- 2.2

- Life Insurance is the only sector which gamers long term savings.
- Spread of financial services in rural areas and amongst socially less privileged.
- Long Term Funds for infrastructure.
- Strong positive correlation between development of capital markets and insurance/pension structure.
- Employment Generation.

ORGANISATION OF INSURANCE BUSINESS

A scientifically planned and carefully operated national economy would naturally and effectively guard against such a danger by providing, or at least closely controlling and regulating Insurance business in the common interest. It thus increasingly becomes a Public Utility and Social Service even though it is not directly productive of material goods.

CHAPTER-III

HYPOTHESIS &
RESEARCH
METHODOLOGY

CHAPTER -III

HYPOTHESIS & RESEARCH METHODOLOGY

INTRODUCTION

A Greek Philosopher Heraclites says, "There is nothing permanent except change. Uncertainty is the only certainty in life. Birth and Death are the only definite."Insurance business has emerged as one of the prominent areas of financial services during recent times. Insurance performs remarkable functions by insuring the insurable human being and property located at different places. Now a day in India, insurance sector is most developing business area. Through the process of LPG, Indian economy has been opened up for foreign players as well as private players. In the light of the economic reform process, Insurance sector has been opened up since 1999 for private sector and foreign players. To regulate insurance sector in India IRDA has been set up. For almost four decades LIC has been the whole sole player with virtual monopoly in the life insurance sector.[1]

Due to opening up of insurance industry by the year 2001-02, 12 private players entered the life insurance sector. The entry of so many companies in this sector was likely to affect the performance of LIC. Thus, the life insurance public sector giant i.e. LIC, which never faced competition earlier, now has to compete with the private players who boast of the rich and long experience of their partners from the developed countries of the world. They are also coming up with different types of innovative policies and other strategies plan. It is also expected that the total business of LIC, in terms of premium, sum assured and number of policies and its market share would have been affected.

It is therefore, necessary to study the business performance of Life Insurance Corporation of India (LIC) after the liberalization policy regime and as also the changes that might have occurred or any restructuring that might have been done by the LIC in the wake of entry of private players in the life insurance sector. Hence it becomes imperative to evaluate the performance of Life Insurance Corporation of India. Therefore, the researcher has conducted a study of financial management in LIC of India.

---

[1] Summinder Kaur Bawa:-"Life Insurance Corporation of India- Impact of Privatisation and Performance" (2007), Regal Publication New Delhi P.21

THE TITLE

"A Study of Financial Management in LIC of India"

OBJECTIVES OF THE STUDY

In this context the primary objective of this study is to evaluate overall performance of Life Insurance Corporation of India (LIC) since liberalization. The following are the specific objectives of the study.

(1) To study the overall financial management process of LIC.

(2) To study the process of revenue earned by way of income.

(3) To study the loan distribution process of corporation.

(4) To study the claim settlement process of corporation.

(5) To study the organizational setup of corporation.

(6) To study the investment policy of the corporation.

(7) To study the business challenges due to globalization.

(8) To study the mission, vision & goal of the organization.

(9) Suggestion for improvement of working in financial management.

SCOPE OF THE STUDY

The scope of the study is limited to Life Insurance Corporation of India (LIC), a public sector unit of India. The researcher has selected only LIC for the study.

PERIOD OF THE STUDY

The present study will cover ten years from 2000-2001 to 2009-2010. This is the period during which the insurance market opened for private insurance companies and IRDA was established. The researcher is in a view that the new phase of insurance sector would be covered and that is why this period has been considered for the study.

HYPOTHESIS

Hypothesis can be defined as a tentative supposition of provisional guess which seems to explain the situation. The Hypothesis assumed by taking some assumption. The assumptions for the study are as follows:-

(1) LIC has a wide range of product to meet the business challenges due to globalization.

(2) LIC has adopted modern technology to serve its customers at large.

(3) Public trust much more on life insurance corporation of India as compare to private players.

(4) To examine the loan facility provide by LIC is under various policy loan scheme, staff housing scheme and agents housing scheme are secured.

(5) The main aim of LIC is to invest the life fund for the development of the country.

(6) To examine that the efforts are made to carry the message of life insurance into rural areas.

(7) Analysis of financial process is very important factor to know the overall growth of an organization especially in the field of funds and investment activity.

(8) Settlement of claims is a very important aspect of service to the policyholders.

These assumptions will be applied towards bringing about the intended outcomes described in the preceding section, i.e. the shifts in perception, attitude, policy and planning towards financial management process of LIC.

DATA COLLECTION AND ANALYSIS OF DATA

The study relates is the financial management of Life Insurance Corporation of India, a public sector giant in the life insurance industry in India. The study covers a period of 10 years from 2000-2001 to 2009-2010. The study is entirely based on secondary data. These data have been collected from the relevant annual reports of Life Insurance Corporation of India, statistical year book of LIC, Yogakshem and various news bulletins of the LIC.

The annual reports of IRDA and other related literature available both as hard copy and on the net have been consulted for collection of data. Apart from these various magazines devoted to the issues related to insurance like Insurance Chronical, Insurance Times, Business Today, Business World etc. have also been used to supplement data and information required for the study. Interactions and discussion with the officials of the LIC have also contributed in augmenting the required data and information. A number of other websites relating to insurance business such as www.licindia.com, www.irdaindia.com, www.bimaonline.com, etc have also been visited for the purpose of data collection. Primary data has been first subjected to simple tabulation and then these have been further processed to get the required form so as to represent various variables required for the study. These variables have been identified as per the objectives of the study. Line graphs and pie charts have also been drawn wherever necessary to provide a visual pattern of growth and comparison.

TOOLS AND TECHNIQUES

The accounting tools used for the study are as under,

1. Ratio Analysis

2. Trend Analysis

The statistical measures used for the study are as under,

1. Average

2. Index

3. Time Series Analysis

4. Regression Analysis

UTILITY OF STUDY

The topic "A Study of Financial Management in LIC of India" is very important for both customer and organization as well as for country also because it deals with managing the funds.

"Financial Management is the scientific manipulation and exploitation of our business and financial environment, using a range of statistical, mathematical and economics tools with the aim of making the best economic decision under prevailing circumstances and availability of information and scare resources.

Life Insurance Corporation of India is the largest insurance group and investment company in India. It's a state-owned company where government of India has 100% stake. The slogan of LICI is "YOGAKSHEMAE VAHAMYAHAM" which translates from Sanskrit to "YOUR WELFARE IS OUR RESPONSIBILITY", so that the study of financial management of such largest insurance company in India is very important.

With the study of financial management of LICI we can see that the business of company is well protected from miss-management of funds. We study the balance sheet of the company by using the different types of accounting tools to manage financial status of the company and keep a watch an all sensitive fact that can endanger business into loss. It explains the importance of time, risks and return on investment. The return on investment is always being more than the cost of capital, risk investment should be least. We should get our money back within time. All these facts are important for success of business. Financial management evaluates the performance of the business and keeps a check on the profitability aspects of the organization.

Life Insurance has many benefits to the country. It brings economic growth and development through investments, financing, dividend and risk management decision. When there is good growth and development of the economy it will ultimately improve the standard of living of all people. Improved standard of living will lead to good health and reduce financial stress considerably. It enables the individual to take better financial decision which will reduce poverty, debts, and increase savings and investment.

Better financial ability of LICI will to profitability which will create new jobs and in turn lead to more development, expansion and will promote efficiency.

Life today is full of uncertainties; in this scenario Life Insurance ensures that your loved ones continue to enjoy a good quality of life against any unforeseen event. Life Insurance not only provides for financial support in the event of untimely death but also act as a long term investment. We can meet our goals, be it our children's education, their marriage, building our dream home or plan a relaxed retired life, according to our life stage and risk appetite. Traditional life insurance policies i.e. traditional endowment plans, other in-built guarantees and defined maturity benefits through variety of products options such as money back, guaranteed cash values, guaranteed maturity values. Life Insurance policies can be useful tax planning tools because the policy holder is eligible for tax benefit under the Income –Tax act 1961.

Life Insurance is a contract between an insured and an insurer where the insurer promises to pay a designated beneficiary a sum of money upon the death of the insured person. All individuals no matter what their financial capacity can buy the insurance plan and improve their life.

SIGNIFICANCE OF THE STUDY

"All progress is born of inquiry. Doubt is often better than over confidence, for it leads to inquiry and inquiry leads to invention" is a famous Hudson Maxim in context of which the significance of research can well be understood.

After IRDA, insurance sector has been open for private players also. The study has been focus on working of LIC. It will give idea about changes and challenges in insurance sector after reform process particularly when the private players have entered in the market. It will give an idea about various insurance products and present performance of LIC. It will be possible for LIC to improve performance in the field of human being in risks of shortage of finance in lives.

RESEARCH METHODOLOGY

"A research design is the arrangement of conditions for collection and analysis of data in a manner that aims to combine relevance to the research purpose with economy in procedure."[1]

Research design is a logical and systematic planning of a piece of research work. The research design has to be geared on the basis of the availability of time, energy and money, the availability of data to the extent to which it is desirable or possible to impose upon persons or individuals or social units or institutions which might supply data.

So a good design is often characterized by adjectives like flexible, appropriate, efficient, economical and so on. According to Burchman, "There is no such thing as a single or correct research design; a research design represents a compromise dictated by many practical considerations that go into research." Thus a research design is not highly specific plan to be followed without deviations but rather a series guide point to be headed in right direction. It is always tentative as the study progresses new aspects, new conditions and new connecting links in the data come to light and thereby it becomes necessary to change the plan as circumstances demand. In the present study however the research design includes area of the study, research tools, procedure of data collection and classification of data.

The present study **"A Study of Financial Management in LIC of India"** is less or more based on secondary data. It means researcher has to use facts or information already available and analyze these to make an evaluation of the material. Hence, the present research work has to follow two or more types of research i.e. case study, analytical study, evaluation research etc. It means this research is a mixture of different research designs.

---

[1] Claire Selltiz (1962), Research methods in social sciences holt, Rinehart and Winston inc p. 50

Keeping into consideration seriously the mentioned objectives of the research study is conducted for the sake of a systematic presentation under these three stages viz primary, secondary and Tertiary stage.

A study of financial management in Life Insurance Corporation of India, research project is an organizational research generally follows a logical sequence. The steps involved in them are the following:-

(A) **PRIMARY STAGE**

(a) Referred Research Journals

(b) Broachers

(c) Pamphlets

(d) Magazine (In house publication)

(e) Gray literature (pre print)

(f) Reports and other publications, (Unpublished monographs)

(g) Doctoral studies and govt. and semi – govt. publication

(h) Views have been taken of field workers and administrators by interview.

(B) **SECONDARY STAGE**

(a) Specification of the research objective. An attempt has been made to briefly study the main objectives of the LIC of India and to review its financial base from the assistance obtained through its publication, annual reports, balance sheets, financial statements and review of the existing objectives with a view to find out the new strategy.

(b) The area studied the depth of analysis required. The area and scope of the study determined on the availability of literature as a whole on the financial results of the LIC corporation of India, with a view to analysis financial results or a period at least 10 years.

(c) Related Websites, Govt. publications, Lok Sabha and other reports etc.

(C) **TERRTIARY STAGE:-**

(a) Indexes

(b) Abstracting Journals

(c) Bibliography of Research Publications.

The above three steps taken together constituted the research plan. Once the research plan is drawn the next stage involves carrying out the assignment.

The following steps will also be taken to complete this work systematically:

(1) Designing of a schedule.

(2) Preparation of a sample of respondents.

(3) Analysis of the information obtained and evaluation of the result.

(4) Arriving at decisions.

PROBLEMS IN RESEARCH:-

Researchers in India, particularly those engaged in empirical research, are facing several problems. Some of the important problems are as follow:-

- Libraries are not able to get copies of old and new Acts/Rules, reports and other government publications in time.
- There is also the difficulty of timely availability of published data from various government and other agencies doing this job in our country.
- Active support is not received from LIC employees and agents.

DESK RESEARCH:-

Due to the availability of a wide range of published data, many meaningful conclusions on market conditions can now be drawn solely on the basis of desk research.

FIELD RESEARCH:-

In such cases one has to resort to field research. Field research involves the collection of data from primary sources.

CONCLUSION

The analysis of the data clearly presents some important conclusion about the research work:-

(1) **Data Limitations of the Study**:-

The major reasons for low insurance business and operating results in India were ineffective and unequal distribution of income, poor marketing strategies, lack of popular media of public awareness and publicity and dwindling faith of general faith of average Indian and the insurance policy business, consequently resulting in low popularity of Indian insurance enterprises with low consumer awareness. The monopolistic nature of the market hampered the growth and awareness of insurance among the Indian public. Insurance was viewed as a tax saving tool rather than as an investment option or risk mitigating financial product. The attractions were also not very much appealing, when compared to now a day efforts. However, lack of access to detailed data at the organizational level made it difficult for the study to be carried out at the individual plant level. For the few branches for which data could be collected, the information was found to be incomplete in a number of important respects like lack of detailed break-down of the investment costs by origin. There were also problems of joint costing where two or more end products are produced jointly. In some other cases, the plants took up other activities. As a result, the study had to be necessarily based on data obtained from secondary sources.

However, it was not possible to carry out a systematic programming exercise to estimate appropriate shadow prices for them with the limited information available. Therefore, in the case of capital, sensitivity analysis has been carried out to estimate the cost of capital under different assumptions. In the case of employees, on the other hand, the estimate of salary cost also not available.

(2) **Cost of Research**:-

While operational and organizational research can prove to be very helpful in policy formulation, it can also turn out to be an expensive affair. Carrying out national field research particularly involves a lot of expenditure on travel and accommodation. Further, it is usually a time consuming affair.

CHAPTER-IV

ORGANISATIONAL SET-UP OF L.I.C.

CHAPTER -IV

ORGANISATIONAL SET-UP OF L.I.C.

PRIMARY STAGE OF ORGANISATION

Insurance in modern times is intimately connected with every sphere of civilized life and plays an important part in it. Life insurance in India entered into a new and promising era with the setting up of the Life Insurance Corporation of India.

Talking to newsmen in Bombay on 30th June, 1956, the Central Minister for Revenue and Civil Expenditure, Shri M.C. Shah, said that, "under the set up there would be a central Corporation and the country would be divided into five zones with head quarters at Bombay, Madras, Calcutta, Kanpur, and Delhi. Each zone would administer a certain territory and would have a Zonal Manager with an Advisory committee to advise him. There would be Divisional offices in each Zone and whole country would be divided for the time being into 28 Divisional Zones to start with. As business expands more, Divisional offices would be established and ultimately when the plans for pushing through the insurance habit into the rural areas materialized, there would be about 350 sub Branches, one for each district. Explaining the set up of the Life Insurance Corporation he said, there would be 15 directors, including the Chairman. To begin with, the Chairman would be the senior most officer of the Government of India, working part time until the appointment of a whole – time chairman." The Life Insurance Corporation Act of 1956 gives broadly the pattern of its organization. According to the Life Insurance Corporation Act, (Section 4) the corporation shall consist of such number of persons (not exceeding sixteen) as the central government may think fit to appoint there to and one of them shall be appointed by the Government to be the Chairman there of. The Chairman is the chief Executive of the Life Insurance Corporation. The affairs of the corporation are managed by its member on business principles, subject to such directives on matter of policies as the Central Government might give to it in writing from time to time.

According to Section 5 of the Life Insurance Corporation Act the original capital of the Corporation shall be five crores of rupees provided by the Central Government after due appropriation made by the parliament by law for the purpose and the terms and condition relating to the provision of such capital shall be such as may be determined by the Central Government. Under the Life Insurance Corporation Act, 1956, two Committees were setup to assist the corporation, namely the Executive committee and the Investment Committee Section 19 of this Act contains, "The Corporation may entrust the general superintendence and direction of its affairs and business to an Executive Committee consisting of not more than five of its members and the Executive Committee may exercise all powers and do all such acts and things as may be delegated to it by the corporation."[1]

FORMATION OF COMMITTIEES

About the latter committee which advise the corporation in the matters relating to investment of funds section 19 says, the Corporation may also constitute an Investment Committee consisting of not more than seven members of whom not less than three shall be members of the Corporation and the remaining member shall be persons (whether members of the Corporation or not) who have special Knowledge and experience in financial matters, particularly, matters relating to investment of funds. The Corporation is empowered to constitute such other Committees as it may think fit for the purpose of discharging its functions. Other Committee assisting the corporation are:

(1) Personnel Advisory committee

(2) Budget Advisory Committee

(3) Development Advisory committee

(4) Building Advisory committee.

The Chairman of the Corporation is the chairman of all these committees.

[1] Life insurance corporation Act- 1956, section 19 (committees of corporation), p. 12

In the Life Insurance Corporation Act, 1956, no qualification or disqualification were laid down for the members except that they will have no such financial or other interest as is likely to affect prejudicially the performance of their duties. Thus members of parliament can become members of the Corporation.

FUNCTIONAL SET-UP OF ORGANISATION

The working group of the committee on public undertaking has emphasized, in their third reports (Fourth Lok Sabha), the need for the Corporation to have functional members working full time. The group recommended that the corporation should have functional members working continuously at the task of directing the affairs of the Corporation.

The number of such fulltime members including the Chairman need not exceed five. They should be specialists in various fields of management of life insurance business. Work may be so distributed that individual members may deal with development, investment, personnel and actuarial matters. While appointing functional members preference should be given to the officers of the Corporation who have the requisite qualification and whose performance has been outstanding.

In addition to the functional members, the working group has suggested the appointment of two representatives groups of policy Holders Association and seven government nominee who will be experts in fields of Agriculture, Industry, Finance, Banking and Insurance or will have made their mark in professions like Law, Accountancy, Management, Actuarial science, etc. They have separately suggested representatives to policy holders through the institution of a General Council.

"The Chairman of the Corporation has so far been drawn from general administrators. The working Group has pointed out that their tenure of office has been usually short and they have been merely birds of passage. The Chief Executive of the Corporation should be a person of long experience in the field and he must have a committed career and stake in the promotion of life insurance by the Corporation. We are, therefore, of opinion that the practice of appointing officers from the administrative services as Chairman must be discontinued. The Chairmanship must be earmarked for one of the functional members who proves his caliber or for one from outside the Corporation who is an outstanding personality in the insurance field."[1]

In this connection it may be noted that the former Chairman of Life Insurance Corporation, Shri K.R. Puri, had a distinguished career in life insurance industry for over a quarter of century in various important positions and it is a matter of pride for the corporation that he has been since raised to the all important position of the Governor of Reserve Bank of India.

THE CORPORATION BOARD AND ITS COMMITTEES: -

AS discussed earlier the Corporation consists of 16 members, including the Chairman, who are all appointed by the Central Government. The Corporation is assisted by two statutory committees, namely, Executive and Investment committees. The Executive Committee consisting of not more than 5 of its members exercise all such powers as may be delegated to it by the Corporation. The Committee (consisting of not more than 7 members of whom not less than 3 are the members of the corporation) is to advise the Corporation on matters pertaining to the investment of funds.

In addition to these statutory the Corporation has constituted some other committees as well to help and assists its members. Board has constituted the personnel Advisory Committee and the Building Advisory Committee in place of the old Service and Budget Committee and the Building committee respectively from 19.06.1971. As the Act does not stipulate any qualifications or experience for membership of the Corporation, the appointments to the Board are apparently made on regional, sectional, political and other considerations. Qualification and experience of the persons concerned came into consideration, if at all; only incidentally.

[1] The manager of Publication, Delhi : administrative Reforms commission Reports on life insurance administration December 1968, p. 13

FUNCTIONS OF THE BOARD:-

The Board is responsible for the development of life insurance business to the best advantage of the community. The Board is expected to act as far as possible on the lines of business principles in the course of discharge of its duties. The Board of Directors tackles the problems of direction and control of the Corporation's business. To perform the task assigned to it with a sense of commitment, the Board and its various committees meet once a month, while the Investment committee meets frequently to the nature of work entrusted to it.

ZONAL ADVISORY BOARDS

The Corporation has setup 5 zonal Advisory Boards for each zone of the corporation viz. Northern, Central, Eastern, Southern and Western. The Chairman is also the Chairman of all the Zonal Advisory Boards, while the zonal Manager of the respective zone is an ex-officio member of the Zonal Advisory board of his zone.

PRESENT DIRECTION AND CONTROL IN LIFE INSURANCE CORPORATION:-

The Life Insurance Corporation Act, 1956 has a corporate structure and control which consists of share holders, Board of Directors, Chairman and Management. However, there are major differences between Life Insurance Corporation and other corporate bodies, from view point of direction and control. The Government of India can play a dominating role in the direction and control of the Life Insurance Corporation. The original capital of Rs. 5crores was provided by the Central Government. There is thus only one share holder, the President of Indian Republic, in place of many active, keen and interested share holders.

The powers vested in the Government are limited but none-the potent. These powers are exercised by a Joint Secretary or a Deputy Secretary acting on behalf of the share holders. There is no doubt, that he can be an effective motivator and critic, if he is keen and brilliant and can also devote sufficient time to learn and study the intricacies of the business. On the other hand, he can be quite opposite, raising question on trivial matters and letting important matters drift without any guidance or constructive criticism. There is also no continuity as one Joint or Deputy Secretary may be transferred and replaced by another at any time.

GOVERNMENT POWERS OF DIRECTION:-

Section 21 of the Life Insurance Corporation Act 1956 lays down that "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 a direction relates to a matter of policy involving public interest the decision of the Central Government there on shall be final."[1]

Directions have been given by the Government to the corporation viz.

(i) Relating to the appointment of a Board of Enquiry (Vivian Bose committee)

(ii) Relating to the action against the British India Corporation

(iii) Relating to the sharing of costs consequent on the waives of premiums in certain cases on the lives of defence service personnel.

The need for defining the exact relationship between the Government and the Corporation and for specifying occasions where instructions should take the form of a directive has been felt for long time. The chagla Commission setup by the Government of India to investigate into certain investment activities of the Corporation concluded that, "Government should not interfere with the working of autonomous statutory Corporation, that if they wish to interfere they should not avert the responsibility of giving direction in writing. That the Government must take the responsibility in a particular matter and that could only become clear if it was embodied in a direction given in writing.

The Committee on public undertaking observed in their third report (4^{th}LokSabha) as under:-

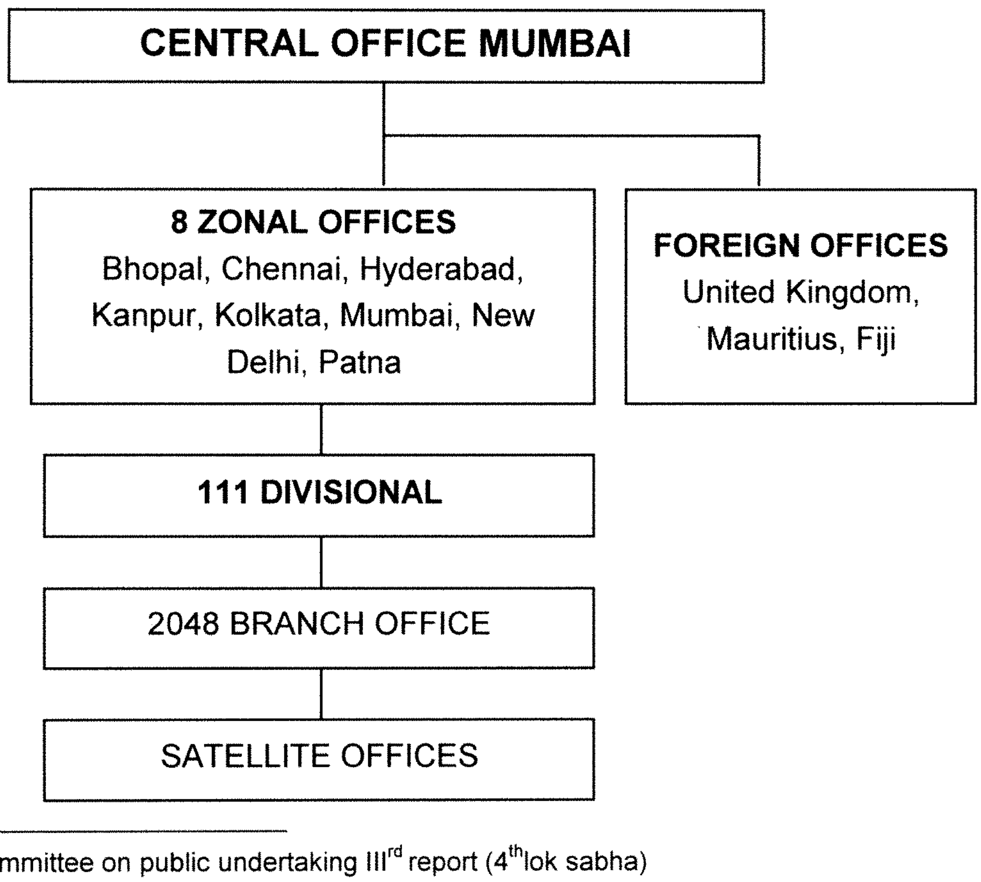
[1] The life insurance corporation Act, 1956 chapter v: management section 21 p 13

"The Committee is not satisfied with the Government's reply in as much as it makes no mention of the fact whether any principle for guiding the relationship between the public undertaking and the ministries have been laid down or, proposed to be laid down. They, therefore, reiterate their earlier recommendation and suggest that the Government should clearly lay down the principles as to where written direction should be issued to the undertaking so as to do away with ambiguity and possibility of recurrence of another "Mundra Affairs."[1]

Functions like the formulation of broad policies and procedures mainly performed by the central office. It has impressive array of departments, namely, Development Department, Integration Department, Actuarial Department and Personnel Department etc.

ADMINISTRATIVE SETUP OF THE CORPORATION:-

ORGANISATIONAL STRUCTURE[2]-:4.1



[1] The committee on public undertaking III^{rd} report (4^{th}lok sabha)
[2] www.licindia.com

GRIEVANCE REDRESSAL MACHINERY

Policyholders Grievance Redressal Cells Exist in all the offices of the corporation, headed by Senior Officers who can be approached by policyholders for redressal of their grievances, on any day but particularly on every Monday between 2.30 p.m. and 4.30 p.m. without prior appointment.

Central Office	Executive Director (CRM)	For conventional policies
	Chief(HI)	For health insurance policies
	Chief(P&GS)	For Group Insurance policies
	Secretary	For Micro Insurance policies.
All Zonal Offices	Regional Manager(CRM)	For conventional policies
	Regional Manager(P&GS)	For Group insurance policies.
All Divisional Offices	Manager (CRM)	
All Branch Offices	Chief Manager/Sr./Branch Manager	

Source:- LIC Profile

Section 18 of the Life Insurance Corporation Act, 1956 has broadly laid down the administrative setup of the corporation. "The Central office of the Corporation shall be at such place as the Central Government may by notification specify in the official gazette. The corporation shall establish a Zonal office at each of the following places, namely, Bombay, Calcutta, Delhi, Kanpur and Madras, and subject to the previous approval of the Central Government, may establish such other offices as it thinks fit."[1]

[1] The life insurance corporation Act 1956 (management) p. 16

The Board of Directors is entrusted with the responsibility of the management of the Corporation, with the Chairman as the Chief Executive of the Corporation. He is assisted by two Managing Directors and a few functional directors at Central office located at Bombay.

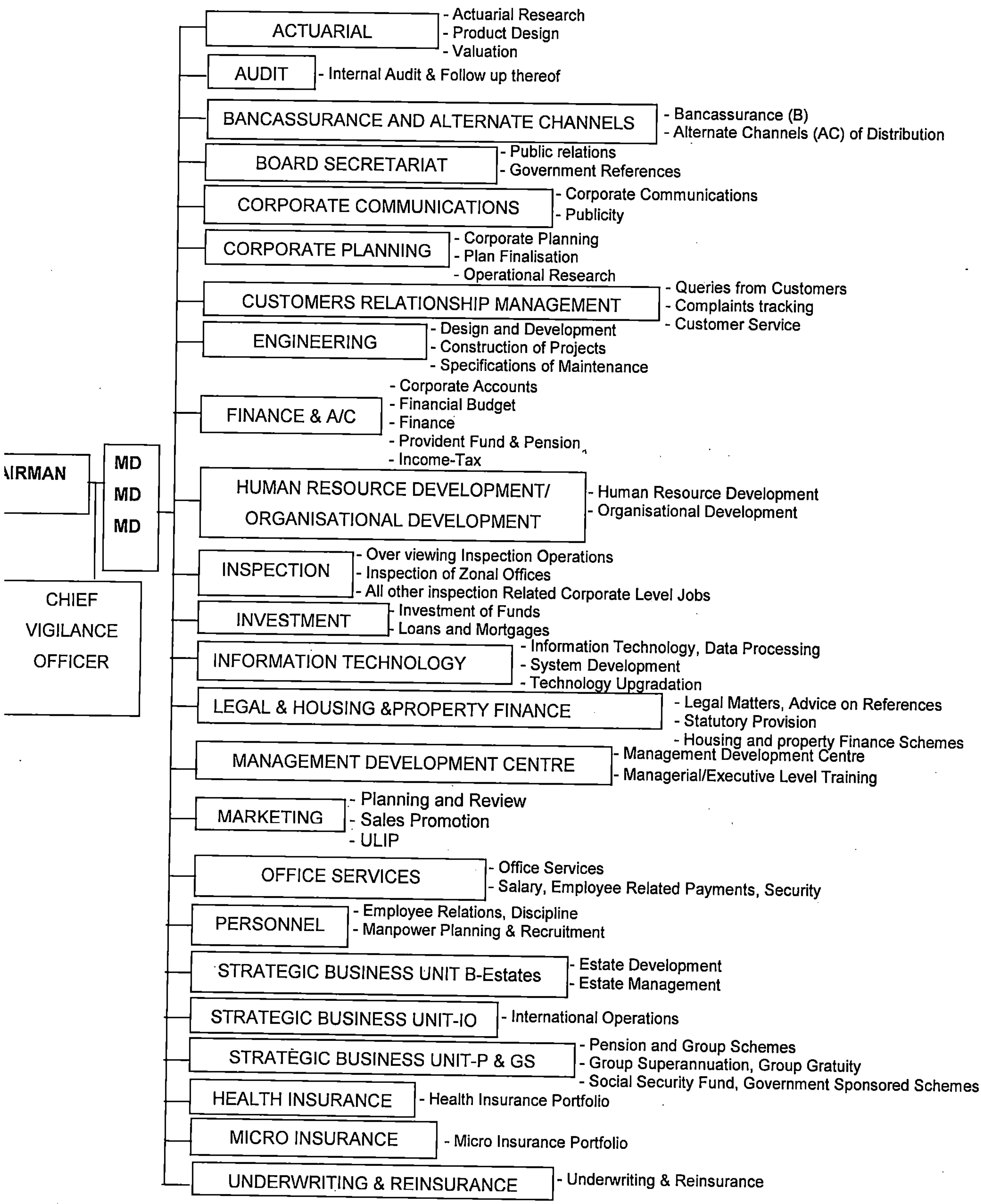
The Life Insurance Corporation of India has begun operation with 5 zonal offices - New Delhi, Kanpur, Calcutta, madras and Bombay headed by the Zonal Managers. There are 44 Divisional offices – 42 at important centers in various states in India and 2 overseas – one at Nairobi in East Africa and the other at Kualalumpur in Malaysia. It also transacts business in Fiji, Kenya, Malaysia, Singapore, Mouritius, Nepal and the United Kingdom.

Our Foreign Units collectively procured a First Premium Income (FPI) of Rs. 302crores in the 12 month period of each unit ended during 2010-2011, thereby registering a growth of 45.24%. The total Premium Income of our Units was Rs 963crores during the same period in 2010-2011. Every Divisional office is headed by Divisional Manager or a Senior Divisional Manager. He is at the top of the management at the Divisional office and is assisted by Assistant Divisional Manager of different departments. As against 209 offices in 1956, the Life Insurance Corporation had established 834 different offices, operating from 570 centers as on 31st March 1976.

The Corporation operates through a number of offices situated almost at every district and head quarters of the country managed by trained and experienced personnel to fulfill its aim of spreading the message of insurance to the farthest corners and to render proper service to all prospects and the policy – holders.

Now, we will deal in brief with the organization and functions of the various offices of the corporation.

ORGANISATION OF CENTRAL OFFICE IN LIC OF INDIA[1]-:4.2



[1] www.licindia.com

THE CENTRAL OFFICE:-

The Central office of the Corporation is located at "Yogakshema", Jeevan Bima Marg Bombay-400021. The Central office confines itself mainly in giving broad policy directions and decisions and co-ordinates the activities of the various divisions. It has direct executive responsibility over a limited field. Investment policy and investing funds in accordance with the policy are the sole responsibility of the Central office. The formulation of rules for Underwriting of proposals, premium rates and Underwriting for large amounts proposals and for sub standards lives are attended to by the Central Office. Submission of statutory returns to the government, standardization of procedure, forms, drawing up of prospectus, premium rates policy conditions and making arrangements with regard to reinsurance are other responsibilities, looked after by the Central office.

Publicity of Life Insurance on all –India level is also done by the Central Office. Its foreign department directly controls the activities and business of the corporation outside India. Rules and Regulations for sanctioning loan under "own your Home Scheme is framed by the Central Office. It co-ordinates the activities of the Zonal offices and gives policy directions and decisions on inter-zonal matters. Inspection of the various offices and also internal auditing of the various offices are done by the Central office. In general, the policy decisions are made by the Chairman of the Corporation with the help of the Executive Committee and various other committees referred as above. For the purpose of carrying out the above functions and rendering proper assistance, the Central office is divided into various departments.

The Central office has the following departments[1]:-

[1] G. Krishnaswamy (2009), A Text Book on Principles and Practice Of Life Insurance, Excel Books, A-45, Narina Phase-I, New Delhi, P-214-228

(1) ACTUARIAL DEPARTMENT:- The department of actuarial consist of several actuaries headed by one chief actuary. The Chief or important duties and function of the actuarial department are as follow:-

(a) Designing the Product.

(b) Pricing the Product.

(c) Recommending the Product to IRDA.

(d) Wording of the insurance Contract.

(e) Advise on investment.

(f) The insurer on reinsurance.

(g) Ensure the solvency.

(h) Conduct mortality investigation.

(2) AUDIT DEPARTMENT:- The function of the audit department is to find out if the financial transactions have followed the rules strictly. The financial regularity or irregularity is to be found out by this department.

(3) BANCASSURANCE & ALTERNATE CHANNELS OF DISTRIBUTION DEPARTMENT:- Bancassurance means using the banks as part of the intermediaries for distribution of insurance products.

Conventional channel to distribute the insurance products is the insurance agency. This department has to be innovative to find out who can be given the agency. Managing the new agencies and broker firms is an important portfolio of this department.

(4) CORPORATE PLANNING:- This department has to prepare the profile of the office with reference to the potential of the area and the strengths of the office. The necessary details can be collected from the government records which are getting updated frequently.

(5) CORPORATE COMMUNICATION DEPARTMENT:- The thrust of the Corporate Communication was on strengthening "Brand LIC" making it more contemporary and appealing to all segments of the society. This department has the responsibility that the brand and products were advertised with great vigour across all mediums be it television, print, radio, digital media, sponsorship of ground events, hoardings or other outdoor media. Conscious steps were taken to be in touch with today's youth and efforts were made to converse with them in their language.

(6) ENGINEERING DEPARTMENT:- Engineering department has the responsibility of maintenance of the existing structure in addition to construction of new building is also the responsibility of this department.

(7) HUMAN RESOURCE AND DEVELOPMENT DEPARTMENT:- This department look after the necessity to recruit administrative staff and their posting, training, transfer, promotion etc. This department is responsible for granting of increments etc to the staff of the office, advances payable to the employees.

(8) INSPECTION DEPARTMENT:- Inspection is generally internal in the company. Every office has to be inspected. The inspection department at the corporate level has to be inspected by the inspection department at the different level.

(9) INVESTMENT DEPARTMENT:- Asset management is an important aspect at the corporate level and is under the guidance of the statutory provision and direction. This department has a panel of experts in the committee which recommends the investment. The investment department may bring out documents detailing about the investments made and the yield derived from each one these.

(10) INFORMATION TECHNOLOGY DEPARTMENT:- Information technology helps the policyholders to get the information speedily and with saving of time, money, distance and energy. The information required can also be fixed to the policyholders.

(11) LEGAL DEPARTMENT:- There may be a dispute in any transaction, attracting and inviting the intervention of the court. This department will look after all such problems relating to the legal matters in the company at different level.

(12) MANAGEMENT DEVELOPMENT CENTRE:- MDC is playing vital role in aligning the learning initiatives to the business goals of the corporation by imparting managerial and functional to the middle and senior Level managers and there by ensuring a constant growth in the quality of our human resource.

(13) OFFICE SERVICE DEPARTMENT:- This department has the duty of looking after the maintenance of the office in general. Preparing the capital budget and review thereof is part of the duty of this department. This department has a major role of complying with the provisions of law and the rules of the government.

(14) ESTATE DEPARTMENT:- Estate department looks after the existing buildings and plots and sites, besides proposals to purchase new plots for future expansion of the office.

(15) MICRO INSURANCE:- A phenomenal growth in the Micro Insurance initiative undertaken by LIC. The splendid performance of the micro insurance business reiterates LIC's commitment: "To take life insurance to the every nook and corner of the country". The MI Business channel has provided valuable insurance cover to million policy holders who belong to the most vulnerable segment of the society as a part of financial inclusion.

(16) MARKETING DEPARTMENT:- This vertical was started with an objective of creating new systems for business generation, sales process monitoring and business processing with a view to reach out to untapped markets and providing improved buying experience to customers.

ORGANISATION OF ZONAL OFFICE IN LIC OF INDIA[1]-:4.3

ZONAL MANAGER (I/C)

- Zonal Vigilance Officer
- ACTUARIAL
  - Underwriting
  - Actuarial Studies
  - Valuation
- BANCASSURANCE AND ALTERNATE CHANNELS
  - Bancassurance (B)
  - Alternate Channels (AC) of Distribution
- CUSTOMERS RELATIONSHIP MANAGEMENT
  - Queries from Customers
  - Complaints tracking
  - Customer Service
- CORPORATE COMMUNICATIONS
  - Corporate Communications
  - Publicity
- ESTATE & OFFICE SERVICES
  - Estate purchase and sales, Hiring and letting.
  - Office Services: Staff Qtrs, Furniture, Stationery, Printing
- ENGINEERING
  - Construction of Projects
  - Specifications of Maintenance
- FINANCE & A/C
  - Zonal Office Accounts
  - Consolidation of Accounts
  - Provident Fund & Pension
- INSPECTION
  - Annual Inspection of all offices
  - Follow up and other allied activities
- INFORMATION TECHNOLOGY
  - Information Technology, Data Processing
  - Technology Upgradation
  - Record Maintenance
- LEGAL & HOUSING PROPERTY FINANCE
  - Legal Matters,
  - Mortgages
  - Housing and property Finance Schemes
- MARKETING
  - Planning and Review
  - Sales Promotion
  - Customer Service
- PENSION AND GROUP SCHEMES
  - Pension and Group Schemes
  - Group Gratuity
  - Govt. Sponsored Schemes
- PERSONNEL & INDUSTRIAL RELATION
  - Manpower Development
  - Industrial Relations, Training of Employees
  - Official Language Implementation
- SALES TRAINING CENTRE
  - Sales Training Centre
  - Training to Field Personnel
- ZONAL TRAINING CENTRE
  - Zonal Training Centre
  - Training of Employees/Field Personnel
- MICRO INSURANCE
  - Micro Insurance Portfolio
- HEALTH INSURANCE
  - Health Insurance Portfolio

[1] www.licindia.com

THE ZONAL OFFICES:-

Eight Zonal offices control and co-ordinate the work of the Divisional offices and maintain uniformity of working all over the country. The Zonal offices assist the Central office in the matters of Development, Planning and Review of Business and Supervision of the Divisional offices within their jurisdiction. In addition they deal with the implementation of the policy decision of the Central office. The following particular functions are performed by the Zonal offices:-

(1) Policy decisions on technical matters referred to by all offices under its jurisdiction including the Integrated Head Offices and Integrated Branch offices of various units.

(2) Underwriting of cases beyond Divisional Offices level and the valuation work.

(3) Control over entire administrative and field staff and planning for business and development of the whole zone.

(4) Advise on all personnel and legal matters, Management of Building to the corporation, purchase of Stationary, equipment and furniture, printing of literature and prescribed for zone.

(5) Control over the work of decentralization of policies issued by the former insurers from the Head Office units to the relevant Divisional Office until Such time as the decentralization work is completed.

(6) Compiling of Accounts of the zone and general guidance to all Divisional Offices, the Integrated Head offices and the Branch offices in matters of accounting principles and procedures.

ORGANISATION OF DIVISIONAL OFFICE IN LIC OF INDIA[1]-:4.4

SR/ DIVISIONAL MANAGER (I/C)

- BANCASSURANCE AND ALTERNATE CHANNELS
  - -Bancassurance (B)
  - -Alternate Channels (AC) of Distribution
- CLAIMS
  - - Death Claims Processing
  - - Consolidation data from Branches
- CUSTOMERS RELATIONSHIP MANAGEMENT
  - - Customer Relations
  - - Complaint Tracking and disposal
- FINANCE & A/C
  - - Divisional Office Accounts
  - - Consolidation of Accounts
  - - Surplus Fund Transfer
- INFORMATION TECHNOLOGY
  - - Data Processing
  - -Technology Upgradation
  - - Record Maintenance
- LEGAL & HOUSING PROPERTY FINANCE
  - -Legal Matters,
  - - Mortgages
  - -Housing and property Finance Schemes
- MARKETING
  - - All jobs related with marketing/Sales
  - - Publicity
  - - Matters dealing with Agents/Development Officers
- NEW BUSINESS
  - - Underwriting
  - - Actuarial Studies
  - - Valuation
- OFFICE SERVICES/ESTATE
  - - Office Services: Furniture, Stationery
  - - Salary, Employee Related Payments, Security
- PENSION AND GROUP SCHEMES
  - - Pension and Group Schemes
  - - Group Gratuity
  - - Govt. Sponsored Schemes
- PERSONNEL & INDUSTRIAL RELATION
  - - Industrial Relations
  - - Career Planning
  - - Employee Training
- PLANNING & MARKETING RESEARCH
  - - Planning
  - - Market Research
- POLICY SERVICING/ SALARY SAVING SCHEME
  - - Policy Servicing
  - - Loans/Surrenders without dockets
  - - Transfer in/out of policies
  - - Loan Schedule Consolidation
- DIVISIONAL TRAINING CENTRE
  - - Divisional Training Centre
  - - Training of Employees/ Field Personnel
- HEALTH INSURANCE
  - - Health Insurance Portfolio
- MICROINSURAN
  - - Micro Insurance Portfolio
- ENTERPRISE DOCUMENT MANAGEMENT SYSTEM
  - -Enterprise Document Management System

[1] www.licindia.com

THE DIVISIONAL OFFICES:-

There were 111 Divisional Office in India (as on 31.08.2011) with definite territorial jurisdiction and they are concerned with the development of new business in their respective areas and are also responsible for the maintenance of accounts of various transactions. The Divisional office carries on the administration in connection with the Life Insurance policies from the receipt of proposal and issue of policies upto the settlement of claims. It also exercise administrative and supervisory over the branch offices under its jurisdiction and thus acts on the same lines as the head offices of the former insurers. It has the following departments:-

(a) Development Department

(b) Policy – holder's Servicing Department

(c) Cash and Accounts Department

(d) New Business Department

(e) Establishment Department

(f) Machine Department

(g) Legal and Mortgage Department.

With the help of the above mentioned departments the divisional offices of the Life Insurance Corporation performs mainly the following functions:-

(i) Underwriting of proposals, appointment of medical examiners and maintenance of complete records.

(ii) Servicing of policies and settlement of claims.

(iii) Maintenance of all ledger accounts and preparation of trial balances, scrutiny of Branch Cash Income and Imprest statements etc.

(iv) Execution of the development programme for the whole Division, organizational cost control, appointment and training of development officers and maintenance of their elaborate records.

(v) Recruitment and Training of administrative staff of the Division and all personnel – work relating to the office staff of the Division, collection of rent, payment of taxes and maintenance of house property as directed by the Zonal Office.

(vi) Consideration of complaints from the public, maintenance of service records of all the employees in the division, supply of stationery and literature to different department and branch offices.

(vii) Compilation of various statistical returns for the purpose of statutory investigations and other useful statistics for management.

(viii) Legal affairs are attended by the legal and mortgage department of the division, as well as the sanction of mortgage loans under "Own Your House Scheme" and other connected matters.

To control the revenue branches situated in various division offices in India are mentioned below:-

Table - 4.1

DIVISIONAL OFFICE SITUATED IN INDIA[1]

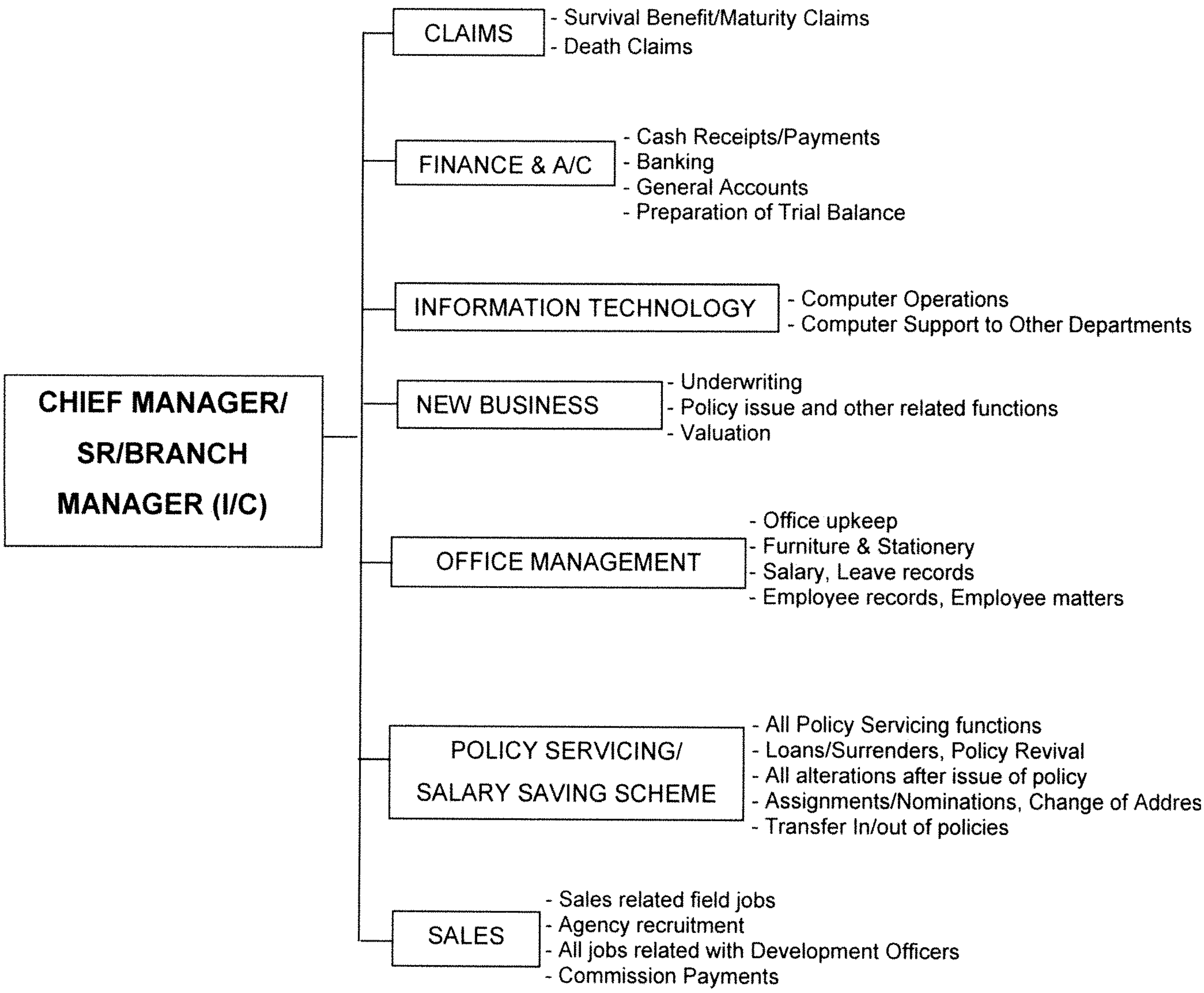
Zone	No. of Divisional Offices	Place Where Situated
Central Zone Bhopal	08	Bhopal, Satna, Raipur, Shahdol, Gwalior, Indore, Jabalpur, Bilaspur
East Central Zone Patna	10	Berhampur, Patna, Bhagalpur, Sambalpur, Cuttack, Muzaffarpur, Hazaribagh, Jamshedpur, Bhubaneshwar, Begusarai.

[1] 54th Annual Report of life insurance corporation of India (2010-11) p-103-107

North Central Zone Kanpur	12	Aligarh, Haldwani, Allahabad, Kanpur, Bareilly, Lucknow, Dehradun, Meerut, Gorakhpur, Varanasi, Agra, Faizabad.
South Central Zone Hydrabad	17	Bangalore-I, Bangalore-II, Belgaum, Karimnagar, Machilpatnam, Mysore, Cuddapah, Dharwad, Hyderabad, Secunderabad, Udupi, Shimoga, Nellore, Raichur, Rajahmundry, Visakhapatnam, Warangal
Northern Zone New Delhi	17	Ajmer, Jodhpur, Amritsar, Karnal, Bikaner, Ludhiana, Chandigarh, New Delhi-I, New Delhi-II, New Delhi –III, Jaipur-I, Jaipur-II, Jalandhar, Shimla, Udaipur, Srinagar, Rohtak
Western Zone Mumbai	23	Ahmedabad, Amravati, Aurangabad, Bhavnagar, Gandhinagar, Kolhapur, Mumbai-I, Mumbai-II, Mumbai-III, Mumbai-IV, Goa, Nashik, Pune-I, Pune-II, Satara, Nanded, Surat, Thane, Vadodara, SSS Division Mumbai, Nagpur, Rajkot, Nadiad,
Eastern Zone Kolkata	11	Asansol, Jalpaiguri, Bongaigaon, Jorhat, Guwahati, Kolkata, Metro-I, Metro-II, Howrah, Kolkata, Kharagpur, Kolkata Suburban, Silchar,
Southern Zone Chennai	13	Ernakulam, Tirunelveli, Chennai-I, Chennai-II, Coimbatore, Kozhikode, Kottayam, Madurai, Salem, Thanjavur, Thiruvananthpuram, Vellore, Thrissur.

The Divisional offices of the corporation are in the process of acquiring more and more administrative responsibilities which formerly belonged to the higher Zonal office, particularly after the recommendations of the Report of the Committee on Re-organisation of the Administration.

ORGANISATION OF BRANCH OFFICE IN LIC OF INDIA[1]-:4.5



THE BRANCH OFFICES:-

The Branch unit is at bottom of the organizational structure of the Life Insurance Corporation. In, fact, the Corporation operates through a number of branch offices situated at almost every district head quarters of the country.

[1] www.licindia.com

They are under the jurisdiction of the various divisional offices. The Branch Offices are also in the process of transition from merely business producing and selling wings of the organization to that of an office giving complete service to its policy holders within the branch area in all matters from the inception of the policy till the settlement of claims. The procurement of the business and the efficiency of the division to a great extent depend on the better and sincere functioning of the branch offices. The total number of branch offices operating as on 31.08.2010 came to 2048.[1]

The Administrative Reforms commission, in its report on Life Insurance Administration submitted to the Government of India in December, 1968, recommending the reorganization of the administrative setup of the corporation, has thus observed that, there should be a branch office at every district headquarter and each branch office is to function as a complete servicing and development unit and to work like a 'satellite insurance company' with only certain function of a central character reserved for the Head Office. The administrative procedures should be simplified so as to obviate references to the Central office in regard to the function developing on the branch office. The branch offices are the nerves of the Life Insurance Corporation.

Table No. 4.2

LIC Branch Office Situated in India

S.No.	Zones	Branch Offices
1	North	322
2	North – Central	247
3	Central	140
4	Eastern	357
5	South – Central	314
6	South	261
7	Western	407
Total		**2048**

Source: LIC Diary 2006

1 54th Annual Report of life insurance corporation of India (2010-11) p-62

MAIN FUNCTION OF BRANCH OFFICE:-

(a) Scrutiny and registration of new proposals, collection of premia against new proposals and issue of deposit receipts.

(b) Supervision of the working of agents and development officers attached to the branch office.

(c) Correspondence with the proposers and agents in connection with the new proposals.

(d) Collection of premia under the policies in force and service to the policy-holders regarding age admission and settlement of policy loans upto the limit of Rs. 50000/-.

(e) Revival of certain lapsed policies within a period of five years from the date of first unpaid premium.

(f) Renewal commission payment to the agents and to make deduction of Income- tax at source.

(g) Development and procurement of new business and field organization.

(h) Settlement of commission on first premium installments and bonus commission to agents and payment of medical fees to the examiners.

(i) If Premium Payment through Alternate Channels

The branch unit has its specific and important place in the administration of the Corporation. Branches are the new business procuring Centers-the life blood. In fact branches give practical shape to the development plans.

LIC has different segments of customers who may like to pay their premium as per convenience using different mode of payment. Some like to come to the LIC Branches where as some wish to pay premium online. LIC has made available different avenues for premium to cater to different needs.

Payment channels where policy is required in the data base at LIC and receipt sent by post:

(1) **ELECTRONIC CLEARANCE SYSTEM (ECS)**:- This facility is presently available at 59 centers. Through ECS premium can be collected for ULIP and Health Insurance policies also.

(2) **ELECTRONIC BILL PRESENTATION AND PAYMENT (EBPP)**:- Premium can be paid through various banks like City Bank, HDFC, ICICI, Federal Bank, Corporation Bank, Axis Bank, LIC Credit Cards and through Service Providers – Bill Desk and Tech Process which cover almost all other banks throughout the country. Premium can be paid through Credit Card also availing this facility.

(3) **ATM**:- Available with two banks Corporation Bank and Axis Bank. Through EBPP & ATM Premium can be collected for in force policies only which are NOT with MLY/SSS mode or under ULIP or HI plan.

(4) **PORTAL PAYMENT GATEWAY**: Online premium payment on LIC Website, www.licindia.in with the help of Net Banking Facility of 40 major banks. Premium can also be paid for ULIP policies excluding HI plan.

(5) **PREMIUM COLLECTION THROUGH BANKS**:- Authorized Banks:

(i) Axis Bank

(ii) Corporation Bank

Premium can be paid at any of the Branch or Extn. Counter of the above banks in cash or cheques drawn on the respective banks.

(6) **PREMIUM COLLECTION THROUGH FRANCHISEES**:- Following service providers are authorized to collect premium in cash only for in-force, non-ulip policies:

(i) **AP-ONLINE**: Available only in Andhra Pradesh.

(ii)**MP-ONLINE**: Available online in Madhya Pradesh.

(iii) **SUVIDHA INFO Serve PVT. LTD**:- Across the country.

(iv) **EASY BILL**:- Available across the Country.

(v) **BILL DESK**: Bill Desk is site aggregator for different vendors. At present has tie with ITZ Cash cards (only retail payment) and Pay word.

(7) **PREMIUM COLLECTION BY AGENT**: Selected agents are authorized to collect the premium in cash as well as through Cheque. Premium for ULIP policies also can be collected by them since 01/04/2009.

(8) **PREMIUM COLLECTION SBA**: Development officers selected as SBA are authorized to collect premium since 01/02/2009, conditions are similar to agent's collection.

INTERACTIVE ICE RESPONSE SYSTEM (IVRS)

IVRS is available in 58 major cities and in 31 centers IVRS is integrated with Info Centers. The Info centers can be contacted from MTNL and BSNL phones by dialing IVRS Universal Access Number 1251 exercising the relevant option to talk to the Info Center Executives (ICE's). From other than MTNL and BSNL telephones, Info centers can be contacted by dialing the direct telephone numbers also. The location of the IVRS centers is given below.

Asansol, Meerut, Allahabad, Mysore, Aurangabad, Nashik, Bareilly, Pondicherry, Coimbatore, Rajkot, Dharwad, Ranchi, Gorakhpur, Salem, Gwalior, Shilong, Hazaribagh, Shimla, Jammu Surat, Jodhpur, Thanjapur, Kolhapur, Vadodara, Kota, Varanasi and Kozhikode. The services of the IVRS are available 24x7. The Info Centers are open from 8 a.m. to 8 p.m. from Monday to Friday and from 10 a.m. to 6 p.m. on Saturday.

CUSTOMER ZONES

CZees were introduced with the main objective to make "experience" the brand and offering one – step resolution for the service needs of the customer. Now we have 54 CZees. The location of CZees is given below:

Agra, Ahmedabad, Amritsar, Bengaluru, Bhopal, Chandigarh, Chennai, Cuttack, Delhi, Goa, Guwahati, Hyderabad, Indore, Jabalpur, Jaipur, Jalandhar, Jamshedpur, Kanpur, Kolkata, Lucknow, Ludhiana, Madurai, Mumbai, Nagpur, Patna, Pune, Raipur, Thiruvanthpuram, Vijayawada, Visakhapatnam.

MASH CENTRES

To make use of technology to centralize bulk printing jobs so as to leave Branches with more time to attend to walk in customers and to deal with new business processing. At present we have 25 MASH centers are operational across the country. Baring a few small states like Goa, HP, NE states. All states are having at least one MASH centers to their credit. The MASH centers are usually located at capital cities or big cities.

Informative Functions

(1) Survival Benefit Intimations and Payments.

(2) Dispatch of Notices, status reports, revival and other campaign letters.

(3) Dispatch of ULIP statements.

SATELLITE OFFICES:

For improvement in overall efficiency and effectiveness in the cost and marketing, LIC has opened 1123Satellite Offices. These satellite offices, which are attached to the respective parent branches, are basically an extension of the large parent branches for rendering quick services to policy holders. Processing of new proposal and collection of renewal premium are the main functions of these offices, at present.

Current functions of Satellite Offices:-

(1) **Cash** – Acceptance of FP through Green Channel, Renewal Premium, Proposal Deposit.

(2) **New Business**- Proposal Registration, New Business Completion, Issue of FPR.

(3) **PS** - Change of address.

There is Satellite offices designated for Alternate Channel (CLIA and B&AC) currently only officers are posted in SOs.

CLAIMS PAYMENT WORKING:-

The claims settlement operation of LIC is transparent and fair and it settles lakhs of claim every year. The settlement of maturity claims is simple because when the term of policy is completed and the policyholder is alive and he or she can submit the policy bond and take the claim directly. When it comes to settlement of death claims, it is some what complicated. This is because the policyholder may have a natural death or an unnatural death such as accident, murder, etc. In all these cases, required proof in terms of documents has to be submitted. If the insurer is satisfied with the proof, he will settle the claims or else he may further cross-check the information leading to delayed of the claim.

CLAIMS REVIEW COMMITTEE:

The Corporation settles a large number of death claims every year. Only in case of fraudulent suppression of material information is the claim repudiated. The number of death claims repudiated is very small. Even in these cases, an opportunity is given to the claimant to make a representation for consideration by the Review Committees at the Zonal Office and the Central Office. As a result of such review, depending on the merits of each case, appropriate decisions are taken. The Claims Review Committees at the Central and Zonal Offices have among other members a retired High Court/ District Court Judge.

INFORMATION TECHNOLOGY IN LIC

LIC has been a pioneer in using information technology for enhancing the quality of its service to customers.

All offices and Training Centers have been connected to a Wide Area Network for more than 10 years now. Recently, LIC has connected its Central Office and Zonal Offices through high definition video-conferencing facility and are currently in the process of extending this facility to its premier Training Centers. In order to safeguard its IT infrastructure from external threats, LIC has also installed the latest IT Security products in its setup.

To keep pace with changes in the business environment and the technology platforms, we have started the migration of our core application from a single tier to three tier architecture. The project called e-FEAP aims at

Code and Data migration and consolidation of data at the Divisional level. Planned for completion in 2011-12, the e-FEAP will help LIC to delivery quality service to its Policy to its Policyholders and marketing force.

DIRECT MARKETING ON LINE

LIC started a new channel "Direct Marketing" which began operation on 01.08.2009.The channel was started with the objective of reaching out to untapped markets like youth and HNI and provide new buying experience to customers through technology driven systems and processes. In the first full year of its operations the channel could procure a new Business of Rs 144crores with 50962 policies. The channel is operating through 98 units across the country and more units are being opened shortly. Now, buying an LIC policy is just a click away for a prospective buyer. A visit to LIC's website &registration of details thereon makes it possible for him to get the desired professional advice/desired service within a few hours. The channel is on its way to starting new initiative of online sale of policies and opening of tele - marketing centers.

The performance of LIC has been exemplary and it has been growing from strength to strength be it customer base, agency network, branch office network, and the like, LIC has played a significant role in spreading life insurance among the masses and mobilization of people's money for people's welfare. Even after the entry of private insurers for almost a decade now, LIC continues to the frontrunner in the industry in terms of market share.

PROBLEM & SUGGESTION

It seems certain that radical structural changes are on the cards for the insurance industry, although their extent and speed of implementation are difficult to fore-cast at this point of time, specially in the context of the resistance still offered by some elements to any major changes.

There will be a large scale restructuring of the industry on various fronts such as organizational structures, policies and practices relating to hierarchical structure, marketing, claims settlement, chain of command, personnel, distribution systems, and even ownership in the case of the public sector. Primarily, the emphasis will be on making the outfits more efficient and more responsive to the customer needs through better systems, more transparent working and the decision-making process. In particular, special attention will be paid to dealing with excess employees, since there is no alternative to working with leaner establishments. Greater use of information technology, new values and new work culture will also mark the new scenario.

CHAPTER-V

FINANCIAL STUDY OF REVENUE EARNED

CHAPTER -V
FINANCIAL STUDY OF REVENUE EARNED

INSURANCE IN FORCE

The insurance sector in India has come to a fully circle of the form being an open competitive market to nationalization as earlier expressed in the topic of historical study and back to a liberalized and highly competitive market again. After the formation of IRDA, private players started entering the life insurance industry in India. At present, there are 15 private life insurers. The structure of the insurance industry has undergone a drastic change since liberalization. It is also expected that the total business, its earnings and its market share would be affected. It is therefore, the researcher has decided to study the business performance of Life Insurance Corporation of India.

The business performance of LIC has been evaluated on the basis of business in India and abroad. The analysis has been made by using the following performance measures.

PERFORMANCE MEASURES

I. New Business in India (Individual Insurance)
   Number of Policies
   Annual Premium

II. New Business Out of India (Individual Insurance)
   Number of Policies
   Annual Premium

III. Rural Business Number of Policies
   Previous Year Cases in India (Individual Insurance)
   Number of Policies
   Premium Income

IV. Previous Year Cases out of India (Individual Insurance)
   Number of Policies
   Premium Income

V. Previous Year Cases in India (Group Insurance)
   Premium Income

LIC'S INSURANCE PLANS[1]

(I) BASIC LIFE INSURANCE PLANS

1. Whole Life Assurance (Table Nos. 2, 5 & 8):

A low cost with profitable insurance plan where the sum assured is payable on the death of the life assured along with bonuses, whenever it occurs. The claim can also be had after the life assured attains 80 years of age – subject to certain conditions.

2. LIC's Jeevan Tarang (Table No.178):

It is a with-profit whole life money back plan which provides for annual survival benefit at a rate of 5.5% of the sum assured after the chosen accumulation period.

3. Endowment Assurance (Table Nos. 14 & 48):

Under this plan, the sum assured is payable along with accrued bonuses on maturity or on earlier death of the life assured.

4. Jeevan Anand (Table No. 149):

This is a unique with – profitable plan which combines the features of the Endowment and Whole Life plans.

(II) TERM ASSURANCE PLANS

1. Anmol Jeevan- I (Table No.164):

It is a pure term assurance plan where one can choose any term from 5 to 25 years. It provides for payment of the sum assured on the death of the Life assured during the term of the policy.

2. Amulya Jeevan (Table No.177):

It is a term assurance plan with a minimum sum assured of Rs.25 lakhs.

(III) SPECIFIC PLANS FOR CHILDREN

Various children's plans are available with facility of premium waiver benefit, viz

[1] Life Insurance Corporation of India Diary : 2009

1. Children's Deferred Endowment Assurance (Table Nos. 41& 50)
2. Komal Jeevan (Table No. 159)
3. Jeevan Kishor (Table No.102)
4. Jeevan Chhaya (Table No.103)
5. Child Future Plan (Table No.184)
6. Child Career Plan (Table No.185)

(IV) PENSION PLANS

1. Jeevan Akshay-VI (Table No. 189):

It is an immediate annuity plan with number of options.

2. New Jeevan Suraksha – (Table No.147) & New Jeevan Dhara-I (Table No.148)

The annuitant has five options of annuity payment to choose from Deferred Annuities. Premiums paid under New Jeevan Suraksha-I up to Rs.1 lakh are exempted from income tax under section 80 CCC.

3. Jeevan Nidhi (Table No.169):

It is with profits deferred pension plan which provides death cover during the deferment period.

(V) UNIT LINKED PLANS

1. Fortune plus (Table No.187):

Unit linked endowment plan with four fund types, 5 to 20 years policy term and 5 years premium paying term.

2. Profit plus (Table No.188):

Unit linked endowment plan with four fund types, 5 to 20 years policy term, single premium and 3 to 5 year premium paying term.

3. Market plus-I (Table No.191):

A unit linked pension plan with option of risk of with or without risk cover and commutation of $1/3^{rd}$ pension. Pension can start at minimum age of 40 years. Critical illness as a rider is also available.

4. Money Plus-I (Table No. 193):

Unit linked Endowment plan with regular premium paying term which offers investment and insurance during the term of the policy.

(VI) MICRO INSURANCE PLAN

1. Jeevan Madhur (Table No. 182):

A micro insurance cum saving plan with profits where premiums can be paid in weekly, fortnightly, monthly, quarterly, half-yearly or yearly intervals over the term of the policy. Sum assured varies from Rs.5000 to Rs.30000.

(VII) Health Insurance Plan

1. Health Plus (Table No.901):

Unit linked health insurance plan which provides for insurance cover against health risks.

(VII) PLANS FOR HANDICAPPED DEPENDANTS

Following plans are designed for the benefits of handicapped dependents. Benefits are payable partly in lump sum and partly in the form of annuity.

1. Jeevan Adhar (Table No.114):

It is a limited payment whole life policy with guaranteed additions at the rate of Rs.100 per thousand sum assured p.a. up to 65 years of age of the life assured or on earlier death.

2. Jeevan Vishwas (Table No. 136):

It is an endowment type plan with guaranteed additions at rate of Rs.80 per thousand sum assured.

(VIII) OTHER PLANS

1. New Jana Raksha (Table No. 91):

It is an ideal plan for the people with irregular income.

2. Fixed Term (Marriage) Endowment/Educational Annuity (Table No.90):

It is an ideal plan for making provision for education / start- in – life or marriage of children. Claim / Annuity is payable after expiry of policy term.

3. Jeevan Anurag (Table No.168):

It is a with profit plan suitable for making provisions for educational and other needs of children.

4. Money Back Plans (Table Nos. 75 & 93):

Besides providing life cover during the term (20 & 25 years) of the policy survival benefits linked to the sum assured during the term of the policy will be available.

5. Jeevan Surbhi (Table Nos. 106,107 &108):

It is a money back plan where premium are payable for a limited period, with periodical increase in insurance cover by 50% of the basic sum assured after every five years.

6. LIC's Bima Bachat (Table No. 175):

It is a single premium money back policy with policy term of 9, 12 and 15 years. Survival Benefits during the term of the policy are available.

7. Jeevan Sathi (Table No. 89):

It is a plan with profits, joint life endowment assurance plan for husband and wife.

8. Jeevan Mitra (Table Nos. 88 & 133):

An endowment assurance plan providing for twice or thrice the sum assured payable on the death of the life assured during the policy term.

9. Jeevan Shree-I (Table No. 162):

It is a limited payment endowment assurance plan with guaranteed additions for the first five years and bonus additions thereafter.

10. Jeevan Pramukh Plan (Table No.167):

It is a niche market with profits Endowment Assurance plan having limited premium paying term with guaranteed additions for the first five years and bonus additions thereafter,

11. Jeevan Bharati (Table No.160):

It is a money back plan exclusively for ladies, with additional benefits such as female critical illness and congenital disability.

12. Jeevan Saral (Table No. 165):

A plan that provides the life assured insurance cover with the flexibility of partial withdrawal.

13. Bima Nivesh 2005 (Table No. 171):

A single premium plan with compounding guaranteed additions of Rs. 50 per thousand per annum payable on death or maturity.

14. New Bima Gold (Table No. 179):

It is a regular premium money back plan with return of total premiums in installments at pre specified intervals with loyalty additions, if any, at maturity & extended free risk cover.

15. LIC's Jeevan Amrut (Table No.186):

Plan where premium payment is limited to 3, 4 or 5 years and premium payable during first year is higher than the premiums payable in subsequent years.

16. Jeevan Bharti-I (Table No.192):

Money back plan exclusively for ladies having optional riders such as Accident Benefit rider, Critical illness benefit rider and congenital disability benefit rider.

NEW BUSINESS IN INDIA (INDIVIDUAL INSURANCE)

LIC offers a basket of schemes to meet the various needs of an individual and his family. New Business is a pointer towards the spread of message of insurance among those people who have never availed of the benefits of life insurance as well as the existing policy holders.[1]

New Business of Individual in India includes the performance of the corporation in terms of Number of Policies, Sum Assured and the Total Annual Premium during a particular year. The percentage of growth of Annual Premium, Number of Policies and Sum Assured year after year is one of the significant criterions for evaluating the performance of the corporation. Thus, the performance of the New Business in India has been analyzed for the years 2000-01 to 2009-10.

[1] Suminder Kour Bawa (2007) "Life Insurance Corporation of India - Impact of Privatisation and Performance", Regal Publication New Delhi, P.56

Percentage growth over previous year = $\frac{\text{Current Years Value}}{\text{Previous Years Value}} \times 100 - 100$

ACGR (Annual Compound Growth Rate) $(t_n, t_o) = [V(t_n)/V(t_o)]^{1/n} - 1$

t_n =Finish Value, t_o = Start Value

ANALYSIS OF ANNUAL PREMIUM EARNED

The Annual Premium in term of new business operation of LIC from 2000-01 to 2009-10 is presented in table 5.1.

Table:-5.1

New Business in India – Annual Premium Earned (Rs. in crores)

Year	Annual Premium (Rs. in crores)	% growth over base year
2000-01	8851.89	--
2001-02	16009.44	80.86
2002-03	12505.38	-21.89
2003-04	12540.82	0.28
2004-05	11224.19	-10.50
2005-06	15157.76	35.05
2006-07	11672.72	-22.99
2007-08	9871.89	-15.43
2008-09	16858.57	70.77
2009-10	20948.53	24.26
ACGR		**8.99%**

Compiled from the Annual Reports of LIC of India

Calculation of ACGR:-

$$\begin{aligned} \text{ACGR} &= [V(t_n)/V(t_o)]^{1/n} - 1 \\ &= [20948.53 / 8851.89]^{1/10} - 1 \\ &= 1.0899 - 1 \\ &= 0.0899 \text{ or } 8.99\% \end{aligned}$$

GRAPH: 5.1

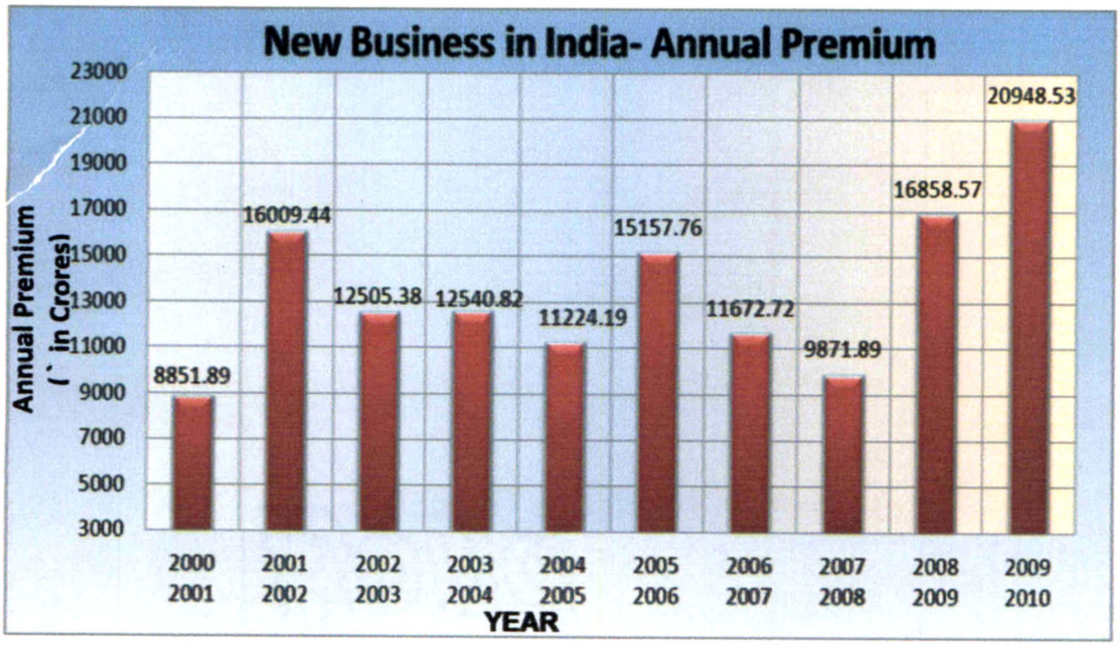


Table 5.1 and Graph 5.1 give the detailed picture of the Annual Premium Income. The premium income of the corporation has shown tremendous growth during the period of 2000-01 to 2009-10. In 2000-01 the annual premium was Rs. 8851.89crores which increased and reached to Rs.16009.44 crores in the year 2001-02. Then the growth rate falls during the period of 2002-03, 2004-05, 2006-07 and 2007-08 the annual premium income came down to Rs.11224.19crores in 2004-05, approximate 30% less income from the income of 2001-02 (Rs.16009.44crores). In 2005-06 again the premium income increased and it gone up to Rs.15157.76crores which shows the almost 35% growth over the previous year's premium income.

During the study period the highest premium income was Rs. 20948.53crores in 2009-2010 and the lowest premium income received in 2000-2001 i.e. Rs. 8851.89 crores. During the study period the Annual Premium income has gone up from Rs. 8851.89crores in 2000-2001to Rs. 20948.53crores in 2009-2010 i.e. approximate 2.5 times growth during the period of 10 years. The annual compound growth rate during the study period 2000-01 to 2009-10 was 8.99%.

ANALYSIS OF NUMBER OF POLICIES

The number of policies in terms of new business operation of LIC from 2000-01 to 2009-10 is presented in table 5.2.

Table:-5.2

New Business in India – Number of Policies

Year	No. of Policies	% growth over base year
2000-01	19656663	—
2001-02	22491304	14.42
2002-03	24268416	7.90
2003-04	26456320	9.01
2004-05	21817967	-17.53
2005-06	29284800	34.22
2006-07	20910041	-28.60
2007-08	17961363	-14.10
2008-09	29322395	63.25
2009-10	30578367	4.28
ACGR		**4.52%**

Compiled from the Annual Reports of LIC of India

Calculation of ACGR:-

ACGR = $[V(t_n)/V(t_o)]^{1/n} - 1$

= $[30578367 / 19656663]^{1/10} - 1$

= 1.04517-1

= 0.04517 or 4.52%

GRAPH: 5.2

New Business in India - No. of Policies

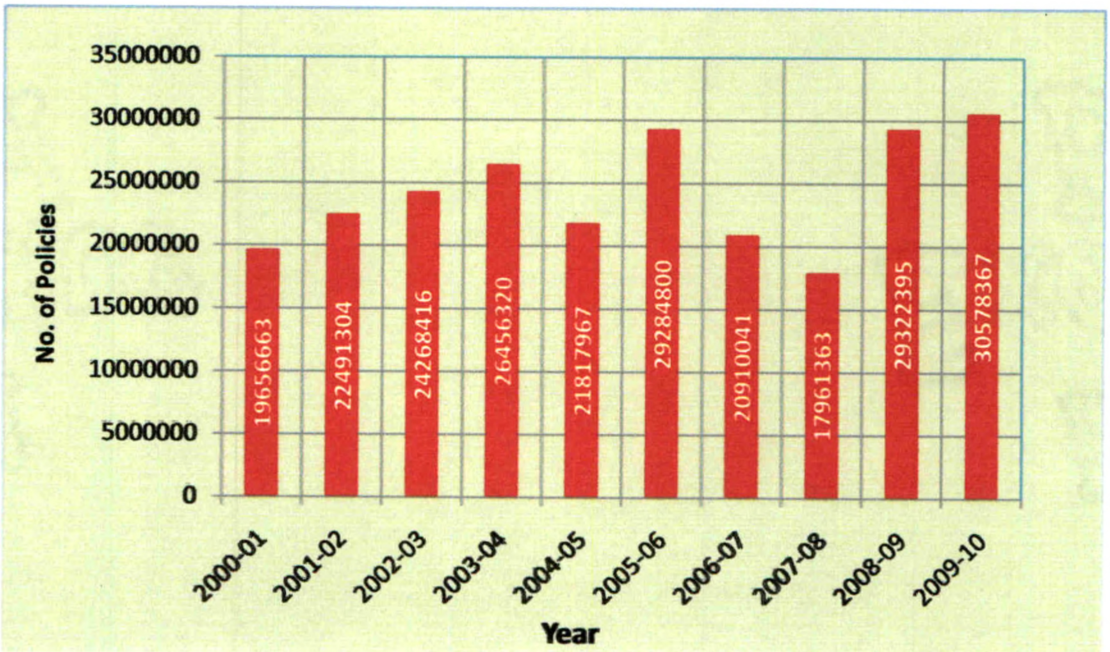


Table 5.2 and Graph 5.2 gives the detailed picture of the number of policies. There has been a steady increase in the number of policies from 2000-2001to 2001-02 i.e. from 1,96,56,663 policies to 2,64,56,320 policies. The growth rate of number of policies in 2001-02 was 14.42%. The major hiccup occurred in 2002-03 when growth rate fell down to 7.90% from 14.42% in 2001-02. It recovered in 2003-04 with increase of growth rate of number of policies to 9.01%. Then again a setback came in 2004-05 when number of policies came down to 2,18,17,967 policies compared to 2,64,56,320 policies in 2003-04 which shows negative trend and fall in growth at the rate of- 17.53%.

After this again LIC recovered itself and the number of policies sold in 2005-06 was increased to 2,92,84,800 policies which showed a growth of 34.22%, it was the highest growth over the previous year's volume. The second setback came in 2006-07 when number of policies came down to 2,09,10,041and in 2007-08 1,79,61,363 policies compared to 2,92,84,800 policies in 2005-06.

After this again LIC recovered itself and the number of policies sold in 2008-09 was increased to 2,93,22,395 policies which showed a growth of 63.25%. During the study period the number of policies has gone up from 1,96,56,663 policies in 2000-01 to 3,05,78,367 policies in 2009-10 i.e. more than double during the period of 10 year.

The annual compound growth rate during the study period 2000-01 to 2009-10 was 4.52%. During the study period of ten years, it has been observed that for four years the growth rate of number of policies of new business in India (individual insurance) was below the annual compound growth rate and for five years it was above the annual compound growth rate.

NEW BUSINESS OUT OF INDIA (INDIVIDUAL INSURANCE)

LIC is the most preferred Multinational Organization catering to the insurance and financial needs of Non-Resident Indian(NRIs) and People of Indian Origin (PIOs) in particular and of the Global market in general.[1]

LIC operates in international markets through its Branch Offices as well as Joint Venture Subsidiaries.

Branch Offices-

1) Mauritius
2) Fiji
3) United Kingdom

Joint Venture Subsidiaries-

1) LIC (International) B.S.C. (C):-

A Joint Venture offshore company promoted by the Life Insurance Corporation of India, operations commenced in July 1989 with the following objectives-

1. To offer US$ denominated policies to cater to the insurance needs of Expatriate Indians.

[1] Life Insurance Corporation of India Dairy - 2006

2. To provide insurance services to the holders of Indian registered policies of LIC of India currently residing in Gulf. NRIs of other countries can avail themselves of the services of the company through mail order business.

The company operates in all the GCC countries through Chief Agents, in the Kingdom of Bahrain (M/s International Agencies Company Ltd.), tate of Kuwait (M/s Warba Insurance Company.SAK), Qatar (M/s Investec WLL) and Dubai (M/s Kingstar Insurance Agencies) through the full-fledged branch office in the Sultanate of Oman (Chief Agent- M/s Gulf Insurance Company LLC).

2) LIC (Nepal) Ltd.-

A Joint Venture with the Vishal Group of Industries, Nepal commenced operations in December 2001. The company operates through 5 branch offices at Kathmandu, Birat Nagar, Nepalgauni, Pokhara and Butwal.

3) LIC (Lanka) Ltd.-

A Joint Venture company with M/s Bartleet Group of companies, Srilanka commenced operations from March 2003. The company operates through 7 branch offices in the cities of Colombo, Ganpaha, Jaffana, Anuradhpura, Kandy, Puttalam and Batticaloa, 11 development centers and 18 distribution outlets.

4) LIC (Mauritius) offshore Ltd.-

A Joint Venture offshore company promoted by the Life Insurance Corporation of India and the General Insurance Corporation of India. In order to evaluate the overall performance of the corporation, it is mandatory to analyze the business performance under individual insurance outside India. Thus, the new business out of India in terms of annual premium, number of policies and sum assured for study period from 2000-2001to 2009-10 are considered for this purpose.

Percentage growth over previous year $= \frac{\text{Current Years Value}}{\text{Previous Years Value}} \times 100 - 100$

ANALYSIS OF ANNUAL PREMIUM EARNED

The Annual Premium in term of new business out of India operation of LIC from 2000-01 to 2009-10 is presented in table 5.3.

Table: 5.3

New Business out of India – Annual Premium Earned (Rs. in crore)

Year	Annual Premium (Rs. in crore)	% growth over base year
2000-01	11.46	–
2001-02	12.57	9.69
2002-03	18.85	49.96
2003-04	23.27	23.45
2004-05	26.50	13.88
2005-06	25.24	-4.75
2006-07	24.94	-1.19
2007-08	25.74	3.21
2008-09	19.75	-23.27
2009-10	22.26	12.71
ACGR		**6.86%**

Compiled from the Annual Reports of LIC of India

Calculation of ACGR:-

ACGR = $[V(t_n)/V(t_o)]^{1/n}-1$

= $[22.26 / 11.46]^{1/10}-1$

= 1.0686-1

= 0.0686 or 6.86%

GRAPH: 5.3

New Business out of India- Annual Premium Earned (RS. in Crore)

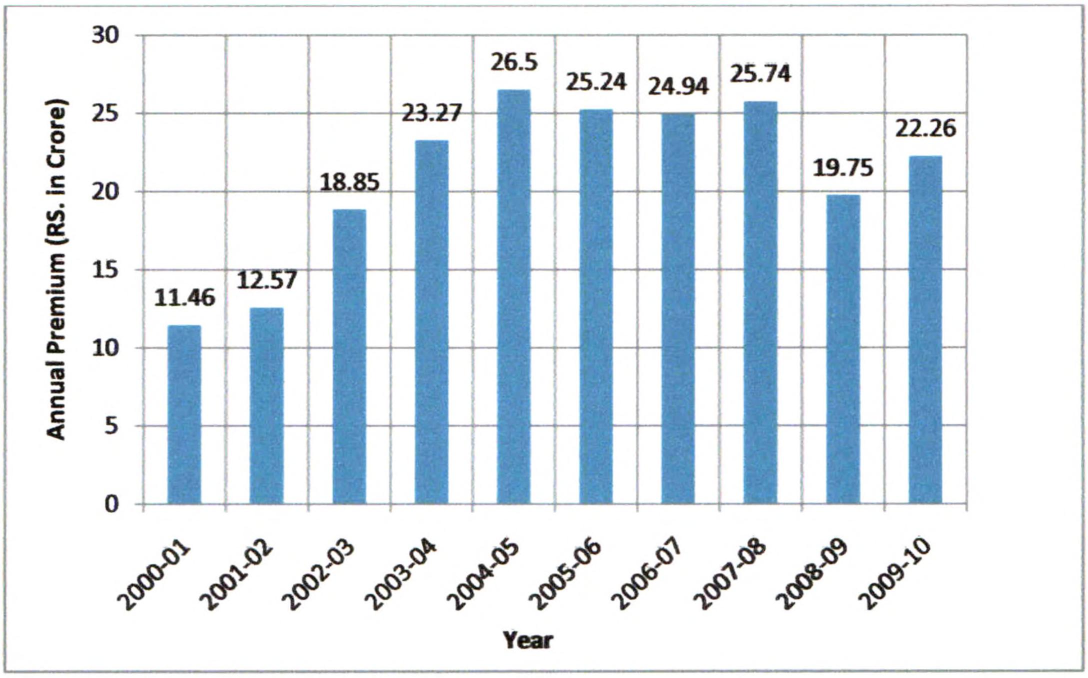


Table 5.3 and Graph 5.3 show the growth of New Business out of India (Individual Insurance) in terms of Annual Premium for the study period 2000-01 to 2009-10. The new business outside India did not rise satisfactory. There are many fluctuations in the performance of LIC. In 2000-01, annual premium was Rs. 11.46crores which increased to Rs. 22.26crores in 2009-10 shows just 51.48% growth in the 10 years period. There was three major hiccups that accrued in 2005-06, 2006-07 and 2008-09, when there was fall in the amount of annual premium with negative growth of -4.75%,-1.19% and -23.27% respectively.

However, it improved in 2002-03 when it rose 49.96%. But the overall picture shows the poor performance of LIC. The annual compound growth rate during the study period 2000-01 to 2009-10 was 6.86%. During the study period of ten years, it has been observed that for four years the growth rate of annual premium of new business out of India (individual insurance) was below the annual compound growth rate and for five years it was above the annual compound growth rate.

ANALYSIS OF NUMBER OF POLICIES

The number of policies from new business out of India performance of LIC is presented in table 5.4.

Table 5.4

New Business out of India – Number of Policies

Year	No. of Policies	% growth over previous year
2000-01	7911	—
2001-02	8695	9.91
2002-03	10359	19.14
2003-04	11562	11.61
2004-05	13807	19.42
2005-06	13370	-3.16
2006-07	12059	-9.80
2007-08	10509	-12.85
2008-09	11121	5.82
2009-10	12274	10.37
ACGR		**4.49%**

Compiled from the Annual Reports of LIC of India

Calculation of ACGR:-

ACGR $= [V(t_n)/V(t_o)]^{1/n} - 1$

$= [12274 / 7911]^{1/10} - 1$

$= 1.0449 - 1$

$= 0.0449$ or 4.49%

GRAPH: 5.4

New Business out of India - No. of Policies

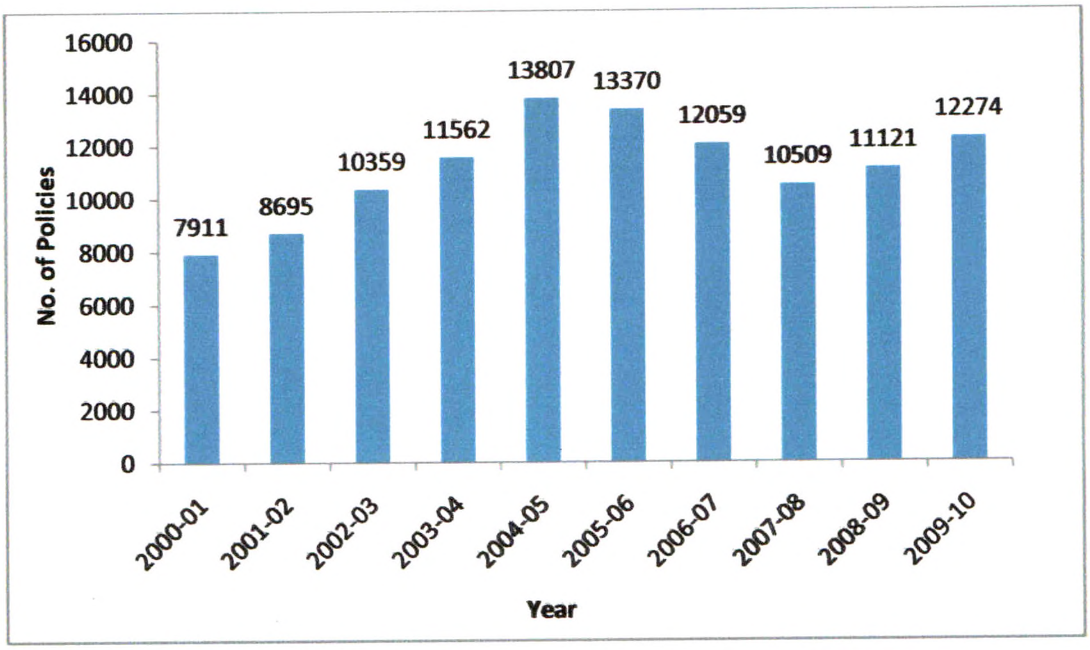


Table 5.4 and Graph 5.4 show the growth of New Business out of India (Individual Insurance) in terms of Number of Policies for the study period 2000-01 to 2009-10. In case of number of policies the offshore performance of LIC has not been pretty well. The two types of trends have been seen from the table- first trend was down trend and the second trend was up trend. Down trend started from 2005-06 to 2007-08. There was fall in the number of policies in 2005-06, 2006-07and 2007-08 with -3.16%, -9.80% and -12.85% growth rates respectively.

The second trend started from 2001-02 to 2004-05. There was a rise in the number of policies in 2001-02, 2002-03, 2003-04 and 2004-05 with 9.91%, 19.14%, 11.61% and 19.42% growth rates respectively. In 2000-01the number of policies were 7911 policies which increased to 12274 policies in 2009-10 shows 55.15% growth in the 10 years period. The annual compound growth rate during the study period 2000-01 to 2009-10 was just 4.49%.

During the study period of ten years, it has been observed that for four years the growth rate of number of policies of new business out of that for three years the growth rate of number of policies of new business out of India (individual insurance) was below the annual compound growth rate and for six years it was above the annual compound growth rate.

RURAL BUSINESS

India lives in villages. There are 6,38,588 total villages with populations of 8,52,967,000, with a total population of nearly 1,21,05,69,573.[1] Sustained and conscious efforts are made to carry the message of life insurance into rural areas, especially the backward and remote area.[2]

One of the main purposes of nationalization was to spread the life insurance business to rural areas where population was less than one lac. The Life Insurance Corporation of India has tried to reach the rural masses through various schemes. In recent years, LIC has also acquired a significant presence in the rural sector. For instance, 1200 out of its 2048 branches are situated in rural areas.[3] The conditions as specified by IRDA regarding marketing in rural section are fulfilled by the LIC. As a result there has been steady growth of new business in the rural areas. The performance of new rural business has been analyzed in terms of number of policies and sum assured.

Basically the change in the definition of rural areas after the formation of IRDA. In 1999, because of privatization, IRDA came into force and changed the definition of rural area. This lead to a huge change in the figures related to number of policies and sum assured of rural market after 1999-2000.

ANALYSIS OF NUMBER OF POLICIES

Table 5.5 and Graph 5.5gives the detail of number of rural policies and its growth rate for study period from 2000-01 to 2009-10.

[1] Census of India 2011
[2] LIC Annual Report 2005-06, P. 6
[3] Dr. Sjid Ali, Riyaz Mohammad, Masharique Ahmed (2007) "Insurance in India" Regal Publication New Delhi, P.58

Table 5.5

Rural Business – Number of Policies

Year	No. of Policies	% growth over previous year
2000-01	35.34	—
2001-02	37.01	4.73
2002-03	45.23	22.21
2003-04	62.19	37.50
2004-05	55.03	-11.51
2005-06	74.67	35.69
2006-07	88.50	18.52
2007-08	90.43	2.18
2008-09	87.14	-3.64
2009-10	102.49	17.61
ACGR		**11.24%**

Compiled from the Annual Reports of LIC of India

Calculation of ACGR:-

ACGR = $[V(t_n)/V(t_o)]^{1/n} - 1$

= $[102.49 / 35.34]^{1/10} - 1$

= 1.11235 – 1

= 0.11235 or 11.24%

GRAPH: 5.5

Rural Business – Number of Policies (In lakh)

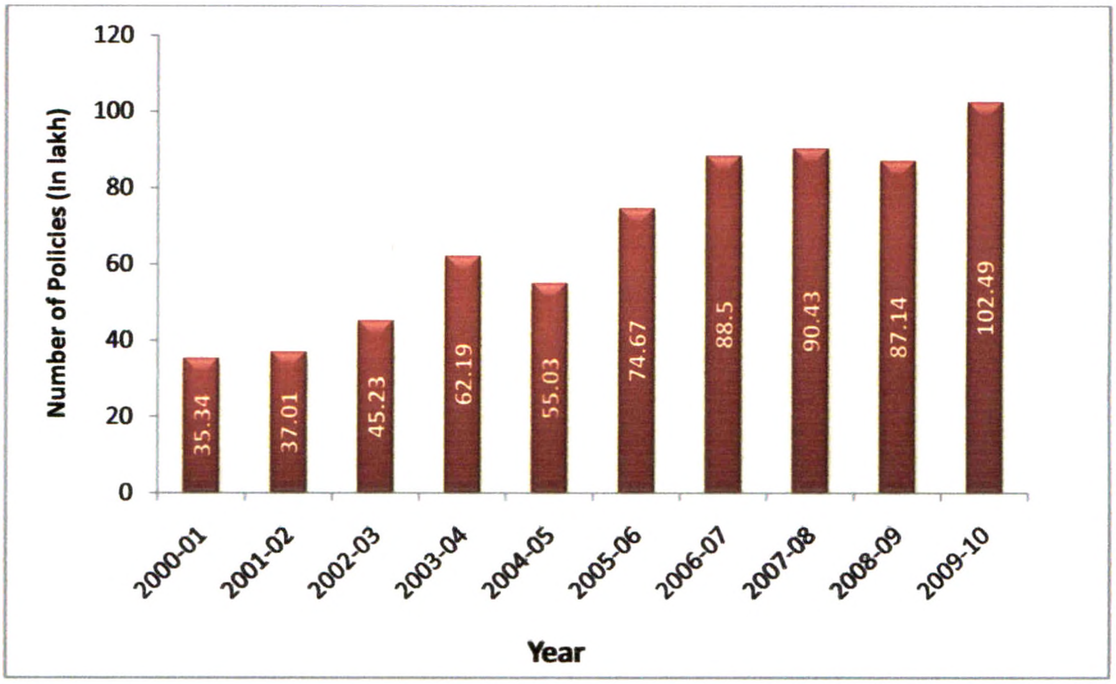


Table 5.5 and Graph 5.5 reveal that there has not been steady growth in the number of policies of rural market of the LIC. As the first part related to the period from 2000-2001to 2003-2004, the new business in terms of number of policies of the rural market for this period has quite well. It has been increasing year after year with a healthy growth rate. In 2000-2001 the numbers of policies were 35.34lacs and in 2003-2004 it increased to 62.19lacs with 37.50% growth rate. There was also increase in the number of policies except in the year 2004-05 and in 2008-09. In 2000-01, numbers of policies were 35.34lacs and it increased to 102.49lacs in 2009-10 with 17.61% growth rate. In the year 2004-05 there was a negative growth rate of -11.51% and also negative growth in 2008-09.In the second part from 2004-05 to 2009-10 there was a healthy growth in number of policies i.e. more than double in 6 years.

The annual compound growth rate during the study period of 2000-2001 to 2009-10 was 11.24%. The annual compound growth rate of the study period was low due to the major setback of negative growth rate in 2004-05 with -11.51%, due to change in the definition of rural/social sector. During the study period of ten years, it has been observed that for four years the growth rate of number of policies of new rural business was below the annual compound growth rate and for five years it was above the annual compound growth rate.

PREVIOUS YEAR CASES IN INDIA (INDIVIDUAL INSURANCE)

According to 1995 statistics, India has the highest number of life insurance policies in force and the total investible funds with LIC were almost 8% of GDP[1].

ANALYSIS OF PREMIUM INCOME EARNED

The quantum of business in force indicates the total premium income and number of policies till date. It is the major indicator of the growth of the corporation. It reveals the amount of business that the corporation has been able to conduct in the country. In order to evaluate the performance of LIC, the total business under individual insurance in terms of premium income, number of policies and sum assured are considered for the study period and also its growth rates are calculated for the same period.

Percentage growth over previous year = $\frac{\text{Current Years Value}}{\text{Previous Years Value}} \times 100 - 100$

The annual premium income from previous year cases in India of LIC is presented in table 5.6.

[1] Dr. Sangeetha Natarajan: Inspecting Insurance Companies-Indian Journal of Applied Research, Volume-3, issue-9, September-13, P-347

Table 5.6

Previous Year Cases in India – Premium Income Earned (Rs. in Crore)

Year	Premium Income (Rs. in crore)	% growth over base year
2000-01	34117.92	—
2001-02	42336.84	24.09
2002-03	48148.98	13.73
2003-04	62333.71	29.46
2004-05	68700.99	10.21
2005-06	77303.43	12.52
2006-07	81382.12	5.28
2007-08	79142.55	-2.75
2008-09	90747.74	14.66
2009-10	104631.17	15.30
ACGR		**11.86**

Compiled from the Annual Reports of LIC of India

Calculation of ACGR:-

ACGR $= [V(t_n)/V(t_o)]^{1/n} - 1$

$= [104631.17 / 34117.92]^{1/10} - 1$

$= 1.11858 - 1$

$= 0.11858$ or 11.86%

Table 5.6 reveals that the premium income of life insurance previous year case in India (Individual Insurance) has been continuously increasing from Rs.34117.92crores in 2000-01 to Rs. 81382.12crores in 2006-07 and further Rs. 90747.74crores to104631.17 in 2008-09. Thus the premium income of previous year case in India (individual insurance) has been increased more than 3 times during the period of last 10 years. The table and figure depict that the premium income of previous year case in India has increased every year except 2007-08 but the rate of growth was not constant. The growth rate of premium income in 2000-2001 was 24.09% then it fall in 2002-03 and then again increase in 2003-04 was 29.46% the growth rate came down to 10.21% in 2004-05. In 2005-06 it increased again and went up to 12.52%. In 2006-07 & 2007-08, the growth rate again falls down to 5.28%

and -2.75% respectively. During the study period the highest growth rate was observed in 2003-04 with 29.46% where as the lowest growth rate was observed in 2007-08 with -2.75%. The annual compound growth rate during the study period of 2000-2001 to 2009-10 of premium income of individual business from previous year in India was 11.86%. During the study period of ten years, it has been observed that for three years the growth rate of premium income of previous year in India (individual insurance) was below the annual compound growth rate and for six years it was above the annual compound growth rate.

ANALYSIS OF NUMBER OF POLICIES

The number of policies from previous year case in India of LIC is presented in table 5.7.

Table: 5.7

Previous year Cases in India – Number of Policies (In Lacs)

Year	No. of Policies (In lacs)	% growth over base year
2000-01	1130.24	___
2001-02	1257.89	11.29
2002-03	1387.88	10.33
2003-04	1539.21	10.90
2004-05	1629.51	5.87
2005-06	1795.64	10.20
2006-07	1894.17	5.49
2007-08	1924.28	1.59
2008-09	2101.54	9.21
2009-10	2260.58	7.57
ACGR		**7.18%**

Compiled from the Annual Reports of LIC of India

Calculation of ACGR:-

$$\begin{aligned} ACGR &= [V(t_n)/V(t_o)]^{1/n} - 1 \\ &= [2260.58 / 1130.24]^{1/10} - 1 \\ &= 1.07177 - 1 \\ &= 0.07177 \text{or } 7.18\% \end{aligned}$$

Table 5.7 reveals that the number of policies of life insurance business from previous year case in India (individual insurance) has been continuously increasing from 1130.24 lac policies in 2000-01, 1629.51 lac policies in 2004-05 and further 2260.58 lac policies in 2009-10. Thus the number of policies of business from previous year case in India (individual insurance) has been increased by more than 2 times during the period of last 10 years.

The table and figure depict that the number of policies of business previous year case in India has increased every year but the rate of growth was very low and even not constant also. The growth rate of number of policies in 2001-02 was 11.29% which decreased to 5.87% in 2004-05. Then it kept falling and in 2006-07 & 2007-08, the growth rate came down to 5.49% & 1.59% respectively. In 2008-09 it increased and went up to 9.21%. In 2009-10 the growth rate falls down to 7.57%.

During the study period the highest growth rate was observed in 2001-02 with 11.29% whereas the lowest growth rate was observed in 2007-08with 1.59%. The annual compound growth rate during the study period of 2000-01 to 2009-10 of number of policies of individual business previous year case in India was 7.18%. During the study period of ten years, it has been observed that for three years the growth rate of number of policies of business in force in India (individual insurance) was below the annual compound growth rate and for six years it was above the annual compound growth rate.

PREVIOUS YEAR CASES OUT OF INDIA (INDIVIDUAL INSURANCE)

LIC has its existence in the international market through its branches and joint venture subsidiaries. In order to evaluate its business performance it is important to discuss its individual business in force outside India. It has been discussed in terms of premium income, number of policies and sum assured for the study period and also its growth rates are calculated for the same period.

Percentage growth over previous year = $\frac{\text{Current Years Value}}{\text{Previous Years Value}} \times 100 - 100$

ANALYSIS OF PREMIUM INCOME EARNED

The annual premium income from previous year case out of India of LIC is presented in table 5.8.

Table: 5.8

Previous year Case out of India – Premium Income Earned (Rs. in crore)

Year	Premium Income (Rs. in crore)	% growth over base year
2000-01	89.85	—
2001-02	96.60	7.51
2002-03	106.33	10.07
2003-04	131.42	23.60
2004-05	137.16	4.37
2005-06	145.00	5.71
2006-07	139.81	-3.58
2007-08	145.40	4.00
2008-09	150.79	3.71
2009-10	145.03	-3.81
ACGR		**4.90%**

Compiled from the Annual Reports of LIC of India

Calculation of ACGR:-

ACGR = $[V(t_n)/V(t_o)]^{1/n} - 1$

= $[145.03 / 89.85]^{1/10} - 1$

= 1.0490 - 1

= 0.0490 or 4.90%

Table 5.8 reveals that the premium income of life insurance business from previous year case out of India (individual insurance) has been continuously increasing from Rs. 89.85crores in 2000-01 to Rs.145 crores in 2005-06 and further Rs. 145.40crores in 2007-08 to 150.79 in 2008-09 and just a minor decrease in growth rate in 2009-10.

Thus the premium income of business from previous year case outside India has been double during the period of last 10 years. The table and figure depict the premium income of business from previous year case out of India has increased every year except a slight decrease in 2006-07 and 2009-10 but the rate of growth was not constant. During the study period the highest growth rate was observed in 2003-04 with 23.60% and the lowest growth rate was observed with negative growth rate -3.81% in 2009-10. The annual compound growth rate during the study period of 2000-2001 to 2009-10 of premium income of individual business from previous year case out of India was 4.90%.

During the study period of ten years, it has been observed that for five years the growth rate of premium income of business from previous year case out of India (individual insurance) was below the annual compound growth rate and for four years it was above the annual compound growth rate.

ANALYSIS OF NUMBER OF POLICIES

The number of policies from business from previous year case out of India performance of LIC is presented in table 5.9.

Table: 5.9

Business from previous year case out of India –Number of Policies (in lacs)

Year	No. of Policies (In lacs)	% growth over base year
2000-01	0.87	—
2001-02	0.87	0.00
2002-03	0.90	3.45
2003-04	0.94	4.44
2004-05	1.00	6.38
2005-06	0.99	-1.00
2006-07	1.00	1.01
2007-08	0.99	-1.00
2008-09	0.99	0.00
2009-10	1.01	2.02
ACGR		**1.50%**

Compiled from the Annual Reports of LIC of India

Calculation of ACGR:-

$$ACGR = [V(t_n)/V(t_o)]^{1/n} - 1$$
$$= [1.01 / 0.87]^{1/10} - 1$$
$$= 1.0150 - 1$$
$$= 0.0150 \text{ or } 1.50\%$$

Table 5.9 reveals the increase in number of policies of life insurance business from previous year case out of India (individual insurance). It has been 0.87 lac policies in 2001-2002, 0.90 lac policies in 2002-03 and further it increased to 0.94 lac policies in 2003-04 & 1.00 lac policies in 2004-05. There is a fall in number of policies in 2005-06 & it came down to 0.99 lac.

The table and the figure depict the number of policies not increased every year. But the growth rate was very poor. The growth rate was 3.45% in 2002-03, 4.44% in 2003-04, 6.38% in 2004-05. In the year 2005-06 & 2007-08 it showed a negative growth-1.00% & -1.00% respectively. During the study period the highest growth rate was observed in 2004-05 with 6.38% and lowest growth rate was observed with negative growth rate -1.00% in 2000-01& -1.00 in 2007-08 respectively.

The annual compound growth rate during the study period of 2000-01 to 2009-10 of number of policies of individual business in force out of India was 1.50%. During the study period of ten years, it has been observed that for five years the growth rate of number of policies of business from previous year case out of India (individual insurance) was below the annual compound growth rate and for four years it was above the annual compound growth rate.

GROUP INSURANCE[1]

LIC offers life insurance protection under group policies to various groups such as employer-employees, professionals, co-operative, weaker sections of society, etc. It also provides insurance coverage to people at subsidized rates under social security group schemes. Besides proving insurance coverage, the corporation also offers group schemes to employees, which provide funding of gratuity, pension liabilities and leave encashment liabilities of the employers.

[1] Life Insurance Corporation of India Dairy - 2009

GROUP TERMS INSURANCE SCHEME:

Employer-Employees groups are offered group insurance schemes providing either uniform or graded cover. Group Insurance scheme providing uniform cover will be granted to associations of professionals, members of co-operative banks, welfare funds, credit societies and weaker sections of society.

GROUP INSURANCE SCHEME IN LIEU OF EDLI:

The Employee Deposit Linked Insurance Scheme is applicable to all establishments and undertakings contributing to employees provident fund under EPF and MP act, 1952, with effect from 01.08.1976, unless exempted under section 17(2A), of the Act. The scheme provides for an insurance cover to an employee, linked to his balance in the PF account, subject to a maximum of Rs 60000/-

GROUP GRATUITY SCHEMES:

Gratuity is a statutory liability of the employers. This is an incremental liability which depends on the years of service put in by the employee. In the Group Gratuity Scheme granted by the LIC, in the events of premature death of the member, the dependent can get an amount which will be equal to the gratuity payable on the normal retirement of the member, had he survived up to the date of superannuation.

GROUP SUPERANNUATION SCHEME:

The Group Superannuation Scheme is designed to provide pension to the employees/beneficiaries on the on the exit of the member from the service.

GROUP SAVINGS LINKED INSURANCE SCHEME (GLSI):

The Scheme offers insurance cover with an element of thrift. This scheme is granted to Employer-Employee group. Under the scheme out of the contribution received in respect of each member of scheme, a portion is utilized towards the insurance cover; the balance is accumulated till the exit.

GROUP ANNUITY SCHEME:

Employers who have a privately administered Superannuation Fund, wherein moneys are invested by the Trustees as per Income Tax Rules can purchase pension for employees as and when it is due under 'Group Annuity Policies from LIC. LIC offers wide range of benefits options combined with a good rate of return on the investment.

GROUP LEAVE ENCASHMENT SCHEME (GLES):

According to accounting standard (AS15) of January, 1995 and amended section 209(3) of the companies Act, 1956, it has become necessary for employers to provide for the liability of the leave encashment facility available to employees in the annual books of accounts. The Group Leave Encashment Scheme (GLES) is designed to fund such liabilities of the employers. The scheme offer free valuation of the liability, attractive returns and convenient service combined with insurance cover which may either be uniform or graded.

JANSHREE BIMA YOJANA:

A social security scheme with an object to provide insurance protection to the rural and urban poor below the poverty line or marginally about it. 50% of the premium is subsidized from the social security fund maintained by LIC and the remaining 50% is contributed by members/Nodal Agency /state Government. Person aged between 18 and 59 years are covered for an amount of Rs. 3000/- each.

SHIKSHA SAHAYOG YOJANA:

The scheme is designed to provide at no additional cost, an educational allowance of Rs. 600/- per half year to students studying in classes 9th to 12th (including IT courses) whose parents are members of Janashree Bima Yojana. The scholarship benefit is limited to two children per family.

AAM ADMI BIMA YOJANA:

A new Social Security Scheme for rural landless household was launched on 2nd October, 2007 by the Hon'ble Finance Minister at Shimla. The head of the family or one earning member in the family of rural landless household would be covered under the scheme. The premium of Rs. 200/- per person per annum would be shared equally by the Central Government and the State Government.

Analysis of Annual Premium under Group Insurance

The Annual premium in term of previous year cases under Group Insurance and Super Annuation Schemes.

Table: 5.10

Previous year Case- Group Insurance Scheme

Year	Group Insurance Scheme			
	No. of Schemes	No. of Member (Lacs)	Premium Income (Crores)	% growth over base year
2000-01	84203.00	236.68	89326.19	--
2001-02	93836.00	247.19	100597.64	12.62%
2002-03	95325.00	240.99	124312.26	23.57%
2003-04	100051.00	252.46	143398.20	15.35%
2004-05	106912.00	306.50	136286.92	-4.90%
2005-06	109995.00	302.71	199427.16	46.32%
2006-07	111729.00	405.95	322042.20	61.48%
2007-08	128840.00	494.83	306711.77	-4.76%
2008-09	121027.00	623.90	417243.60	36.04%
2009-10	124946.00	763.66	457628.70	9.68%
ACGR				**17.75%**

Complied from the Annual Reports of LIC of India

During the period 2000-01 to 2009-10 the progress of Life Insurance Business in term of Group Insurance can be measured on the basis of Annual Premium. Table 5.10 shows the number of scheme, number of member and premium at the end of the year. The insurance coverage of the group insurance scheme have increased continuously in term of life covered from

236.68 lacs in 2000-01, 247.19 lacs in 2001-02. It show downward trend in 2002-03 with 240.99 lacs and in 2005-06 with 302.71 lacs. Again it shows increased trend from 252.46 lacs in 2003-04, 306.50 lacs in2004-05, 405.95l acs in 2006-07, 494.83 lacs in 2007-08, 623.90 lacs in 2008-09 and 763.66 lacs in 2009-10 respectively. The premium income show increasing trend from 2000-01 with 89326.19 Crore, 2001-02 with 100597.64 Crore, 2002-03 with 124312.26 Crore, 2003-04 with 143398.20 Crore, 2004-05 with 136286.92 Crore, 2005-06 with 199427.16 Crore, 2006-07 with 322042.20 Crore, 2007-08 with 306711.77 Crore, 2008-09 with 417243.60 Crore and 2009-10 with 457628.70 Crore re spectively. The Annual Compound Growth rate during the study period of 2000-01 to 2009-10 of annual premium of group insurance of previous year cases was 17.75%.

Analysis of Annual Premium under Group Super Annuation Schemes

The Annual premium in term of previous year cases under Group Super Annuation Schemes.

Table: 5.11

Previous year Case- Group Super Annuation Schemes

Year	Group Super Annuation Schemes			
	No. of Schemes	No. of Member (Lacs)	Amt. of ANN. P.A. (Crores)	% growth over base year
2000-01	5753.00	8.84	1137.72	--
2001-02	6109.00	9.80	1271.94	11.80%
2002-03	6461.00	10.86	1488.98	17.06%
2003-04	7232.00	12.34	1705.50	14.54%
2004-05	7321.00	12.73	1916.64	12.38%
2005-06	6135.00	12.52	2189.28	14.22%
2006-07	6180.00	12.93	2575.98	17.66%
2007-08	6463.00	15.54	3211.30	24.66%
2008-09	7009.00	22.61	4176.08	30.04
2009-10	5974.00	70.00	5197.96	24.47%
ACGR				**16.41**

Complied from the Annual Reports of LIC of India

During the period 2000-01 to 2009-10 the progress of Life Insurance Business in term of Group Superannuation Schemes can be measured on the basis of Annual Premium. Table 5.11 shows the number of scheme, number of member and Amount of Annuation at the end of the year. The insurance coverage of the group superannuation scheme have increased continuously in term of life covered from 8.84 lacs in 2000-01, 9.80 in 2001-02, 10.86 lacs in 2002-03, 12.34 in 2003-04 lacs, 12.73 lacs in 2004-05. Gradually it has decreased in 2005-06 with 12.52 lacs and again it increased from 12.93 lacs in 2006-07, 15.54 lacs in 2007-08, 22.61lacs in 2008-09 and 70.00 in 2009-10 respectively. The amount of annuation show increasing trend from 2000-01 with 1137.72 Crore, 2001-02 with 1271.94 Crore, 2002-03 with 1488.98 Crore, 2003-04 with 1705.50 Crore, 2004-05 with 1916.64 Crore, 2005-06 with 21.89.28 Crore, 2006-07 with 2575.98 Crore, 2007-08 Crore with 3211.30 Crore, 2008-09 with 4176.08 Crore and 2009-10 with 5197.96 Crore respectively. The Annual Compound Growth rate during the study period of 2000-01 to 2009-10 of annual premium of group insurance of previous year cases was 16.41%.

PRODUCTIVITY OF LIC

Life Insurance of India is one of the main companies providing life insurance in India. It has more than 60 different products that address the need of each and every Indian from a new born to 70 years old.[1]

Productivity is the heart of a firm's performance in competitive market. More specifically, productivity is the ratio between output and input. The productivity reflects the return of resources employed i.e. how well resources utilization has taken place in a given system. Measuring the output of the finance and insurance industries is more difficult than measuring the output of industries that produces goods such as automobiles or computers. The insurance industry produces outputs that are heterogeneous so the quality change problem in measuring output is fully difficult.

[1] Suminder Kaur Bawa (2007) "Life Insurence Corporation of India - Impact of Privationtion and Performance", Regal Publication New Delhi P. 113

Productivity growth has been very slow in the service sector such as banks, insurance, railways, hospitals and other public utility services. The insurance awareness in India is low, insurance covers are expensive, returns from insurance products are low and there is a dearth of innovative and buyer-friendly insurance products. All these problems are the hurdles for the LIC to achieve higher productivity.

PROBLEM & SUGGESTION

Due to Insurance field open for private players it is expected that the business and earning would be affected.

It is suggested that creating new systems for business generation sales process monitoring and business processing with a view to reach out to untapped markets and providing improved buying the experience to customers with product that meet the needs and demands of customer to purchase of life insurance policies.

CHAPTER-VI

INVESTMENT OF FUNDS-CONSTRAINTS AND SKILL

CHAPTER -VI
INVESTMENT OF FUNDS-CONSTRAINTS AND SKILL

"In the days to come, in the emerging competitive environment, the investment function is going to assume a much greater importance. Operating within the constraints prescribed by the Regulator, insurers will have to apply modern portfolio management techniques with the help of advanced technology to diversify the investments, optimize the returns and minimize the risk. In the current low interest rate regime and volatile market, it is going to be the biggest challenge before the insurers".

INVESTMENT MANAGEMENT[1]

Investment operations are often considered according to business of insurance, and have traditionally been viewed as secondary to underwriting. In the past, risk management was the most important part of business, whereas today the focus has shifted to fund management. Since investment income is a large component of insurance revenues, skilful and careful management of funds can extend to the company in question a competitive advantage. The prudent deployment of the same is, naturally, a matter of concern for the industry as well as for the government.

Insurance is a business dependent on large of policies numbers and generates huge amounts of funds over time, making its financial muscle very strong. These funds arise out of policy-holders funds in the case of life insurance, and technical and free reserves in the non-life segment. The time-lag between the procurement of premium and payment of claim provides an interval during which the funds can be deployed to generate income. The power of the sector is evident from the fact that insurance companies are among the largest institutional investors in the world. Assets managed by insurance companies are estimated to account for over 40 percent of the world's top 100 asset managers. In view of this fact, the investment function has a crucial role to play.

---

[1] P.S. Palande, R.S. Shah & M.L. Lunawat (2007) "Insurance in India - Changing Policies & Emerging Opportunities", Response Book New Delhi P. 299

In fact, returns on investments influence the declared rates and bonuses and hence investment income will continue to be an important component of insurance company profits. In the life insurance sector, benefits of investment profits accrue directly to policyholder when it is passed on to him in the form of a bonus. In the case of the non-life sector, the benefits are indirect, mostly by the creation of an investment portfolio.

LIC's ability to settle policyholders claims and maturity benefits (including bonus and other additions, where they apply) is a function of two elements: one a 'sovereign guarantee' which applies only to the sum assured and 'guaranteed additions' components in any policy, and two, LIC's ability to generate profits from its business and pay bonus (in 'with profit' policies) and loyalty additions and final additional bonus. In other words, anything that impacts LIC's profitability is bound to affect the bonuses and loyalty additions that the corporation pays (Intelligent Investor, 2001).

Net investment income includes income from trading in and holding stock market securities (including government securities that are traded), special deposits with the central government, and loans to several public utilities and service providers in state governments such as state electricity boards, road transport corporations, housing finance societies, cooperative societies and local administrative bodies.

OBJECTIVE OF THE INVESTMENT POLICY[1]

The objectives of an investment policy in insurance are different from other industries in certain respects. In other sectors, these investments cannot have the sole object of securing maximum returns. It is to be borne in mind that the insurers are primarily responsible for catering to the insurance needs and providing funds for economic development. That is just one of the obligations and hence, the performance of the companies cannot be considered simply in terms of investment income. The major source of income of the companies is from policy premium, which is supplemented by income on investments. In view of the worsening profitability experience world-wide,

[1] P.S. Palande, R.S. Shah & M.L. Lunawat (2007) "Insurance in India - Changing Policies & Emerging Opportunities, Response Book New Delhi P. 301

the profitability of the general insurance businesses is being looked at from a different angle. The actual profits that would arise from general insurance business are the extent of the yield that is obtained from the usage of the client's funds, i.e., the premium. Insurers who are able to collect funds either from direct business or elsewhere, in a short period and deploy them profitably alone can survive in the long run. Similarly, the insurer has to discharge the claims as quickly as possible, without impairing his financial position and hence must maintain a portfolio with an emphasis on liquidity, safety and yield.

Therefore, the insurers have an obligation to invest them prudently with the combined objectives of liquidity, maximization of yield and safety. In this sense, the investment decisions in the insurance sector are not entirely a matter of choice only of the investor. Therefore, the government or the regulators in all countries insist on a clear and transparent policy for investment and usually prescribe detailed regulations for the same. Since insurers deal with large public funds primarily in the nature of premiums of the clients or policyholders, entrusted to them in good faith, the safety of the same assumes greater importance. The money is collected on a long-term contractual basis with the trust that they will be secure with the insurers.

Insurers are required to generate reserves for claims that might arise from time to time, and over a period, a large corpus of funds is built up. In its investment, therefore, there has to be a trade-off between liquidity on the one hand, and yield on the other.

Under these regulations, loans to state government entities, virtually all of which are loss-making, are mandated under the 'social obligations' clause of the Insurance Act. As of march 2002, the loans from the LIC to these bodies were 399.2807 billion of which outstanding added up to a staggering Rs. 261.3866 billion. There is the fear that despite government guarantees to back them up, these loans may not be paid on time. This could mean large Non-performing Assets (NPAs). 'In August 2001, a report prepared by a parliamentary Committee headed by V.K. Malhotra noted that from 1996 to 2000, the total worth of LIC's NPAs has been much higher than the provisioning of resources made on this account, which does not augur well for the corporation's financial health'.(Intelligent Investor, 2001).

According to B.B. Bhattacharya, Director, Indian Institute of Economic Growth, 'Many of LIC's investments yield zero returns. In effect, therefore, policyholders are subsidizing these bad investments by paying higher premiums and received lower bonus.

The recent decline in interest rates is putting pressure on the returns on investment and insurance companies are therefore taking extra care in investment operations. Maintaining the prevalent or promised rates of returns in a falling interest rate market is a difficult problem, but the solution cannot be to invest more in the stock market, given its present volatility. The companies must continue to keep the safety of investment as the prime consideration even in the present situation. There is no option, therefore, to lowering the rates of return on policies. One of the measures was to reduce the promised return on new policies. In this context, the LIC's Bima Nivesh policy was revised twice in about six months and offered returns of about 8.5 % compounded for a 10 years lock-in periods. In July 2001, the LIC relaunched the single-premium Bima Nivesh policy, cutting back the guaranteed additions from Rs 85 per thousand of sum assured to Rs 75 per thousand on a five-year plan and from Rs 90 to Rs 80 on a 10-year plan. The premiums were also lowered slightly.

With effect from December 24, 2001, the LIC stopped issuing policies under three of its plans, viz. Jeevan Dhara (Deferred Annuity Plan), Jeevan Akshay (Immediate Annuity Plan). They have recently been re-launched, but with a promise of only a lesser return.

The money collected has to be deployed productively for the benefit of both the society and the policyholders. All over the world, a large part of these funds is conventionally used for the growth of infrastructure. The insurance industry in India has contributed substantially to this activity.

THE MAGNITUDE OF FUNDS [1]

The tremendous financial strength of the insurance business in India stems from its continually growing arterial premium income and the accumulated substantial amounts with the LIC. Life Insurance funds grew to Rs. 2,52,919.00 crore in 2010-11 compared to Rs. 2,24,487 crore in 2009-10. As percentage of gross Financial Savings, the share grew from 22.6% in 2009-10 to 24.2% in 2010-11. The share of life funds of LIC and private insurers rose to 23.8% of gross Financial Savings in 2010-11 as against 22% in 2009-10. At current prices, the amounts were Rs. 2,47,993.00 crore in 2010-11 compared to Rs. 2,17,973 crore in 2009-10. Life insurance funds were 3.7% of GDP at factor cost in 2009-10. This was an improvement over 2008-09 when percentage was 3.3%.

Total First Year Premium of Life Insurers including Group Business grew by 15.1% in 2010-11 to Rs. 1,22,826 crore from Rs. 1,09,290 crore in 2009-10. From 59.3% in the first half of the year the growth moderated sharply in the second half of the year. There was negative variation of 9.5% in the number of new insurance policies sold by life insurers in 2010-11 as compared to 2009-10. The number of new life insurance policies sold by life insurers in 2010-11 came down to 4,81,51,884 crore from 5,32,24,435 crore in 2009-10.

The market share of life Insurance Corporation of India improved to 68.7% in 2010-11 from 64.9% in 2009-10 in First Year Premium. On the basis of policies too, the market share improved to 76.9%in 2010-11from 73% in 2009-10.

In the future, with the expected large number of competing units and spread of business, the fund available with the insurance industry as a whole will grow even bigger, although individual units may experience different rates of growth. The life insurance industry in particular, will become an even stronger financial force to reckon with and will be an active and major player in the financial sector.

---

[1] 54th Annual Report of LIC (2010 - 11) P. 59

THE NATURE OF INVESTMENT

The investor has to decide between having sufficient funds that are relatively liquid to settle claims and placing such funds in long-term investments for desired returns. Quality, security and marketability of investments have to be kept in mind with a view to achieving the best rate of return. However, how effectively the insurance company does this will also depend on the investment norms mandated by regulators.

OPTIMAL MATCH WITH RISK AND RETURN

It is considered that insurance is the business of generating liabilities that must be matched by investment in assets. Hence, actuarial experts lay emphasis on anticipating pay out patterns and liabilities. Assets composition is decided after taking into account a safety factor for unexpected losses. Hence, many companies hold an assets mix that is highly liquid and fixed income in nature, and not speculative. They cannot therefore, achieve an optimal portfolio mix for maximizing benefits. Such a policy affects their profitability which it is theoretically possible to improve with prudent investment and without sacrificing liquidity. However, in view of the nature of this business, an optimal mix with only returns in view can never be achieved, unless the companies throw caution to the winds.

Different categories of claims have different tenures viz. short-term and long-term. Due to the different period of the claims, assets-liability matching becomes a highly complex exercise. Areas of investment under the market sector may be classified into fixed-income securities and floating income securities with details such as long-term and short-term depending on the tenure of instruments. Ideally, the securities whose tenure also is the same as these claims would be preferable. The objective would be to achieve a match between the assets and liabilities in the form of claims such that the assets-liability matching ensures that there are sufficient assets, which meet the terms of safety, liquidity and maturity. Obviously, the companies must have more assets than estimated liability at any point of time. This necessitates the creation of a prudent investment portfolio.

ARRANGEMENT OF EXTRA RESERVE FOR RISK

One problem is that of a mismatch of the nature of assets and liabilities. An equity investment is not a matching investment for a liability fixed in money terms for a predetermined period. Though historically, equity investment has given better return compared to fixed-interest stocks, it presents a complication in that it necessitate an extra reserve as it does not match the liabilities. Thus, it needs more free assets or capital compared to fixed-interest investments.

Again, in life insurance contracts, the use of mortality tables helps in making a fairly good estimate of the claims ratio, as we know losses are caused through natural and causes man-made these are called perils or catastrophes which can never be predicted with accuracy.

The pattern of investment for insurance companies and pension funds is primarily influenced by whether the liabilities are denominated in real terms or nominal terms.

CHALLENGING SITUATION IN RECENT CONDITIONS

The new players have a high level of shareholder's funds and low policyholder's funds in the initial years. With the existing companies, the situation is exactly opposite and therefore, the pattern of their investment and the income derived there from will be different.

Investment management involves decision in respect of mandatory investments, free investments, portfolio management such as equity/bonds/ debentures/short-term loans/long-terms loans, and considerations of social commitments/returns and yields, deals on stock exchanges, liquidity strategy and utilization of funds for short and long-term returns. Of late, financial derivatives are also emerging as an important option. This will engage the attention of the investment managers in the coming decade since the derivatives market is likely to pick up in India too.

In addition to long-term investment and short-term investments have also to be managed carefully. The LIC's funds awaiting are deployed temporarily in short-term money market instruments viz. call/notice deposits, certificates for 30/60/90/180 days and short-term fixed deposits with banks, treasury bills, commercial paper. These funds (except for commercial paper) are placed with scheduled commercial banks and six primary dealers empanelled by the LIC. Returns on them have to be carefully analyzed.

THE INVESTMENT POLICY AND GOVERNMENT OF INDIA

Initially, the government of India had not laid down any specific investment policy. Steps in that direction were considered necessary when, with the ready availability of substantial funds from the market, some of the insurers were tempted to divert a portion of the same either towards speculative activities or towards other ends. Thus, in the forties, many life insurance companies were controlled by large financier, who used company funds to serve their own purpose, or for speculative purposes, or even in their own other enterprises. There were also some cases of interlocking of funds between banks and insurance companies. This harmed the interests of the policyholders and there was a strident demand that these malpractices be curbed.

The Sir Cowasjee Jehangir Committee went into the question of funds management, and in the light of its recommendations, the Insurance Act was amended in 1950, introducing an element of regulation. As a result, the life insurers were required to have 25% of their assets in government securities, 25 percent in government or other approved securities and 35 percent in approved investments. The amendments also prescribed quantitative restrictions on investments in any single company. Similar restrictions in a more amplified from continued to govern the insurance industry in India in Subsequent years also. Consequent upon nationalization, the government felt compelled to prescribe detailed rules in this behalf since the fortunes of the industry were the direct responsibility of the government itself.

The LIC was formed in 1956, but it was only after the Mundhra scandal that a detailed investment policy was adopted in 1958. In the words of the erstwhile Finance Minister, Morarji Desai:

Before the creation of the Unit Trust of India (UTI) in the sixties, the LIC was the biggest institutional investor in the Indian stock market. The LIC was forced to accept coupon rates of 5-6 percent in the sixties and the seventies for about 85 percent of its fund that could be freely invested when the market rates of interest (including bank deposits) were 10-12 percent and the inflation was averaging 8-9 percent. Naturally the return given by the LIC to its policyholders (by way of bonus) was low. On the other hand, since the UTI had greater freedom, its investor got a much better return on their investments and very soon it overtook the LIC as the leading institutional investor in the stock market. However, the difference in the investment pattern of the two came into sharp focus in the context of the recent experience in relation to UTI's US-64.[1]

INVESTMENT POLICY ON INVESTING IN THE STOCK EXCHANGE MARKET

The LIC can now 'freely' invest in the stock market only to the extent of just 15 percent of its fund. All the same, it has to be remembered that the freedom of investment is still limited by the inadequate supply of good equities in the primary or secondary market. A unit-linked product entirely invested in Indian equities will have to be designed only within this 15 percent limit. This restricts the size of unit-linked funds. Further, if the entire 15 percent equity investment goes for the unit-linked fund, the with-profit (WP) fund will have to be invested a 100 percent in government bonds/property/loans to policyholders, leaving no equity exposure for the WP fund.

[1] UTI's Scheme, US-64 faced problems after the UTI management under political pressure, invested recklessly in some companies and artificially raised the Net Asset value of its units, leading to heavy losses for small & middle income investors and the UTI itself. The government had to provide a large sum to bail out the UTI.

In the current situation of the stock market, it is almost impossible to introduce unit-linked products. The supply of reasonably good quality equities in adequate volume, active trading in the secondary market, choice of investments, and an active government bond market, etc., are some of the developed market where unit-linked business thrives. Until such a situation develops, there will be difficulties in promoting unit-linked products.

In the long run, synergistic links will develop between private infrastructure projects and domestic financial intermediation through capital markets, which bring savers and investors together. Their long-term funds make insurance companies logical investors in infrastructure projects. Private infrastructure projects like ports and airports have now been put on the approved lending list of the LIC. The financing of such projects would improve appraisal capabilities of the insurance companies and pension funds, and expand risk management/risk diversification possibilities for equity and bond markets. Once they start financing more of private sector infrastructure, their assessment skills will be even more important.

Pre-emption of investment in government securities and directed sectors to a significant extent took away much of the maneuverability from the industry in exploiting the capital market to the optimum. The Malhotra Committee noted that the LIC as well as the GIC have been far too conservative in managing their equity portfolios. They tend to book rather small profits relative to their holdings of company shares. The Committee noted that dynamic operations in the market in respect of its large equity portfolio would have enabled the LIC to realize substantial capital appreciation. In the opinion of the Committee, a more dynamic approach to the management of equities is called for in the interest of the insuring public. Consistent with the need for prudence, it is possible to improve profits through efficient and timely operations.

Whereas Life Insurance Corporation will always bear in mind that its primary obligation is to its policyholders whose money it holds in trust, and will never lose sight of the fact that, as a single investor in India, it has to keep before investment if the investors of the community as a whole. It will, therefore, invest in ventures which further the social advancement of the country. Its funds will, as far as practicable, be invested for the entire good of the country.

There is not the slightest intention that LIC 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 so warrant. It will actively examine its investment portfolio from time to time and decide whether certain of its holding are worth keeping, adding to or disposing off. If, for instance, LIC sells during the period of boom and to buy during period of depression, not only would be served by evening out the fluctuations in the stock market.

In short, the basic principles of the LIC's investment policy should be follow:

(1) The funds should be invested so as to safeguard and promote, to the maximum extent possible, the interest of the policyholders.

(2) The investments should be disposed over different classes of investment, different industries and different regions.

(3) The Corporation should take interest in underwriting debentures and issues after careful investigation.

(4) The investment policy should serve the larger economic and social considerations of the country.

(5) The Corporation should act purely as investors and not assume the role of an Operator or Speculator and not try to take advantage of temporary fluctuations in the market prices.

(6) The Corporation should actively examine its investment portfolio from time to time, and take such actions as may be necessary.

(7) The Corporation should not acquire, control or participate in the management of any concern, in which it has interest as an investor, unless exceptional circumstances warrant such participation.

REGULATION OF INVESTMENT INEVITABLE

The insurance industry in India too has been subjected to several restrictions and specific or broad guidelines for a long time. After the setting up of the IRDA, more detailed guidelines have been issued and are being reviewed and revised from time to time.

The regulation fall in three broad classes: those lay down by the law, those by the government, and those lay down by the individual Boards of Directors.

Primarily, the regulation of investment needs to focus on the following aspects: solvency requirements; asset valuation regulation; minimum percentage of the fund to be invested in certain asset categories; restriction on the maximum amount of investment in certain classes of assets; limits on sale and purchase of scrips; restriction on the percentage of funds that can be invested in any one company/industry; and treating some assets as inadmissible for valuation purpose. In particular, the insurers have to protect the policy-holders interests, and hence have to maintain a minimum prescribed level of solvency. The solvency margin means the excess of assets over liabilities. In India, the degree of solvency is prescribed by the Insurance Act, 1938.

INVESTMENT DECISION MANDATED BY THE GOVERNMENT

Insurers are required to fulfill certain social commitments. As many of the social welfare measures are funded by the state in almost every country, insurance companies are not just regulated, but have been mandated to hand over a portion of their funds to the state for investment in infrastructure and for social development through government bonds and securities. The state itself specifically suggests areas of social infrastructure that enhance the quality of life, providing essential social services, in which they are obliged to invest a given percentage of investable funds. This is a feature in developing as well as developed and most unregulated economies. It is believed that this ensures reasonable safety of the insurer's money.

In India, the pattern of investment was, accordingly, prescribed in great detail by the government. This was not in the form of guidelines, but as a legal obligation under Insurance Act, 1938.

PRE-NATIONALIZATION INVESTMENT PATTERN

Before the setting up of LIC in 1956, through the nationalization and amalgamation of 245 companies, life insurance companies were governed by section 27 and 27A of the Indian Insurance Act, 1938. According to the Act, every insurance Company was required to invest as follows.

Table 6.1

Pre-Nationalization Investment Pattern[1]

S.NO.	Type of Investments	Percentage of controlled funds
01	Government Securities	25%
02	Government and other approved securities	Not less than 25%
03	Other Investments	Not less than 15%
04	Approved investment	Not exceeding 35%

POST-NATIONALIZATION INVESTMENT PATTERN

Based on the recommendation of the Jagannathan Committee to review the investment policies of the LIC, Section 27A was further amended in 1975. The amended section 27A stipulated that accretions to the controlled fund of the LIC could be invested as under:

[1] M.Y.Khan, Indian Financial System, Tata McGraw Hill Publishing company Ltd, New Delhi, 2000, p.102

Table 6.2

Post-Nationalized Investment Pattern[1]

S. No.	Type of Investment	Percentage
1	In central Government marketable securities	25%
2	In central Government, State Government securities including the government guaranteed marketable securities including (a) above	50%
3	In social oriented sector including public sector, cooperative sector, own your home (OYH) scheme including second above.	75%

Notes:

(a). 8% was required for loans against policies within the surrender values.

(b). About 2% could be invested in immovable properties.

(c). 10% be invested was invested in the private sector.

(d). Remaining 5% was not available for investment as it constituted funds in the pipeline.

The Malhotra Committee had recommended that the mandated investment of funds of the LIC and the GIC should be reduced and the composition of portfolios should be flexible, so that portfolio diversification will bring about improvements in returns. On the basis of this report, some changes in the policy have recently been introduced. The IRDA regulations also followed more or less the earlier pattern expect that the quantum of investment in government securities etc., has been reduced significantly. The LIC and the general insurance companies have now some what greater freedom and higher flexibility to make their investment, of course, within certain parameters. The pattern that was prescribed with effect from 2001 is as follows:

[1] M.Y. Khan, Indian Financial System, Tata McGraw Hill Publishing Company Ltd, New Delhi, 2000, p.102

S.NO	Type of Investments	Percentage of controlled funds
01	Government Securities	25%
02	Government and other approved securities including (01) above	Not less than 50%
03	Approved Investments a) Infrastructure and social sector b) Others governed by exposure/prudential norms	 Not less than 15% Not exceeding 35%

COMPOSITION OF INVESTMENT AS PER IRDA GUIDELINES

It has been the constant Endeavour of the corporation to provide security to as many people as possible and to channelise the saving mobilized for the welfare of the people at large.[1]

Life insurance field is a long duration contract which generates investable surplus which is invested keeping in vies the safety and security of the funds spread over different categories, industry and regions so as to serve larger economic and social interests while optimizing yield. One of the objectives of nationalization of life insurance industry was channelizing of its funds for the benefit of the community at large.

A major portion of funds of the LIC is invested in schemes which provide the people of the country with amenities like drinking water, sewerage, electricity and shelter. 'People's money for people's welfare' is the guiding motto behind LIC's investment activities.[2]

LIC is one of the largest investors in government securities, infrastructure and social sector.

[1] LIC annual Report 2005-06 P.08

[2] sandhya Rani Mahaptra & Sovan Kumar Pathak (2007) "LIC for social sector develompment", sonali Publication New Delhi P. 84

Every insurer carrying on the business of life insurance shall invest and at all times keep invested its controlled fund in the following manner.

Table 6.3

Investment Pattern by IRDA

S.NO	Type of Investments	Percentage of controlled funds
01	Government Securities and other approved securities.	Not less than 50%
02	Invested in Infrastructure and social sector Investments.	Not less than 15%
03	Others to be governed by exposure prudential norms.	Not exceeding 35%

Source: LIC Profile 2006-07.

The analysis has been done in order to see the investment pattern of LIC as per IRDA regulations. The percentage of amount of investments in each category has been calculated for the study period. Table 6.4 depicts the composition of investments of LIC for the period 2000-01-2009-10

Table 6.4

Composition of Investment as per IRDA Guidelines (percentage)

Year	Government Securities and other approved securities	Invested in Infrastructure and social sector Investments	Others to be governed by exposure prudential norms
2000-01	67.35	12.91	19.74
2001-02	66.44	13.79	19.77
2002-03	71.05	12.05	16.90
2003-04	62.28	12.53	25.19
2004-05	65.72	17.41	16.88
2005-06	68.65	17.44	16.44
2006-07	66.38	17.96	15.66
2007-08	63.52	17.47	19.00
2008-09	60.11	19.01	20.88
2009-10	55.45	22.80	21.74

Source: LIC Profiles

Table 6.4 reveals the investment pattern of controlled funds of LIC. As per regulations approved by IRDA, there must be minimum 50% investment in government securities or other approved securities. It is clear from Table 6.4 that from 2000-01 to 2009-10, there has been more than 50% investment of the corporation in this category. The figures of various years show an increasing trend of investment during the entire period of study except for a decline in the year 2003-04 and from 2006-07 to 2009-10.

During the study period the percentage share of investment in government securities or other approved securities lies between 55% and 72%. The highest percentage share of investment has been observed 71.05% in 2002-03 and the lowest percentage share of investment has been observed 55.45% in 2009-10.

In 2000-01 the percentage share of investment in government securities or other approved securities was 67.35% which decreased to 66.44% and slightly increased to 71.05 in 2002-03 and decreased to 62.28% 2003-04 and again it show upward movement from 64.47% in 2004-05 and 68.65% in 2005-06. Then a slight decline came from the year 2006-07 when percentage share down to 66.38%, 63.52% in 2007-08, 60.11% in 2008-09 and 55.45% in 2009-10 respectively.

The percentage share of investment in government securities or other approved securities was near about 64 to 70 percent during the study period. During the study period of ten years it has been observed that for five years the percentage share of investment in government securities or other approved securities was below the percentage share of investment and for five years the percentage share of investment in government securities or other approved securities was above the average percentage share of investment.

CONTRIBUTION TO THE SOCIAL AND INFRASTRUCTURE SECTORS

As per IRDA guidelines the investment in infrastructure and social sector should not less than 15% of total investment. Looking at the figures of this category, the LIC has failed in the beginning on this front. For the entire study period except from 2000-01 to 2003-04 the percentage share of investment in this category did not satisfied the investment norms given by IRDA.

With hindsight, it may be possible and tempting to find fault with all the earlier policies including investment. However, it cannot be forgotten that at an earlier point of time, the policies had relevance. As far as the investment policy is concerned, it does well to remember that despite all the attendant problems with it, it did make a powerful and favourable impact on the economy in terms of infrastructure development. One could even venture to say that had it not been for diversion of such large funds, infrastructure in India would have remained much weaker. Given the constraints on charging economically viable rates for the services provided to many of these areas did not hold much attraction for private investors. An important source, therefore to ensure adequate flow of funds to this sector was through insurance.

During the study period the percentage share of investment in infrastructure and social sector lies between 12% and 23%. The highest percentage share of investment has been observed 22.80% in 2009-10 and the lowest percentage share of investment has been observed 12.05% in 2002-03.

In 2000-01 the percentage share of investment in infrastructure and social sector was 12.91% which increased to 13.79% in 2001-02, and then decreased to 12.05% in 2002-03 and again it gradually increased to 12.53%, 17.41%, 17.44% and 17.96% in 2003-04, 2004-05, 2005-06, and 2006-07 respectively. Then it slightly decreased to 17.47% in 2007-08 and lastly it increased to 19.01% in 2008-09 and 22.80% in 2009-10.

The average percentage share of investment in infrastructure and social sector was 16.34% during the study period. During the study period of ten years it has been observed that for four years the percentage share of investment in infrastructure and social sector was below the average percentage share of investment and for six years the percentage share of investment in infrastructure and social sector was above the average percentage share of investment.

Apart from helping in the creation of infrastructure, insurance companies' participation in term lending with other financial institutions also helped in contributing to the industrial growth of the country.

OTHERS TO BE GOVERNED BY EXPOSURE PRUDENTIAL NORMS

As per IRDA guidelines the investments governed by exposure/ prudential norms should not exceed than 35% of the total investments. Looking at the figures of this category, it is concluded that LIC has satisfied the investment norms in maximum years of study period.

During the study period the percentage shares of investment governed by exposure/prudential norm lies between 15% and 26%. The highest percentage share of investment has been observed 25.19% in 2003-04 and the lowest percentage share of investment has been observed 15.66% in 2006-07.

In 2000-01 the percentage share of investment governed by exposure/prudential norms was 19.74% which increased to 19.77% in 2001-02 and decreased to 16.90% in 2002-03 and again it increased to 25.19% in 2003-04 and again it dropped to 16.88%, 16.44% and 15.66% in 2004-05, 2005-06 and 2006-07 respectively. Then it increased to 19.00% in 2007-08, 20.88% in 2008-09 and 21.74% in 2009-10.

The average percentage share of investment governed by exposure/ prudential norms was 19.22% during the study period. During the study period of ten years it has been observed that for five years the percentage share of investment governed by exposure/prudential norms was below the average percentage share of investment and for five years the percentage share of investment governed by exposure/prudential norms was above the average percentage share of investment.

The extent to which the LIC has contributed to the creation of infrastructure in the country is evident from the following figures. The sector-wise break-up of the LIC's investments was as follow:

Over the years LIC has helped to spread up the tempo of economic development of our country by making investment in public, private and co-operative sector. In fact the huge fund at the disposal of LIC has proved to be that drop of useful oil, which greases and smoothen to the wheels of economic development of our country. The contribution of LIC to the different sectors of the economy can be seen from the Table.

The analysis has been done in order to see the sector wise distribution of investment in each sector and the growth in investment in each sector has been calculated for the study period.

Table 6.5 depicts the broad distribution of sector wise investment of LIC in India. The book value of investments in India is considered as on 31st march of every year.

Table 6.5

Analysis of Sector Wise Distribution of Investment in India

Year	Private sector (Rs.in crores)	Public sector (Rs.in crores)	Co-operative Sector (Rs.in Crores)	Joint sector	Total Investment (Rs.in Crores)	% growth over base year
2000-01	2168.40	141256.20	22779.50	799.70	167003.80	--
2001-02	2128.60	180574.10	23707.80	792.80	207203.30	24.07%
2002-03	2082.30	219596.70	29406.80	684.50	251770.30	21.51%
2003-04	2079.50	271778.50	51923.60	959.60	326741.20	29.78%
2004-05	1408.20	322021.80	68484.50	1270.20	393184.70	20.33%
2005-06	1356.50	378807.20	105148.10	1915.50	487227.30	23.92%
2006-07	3555.10	433810.30	84294.00	75.20	521734.60	7.08%
2007-08	3817.60	503388.40	128467.80	73.70	635747.50	21.85%
2008-09	3628.90	572050.30	187140.80	71.70	762891.70	19.10%
2009-10	3336.50	678374.50	236134.70	70.90	917916.60	20.32%
Total	**55590.10**	**3701658.00**	**937487.60**	**6713.80**	**4671421.00**	

Compiled from the Annual Reports of LIC of India

Table 6.6

Analysis of sector wise distribution of investment in India in percentage

Year	Private sector (Rs.in crores)	Public sector (Rs.in crores)	Co-operative Sector (Rs.in Crores)	Joint sector	Total Investment (Rs.in Crores)
2000-01	1.30%	84.58%	13.64%	0.48%	100%
2001-02	1.02%	87.15%	11.45%	0.38%	100%
2002-03	0.82%	87.22%	11.68%	0.28%	100%
2003-04	0.64%	83.18%	15.89%	0.29%	100%
2004-05	0.36%	81.90%	17.42%	0.32%	100%
2005-06	0.28%	77.75%	21.58%	0.39%	100%
2006-07	0.69%	83.15%	16.15%	0.01%	100%
2007-08	0.60%	79.18%	20.21%	0.01%	100%
2008-09	0.48%	74.98%	24.53%	0.009%	100%
2009-10	0.36%	73.90%	25.73%	0.008%	100%

Table 6.5 show the sector wise investment of LIC in India. The book value of the investments of the corporation was Rs.167003.80crores in 2000-01 which increased to Rs.917916.60crores in 2009-10. Thus the figure show the tremendous growth in the investment and it has been raised by more than five times during the study period.

During the study period the percentage growth over the previous year lies between 8.00% and 30%. The highest growth rate has been observed 29.78% in the year 2003-04. The lowest growth rate has been observed 07.08% in the year 2006-07.

In 2000-2001 the total investment of LIC was Rs.167003.80crores which increased to Rs.207203.30crores in 2001-02 with 24.07% growth, Rs.251770.30crores in 2002-03 with 21.51%, Rs.326741.20crores in 2003-04 with 29.78%, Rs.393184.70crores in 2004-05 with 20.33%, Rs.487227.30 crores in 2005-06 with 23.92%, Rs.521734.60crores in 2006-07 with 07.08%, Rs.635747.50crores in 2007-08 with 21.85%, Rs. 762891.70 in 2008-09 with 20.00% and lastly it increased to Rs.917916.60 crores in 2009-10 with the growth rate of 20.32%.

The annual compound growth rate of total investment was 18.89% which is a welcome trend. During the study period, it has been observed that for one year the growth rate was below the annual compound growth rate and for eight years the growth rate was above the annual compound growth rate.

Now considering the amount of funds invested in four different sectors of the economy. The share of investments in public sector has been greater throughout the study period. Among the four sectors major investment have been made in the public sector by the LIC and then comes the co-operative sector then private sector and the least share in the joint sector.

It is clear from the above table that there has been constant increase in the investments of the corporation in the public sector throughout the study period. The investment in public sector was Rs.141256.20 crores in 2000-01 which increased to Rs.678374.50crores in 2009-10. Thus, the investment in public sector raised by more than 4.5 times during the study period.

During the study period the percentage share of investment in public sector to the total investment lies between 73.90% and 87.22%.The highest percentage share of investment has been observed 87.22% in 2002-03 and the lowest percentage share of investment has been observed 73.90% in 2009-10.

The average percentage share of investment in public sector was 81.30% during the study period. During the study period it has been observed that for four years the percentage share of investment in public sector was below the average percentage share of investment and for six years the percentage share of investment in public sector was above the average percentage share of investment.

The percentage growth over the previous year of the investment in public sector lies between 14% and 28%. The highest growth rate has been observed 27.83% in 2001-02 and the lowest growth rate has been observed 13.64% in 2008-09.

In 2000-01` the total investment in public sector was Rs.141256.20 crores which increased to Rs.180574.10crores in 2001-02 with 27.83% growth, Rs.219596.70crores in 2002-03 with 21.61%, Rs.271778.50crores in 2003-04 with 23.76%, Rs.322021.81crores in 2004-05 with 18.49%, Rs.378807.20crores in 2005-06 with 17.63%, Rs.433810.30crores in 2006-07 with 14.52%, Rs. 503388.40crores in 2007-08 with 16.04%, Rs. 572050.30 crores in 2008-09 with 13.64% and lastly it increased to Rs.678374.50crores in 2009-10 with the growth rate of 18.59%.

The annual compound growth rate of investment in public sector was 19.12% which is a welcome trend. During the study period, it has been observed that for six year the growth rate was below the annual compound growth rate and for three years the growth rate was above the annual compound growth rate.

In case of investments in private sector, it is clear from the table that there has been decrease and slight increase in the investments of the corporation throughout the study period. The investment in private sector was Rs.2168.40crores in 2000-01 which increased to Rs.3336.50 crores in 2009-10. Thus, the investment in private sector risen by more than 1.5 times during the study period.

During the study period the percentage share of investment in private sector to the total investment lies between 0.28% and 1.3%. The highest percentage share of investment has been observed 1.3% in 2000-01 and the lowest percentage share of investment has been observed 0.28% in 2005-06.

The average percentage share of investment in private sector was 0.653% during the study period. During the study period it has been observed that for seven years the percentage share of investment in private sector was below the average percentage share of investment and for three years the percentage share of investment in private sector was above the average percentage share of investment.

The percentage growth over the previous year of the investment in private sector lies between -0.13% and 162%. The highest growth rate has been observed 162.07% in 2006-07 and the lowest growth rate has been observed -0.13% in 2003-04.

In 2000-01 the total investment in private sector was Rs.2168.40crores which decreased to Rs.2128.60crores in 2001-02 with -1.83% downward, Rs.2082.30crores in 2002-03 with -2.17%, Rs.2079.50crores in 2003-04 with -0.13%, Rs.1408.20crores in 2004-05 with -32.28%, Rs.1356.50 crores in 2005-06 with -3.67% and increase of Rs.3555.10crores in 2006-07 with 162.07%over the previous year, Rs.3817.60crores in 2007-08 with 07.38% and lastly it again decreased to Rs.3628.90crores in 2008-09 with the downward rate of -4.94% and Rs. 3336.50 with growth rate of -8.05%.

The annual compound growth rate of investment in private sector was 12.92% which is a normal trend. During the study period, it has been observed that for seven year the growth rate was below the annual compound growth rate and for two years the growth rate was above the annual compound growth rate.

During the study period the percentage share of investment in co-operative sector to the total investment lies between 11.44% and 25.73%. The highest percentage share of investment has been observed 25.73% in 2009-10 and the lowest percentage share of investment has been observed 11.44% in 2001-02.

The average percentage share of investment in co-operative sector was 17.82% during the study period. During the study period it has been observed that for six years the percentage share of investment in co-operative sector was below the average percentage share of investment and for four years the percentage share of investment in co-operative sector was above the average percentage share of investment.

The percentage growth over the previous year of the investment in co-operative sector lies between 4% and 77%. The highest growth rate has been observed 76.57% in 2003-04 and the lowest growth rate has been observed 04.07% in 2001-02.

In 2000-01 the total investment in co-operative sector was Rs.22779.50crores which increased to Rs.23707.80crores in 2001-02 with 4.07% growth, Rs.29406.80crores in 2002-03 with 24.04%, Rs.51923.60 crores in 2003-04 with 76.57%, Rs.68484.50crores in 2004-05 with 31.89%, Rs.105148.10crores in 2005-06 with 53.53%. Then it decreased to Rs.84294.00 crores in 2006-07 with -19.83%. Again it increased to Rs.128467.80 crores in 2007-08 with 52.40%, Rs.187140.80 crores in 2008-09 with 45.67, Rs. 236134.70 in 2009-10 with 26.18%.

The annual compound growth rate of investment in co-operative sector was 32.72%. During the study period, it has been observed that for five year the growth rate was below the annual compound growth rate and for four years the growth rate was above the annual compound growth rate.

In case of investments in joint sector, it is clear from the table that there hasn't been constant increase in the investments of the corporation throughout the study period. It has been seen that sometimes there was a fall registered in the investment also. The investment in joint sector was Rs.799.70crores in 2000-01 which decreased to Rs.792.80crores in 2001-02 and it increased to Rs. 1270.20 in 2005-06.

During the study period the percentage share of investment in joint sector to the total investment lies between 0.008% and 0.48%. The highest percentage share of investment has been observed 0.48% in 2000-01 and the lowest percentage share of investment has been observed 0.008% in 2009-10.

The average percentage share of investment in joint sector was 0.22% during the study period. During the study period it has been observed that for four years the percentage share of investment in joint sector was below the average percentage share of investment and for six years the percentage share of investment in joint sector was above the average percentage share of investment.

The percentage growth over the previous year of the investment in joint sector lies between 0.86% and 50.80%. The highest growth rate has been observed 50.80% in 2005-06 and the lowest down rate has been observed -0.86% in 2001-02.

In 2000-01 the total investment in joint sector was Rs.799.70 crores which decreased to Rs.792.80crores in 2001-02 with -0.86% growth, Rs.684.50crores in 2002-03 with -13.66%. Then it increased to Rs.959.60 crores in 2003-04 with 40.20% over previous year, Rs.1270.20crores in 2004-05 with 32.36%, Rs.1915.50crores in 2005-06 with 50.80%. Again it decreased to Rs.75.20 crores in 2006-07 with -96.07%, Rs.73.70crores in 2007-08 with-1.99%, Rs.71.70crores in 2008-09 with -2.71% Rs. 70.90 Crores in 2009-10 with -1.12%.

The annual compound growth rate of investment in joint sector was 0.76%. During the study period, it has been observed that for six year the growth rate was below the annual compound growth rate and for three years the growth rate was above the annual compound growth rate.

PERIODICAL DISTRIBUTION OF INVESTMENT

The LIC's short-term and long-term investments during 2000-2010 were as follow:

Table No:- 6.7 LIC's short-term and long-term investments

Year Ended 31st March	Govt. Sec.	Other Approved Sect.	Shares (EQ + Pref.)	Mutual Fund	Deb./ Bonds	other Secur.	Subsid-iaries/ Asso/ Jt Ven	Invt. Prop/ Real Estate	Infra & Soc. Sec	Other than Approved	Total
31/03/03	160076.18	2694.22	21875.30	--	10387.21	1642.99	101.84	2465.28	9458.06	12794.04	221495.12
31/03/04	199155.91	2629.36	43070.27	--	15884.34	1408.04	587.88	2468.56	11746.63	15197.88	292148.87
31/03/05	244909.50	2260.77	51537.70	--	13009.99	430.40	753.90	2844.60	12531.26	23300.01	351578.13
31/03/06	288844.40	2081.62	90105.37	--	15141.91	757.72	696.52	2844.77	25393.76	23708.76	449574,83
31/03/07	321140.89	1917.83	91083.58	--	22293.53	773.96	539.35	2846.84	30837.43	36579.93	508013.34
31/03/08	345379.60	16176.66	123900.54	--	33604.79	676.90	1035.57	3663.83	40961.02	34095.60	599494.51
31/03/09	375908.83	22153.60	84329.40	1000.36	48736.91	646.64	844.44	4125.93	37016.78	59704.10	634466.99
31/03/10	437437.64	23921.68	180399.41	--	89710.28	537.36	3089.01	4136.89	55264.17	30503.41	824999.84

Source:- LIC annual Reports schedule 8A

During 2000-01 to 2009-10, the assistance to public limited companies was in the form of debenture/bonds of Rs. 248768.96Crores and equity shares of companies were to tune of Rs. 686301.57Crores.

During 2000-01 to 2009-10, the scope of the socially oriented sector widened to accommodate infrastructure projects pertaining to ports, railways (Build, Operate, Lease and Transfer Projects.), roads, highways, and airports, Further, the LIC was also given the liberty of investing in infrastructure projects either in the private or in the public sector. Investment under this category was Rs. 25396.70Crores.

During 2000-01, the LIC invested Rs. 2372852.95Crores by way of Central, State and other government guaranteed marketable securities, and loans to various socially oriented schemes. These investments help to improve the quality of life of the people at large through improvement of basis amenities like portable water, drainage, housing, electrification and transport.

Apart from substantially supporting facilities for electricity generation, and other infrastructure facilities, and exercising some influence on the capital market, a large amount of money has also been utilized for the creation of housing, especially in the urban areas for the lower and middle income groups. The LIC was, therefore, expected to be involved in the construction of flats in such areas for letting them out to those who were in acute need. Earlier, the LIC had mainly advanced such loans to the local governments, but subsequently it decided to invest directly in the same. The Finance Minister (C.D. Deshmukh) had then expressed that the government would not mind even if this meant a little lesser allotment to the government and the industrial sector. By 1961, this investment amounted to as much as 12.7 percent of the net additional investments.

The LIC no longer advances loans for individual house construction- this activity now rests with LIC Housing Finance Ltd. The total investment in housing during 2000-01 to 2009-10 was around Rs. 63695.34crores.

Thus, the insurance industry in India did contribute substantially to the creation and augmentation of infrastructure and funding of socially oriented programmes.

SOME ISSUES RELATING TO INVESTMENT REGULATIONS

In August 2000, the IRDA came out with regulations for the investment of insurance funds. These were revised subsequently from time to time. These regulations apply equally to all the entities and the private firms are also obliged to invest their funds in the social and physical infrastructure. There could be some reservation in the minds of the shareholders of the private companies on this account because to that extent, there will be limitations on the profitability of the companies. It is inevitable to ensure a level playing field that the same set of rules should to apply to both for private and public entities alike. For the same reason, government companies alone should not be burdened with social and other similar obligations if the private entities are not going to be under an obligation to do the same.

While there cannot be any quarrel with the IRDA regulations, the practical problems posed cannot be overlooked. For example, they mandate an investment of not less than 15% of the controlled fund in the infrastructure and rural/social sectors. Considering the size of the Life Fund of the LIC, this means an investment of around Rs.300 crore. The difficulty is that in the current recessionary situation in the country, enough avenues for such investment are not available even if the LIC is willing to invest. They can, at best, find worthwhile projects which will absorb barely Rs. 40 to 50 Crores.

The IRDA requires a balance to be struck between infrastructure and social sectors. Its implication is that for social structure alone, the investment will have to be of the order of Rs. 10 crores or there about.

Many infrastructure projects with foreign collaboration are implemented through private limited companies. But the law restricts investment in private limited companies, which means investments in such infrastructure would not qualify for being includes in the statutory category and hence there may be a hesitation on the part of the insurance companies to consider such investments. In other words, a part of the investible funds cannot flow to infrastructure projects even when projects are available.

As far as the social sector is concerned also, there is a practical problem in meeting the legal requirements. The beneficiaries under this category are mostly individuals to whom, obviously, the insurance companies cannot lend. In these circumstances, the companies would find it extremely difficult to comply with the requirements even when they are keen, and hence would get branded as defaulters on this count.

The IRDA will have to give serious thought to this ground reality and find a practicable solution. One way out would be for the regulator to allow insurance companies to lend to rural organizations by way of refinancing and that should be accepted as an investment in the social sector.

A restrictive policy severely constrained the utilization of funds of the LIC and the four general insurance companies, who had to forego an opportunity of investing them in better paying financial instruments and were compelled to put them in the low-paying government securities which affected their profitability. The complaint was that such directed investment of funds, mostly at below market rates of interest, was excessive and yet the companies were held responsible for not being able to generate a large enough surplus through investment operations. Excessive regulation is costly and in the long run, the consumer bears the cost of regulation.

Of course, the assumption here is that the companies themselves are very keen to exercise much discretion in this regard. At least in the case of nationalized units, this is not fully substantiated, as can be inferred from the fact that they preferred to invest even the funds that were free for their discretion, mostly in government securities only. Though low-paying, that was the safest strategy for them since no accusing finger could be pointed at them. As long-term players, they hold the securities to maturity and do not need to provide for market fluctuations. In that sense, not much of a judgment about the desirability of investing in that instrument is involved.

It is contended that if overseas investment by Indian insurance and pension companies/funds were to be allowed, that could provide the benefit of market diversification. Currently, this choice does not exist and the policyholders/pensioners have perhaps lost out as a result. There are strong pros and cons of this argument and an unequivocal verdict is not possible. On the one hand, it is possible to contend that Indian policyholders/investors were deprived of a share in the growth of the western equity market. It could also be averred that there is a downside risk as well, because with greater global integration, risks in one country could easily be passed on to another.

In a sense, regulation of investments makes both the regulator and the investment manager responsible for the proper management of the investment portfolio. For this, the regulator has to work closely with the industry. The point is whether both would be able to act in concert with each other.

GOVERNMENT RELUCTANT TO GIVE UP CONTROL

The major beneficiary in the mandated regime was the government, which had an assured access to low-cost funds for its use. Through the insurers, the government was able to garner and deploy substantial amounts of funds for infrastructure development. Obviously it is most reluctant to give up its control on this dependable source. The demand for funds for this purpose is ever increasing and in the present financial problems faced by most developing countries, its importance in the financial services sector cannot be overlooked. In fact, it is not just in the developing world, but even in advanced nations that a large proportion of funds for infrastructure development is drawn from the insurance sector. Therefore, mobilization and proper utilization of such resources have to be encouraged and yet strictly monitored by the government.

However, the government, which expected the other sectors of the economy to adjust to the changed circumstances, in turn, had also to accept the consequences thereof on its own finances. As a result, recently the element of discretion with the insurers has been enlarged to the extent possible. It is hoped that in future times to come, there could be further relaxations.

ALTERNATIVE INVESTMENT CHANNELS AVAILABLE

The private sector all over the world has devised newer and newer instruments to mobilize savings. But the public sector institutions in countries like India have to work with several constraints and are forced to continue to use the same old instruments which will prove to be a big handicap for them. There is, therefore, currently a search for alternative arrangements if possible. Under pressure of the growing availability of other attractive savings programmes, the LIC has created three subsidiaries, LIC Mutual Fund, LIC Housing Finance Ltd., and Jeevan Bima Sahayog Asset Management Co. (JBSAMC) Ltd, as other instruments to mop up savings and thereby to generate additional investment funds.

Investment management assumes all the more importance because in modern times, there is a considerable overlap in the functions of various financial institutions and the trend is towards offering a variety of service through one window or under one roof. The general levels of income have improved and newer, faster and more sophisticated communication technologies have spread the knowledge of various alternatives available to meet the customer's specific requirements. Insurance have to respond by devising new products that would satisfy his needs for safety of funds combined with high growth prospects.

A study was conducted of the existing policyholders of the LIC to ascertain their response to the investment in LIC's products and other savings instruments available in the market in 1996. Their motivation for purchasing life insurance policies was also ascertained. It revealed that as many as 40 percent of the respondents purchased the products by way of compulsory savings, while 26 percent did it for old-age pension. Those purchasing it for death risk constituted 18 percent.

PROBLEM & SUGGESTION

The problems of investment in various field and the need to keep continues check there on are becoming a complex operation of great magnitude.

It is suggested that the corporation should actively examine its investment portfolio from time to time and make such as may be necessary.

CHAPTER-VII

CLAIM SETTLEMENT IN LIFE INSURANCE-INSURER'S APPROACH AND PERSPECTIVES

CHAPTER -VII
CLAIM SETTLEMENT IN LIFE INSURANCE-INSURER'S APPROACH AND PERSPECTIVES

Claims Activity is popularly perceived to be the 'end of the spectrum' activity in the insurance process. It is considered to be the logical end of the insurance life cycle which comprises of Prospecting, Assessment, Premium Payments, Policy Delivery, Policy Servicing and finally Claims.

LIFE INSURANCE - PURPOSE OF CLAIMS ACTIVITY[1]

Claim settlement activity is the only activity which finally delivers to the unfortunate few who need solace and succor from the pool. All other activities in an insurance company are usually sources of inward remittances for insurance companies. The purpose of claims activity is to quickly put the unfortunate members of the group or their dependents, who have encountered the insured contingent event, back on rails, so that further economic activity can take place, and serve mankind by creation of wealth.

In life insurance the purpose is served by fairly assessing the economic value of man to his family, trade or occupation. At the first level the person who buys insurance gets the comfort that his family will indeed be taken care of in the event of his death. He is thus enabled to participate in economic activity without worries. Admittedly productivity without worries would be much higher.

Thereafter, at the subsequent level, when a claim is paid to the family, this puts the family out of economic distress and on to normal human productive activity. These family members in turn, become wealth generators for the economy.

CRITICAL ASPECTS IN CLAIMS HANDLING

The business of insurance revolves around distribution of risk. A pool of funds of/from the customers is created, the objective being to allow a payback to the customer in his hour of need. This outage from the pool needs to be monitored stringently and ensure that it goes to the right people.

---

[1] Shiva Belavadi-Empathizing with the claimant - A Perspective on life Insurance claims, IRDA Journal, May 2006, P. 09-11

(1) **TRUSTEESHIP ELEMENT IN THE CLAIMS FUNCTION**

It therefore goes unsaid, that the persons sanctioning claims have to demonstrate a high degree of integrity and trustworthiness essentially because these persons sit in a position of trustees of the pool, which although unannounced, is one of immense importance and responsibility.

(2) **DOCUMENTATION**

It must be recognized that a document always follows a fact. For instance, death occurs first and the death certificate follows. As much as the focus has to be on proving the legitimacy of the claim, in the current scenario, exhaustive documentation mandated for claims processing is passé. Documentation should be principally intended to establish the fact, cause of the event along with surrounding circumstances. It should not be converted into a ritual which would have a significant effect of slowing down claim payment. Whilst completing documentation we should not lose sight of the fundamental purpose mentioned above.

(3) **INTERPRETATION OF THE CONTRACT**

It is important that the text of the contract has to be interpreted in spirit along with the word. It should not to be used as an offensive weapon against the customer. However, any waiver of the stringent checks and conditions in the contract at the time of a claim to facilitate interpretation of the spirit of the contract in favor of the customer has to be controlled and monitored because of the risk of inconsistency in interpretation and implementation.

(4) **INVESTIGATIONS**

Professional investigation of life insurance claims is at an embryonic stage. The investigators are largely drawn from the pool of investigators who were working for the general insurance industry. The absence of experienced workforce, in the field as well as within the insurers, is impeding the healthy development of this art. Both the assignor and the assignee grapple with relative inexperience and try to piece together a jigsaw. With no clear directives forthcoming, investigators tend to handle investigation of life insurance claims rather tentatively taking a lot of time for submission of reports. There is also a tendency to use investigations as a convenient device to pass on responsibility of ascertaining data, facts or information; and drawing conclusions there from to prevent potential audit queries.

(5) **FRAUD - AN EXCEPTION**

All Insurers are in the business of paying claims to serve the purpose of insurance. Most claims would be from honest contracts and from persons having the first rights on the funds in the insurance pool.

Not withstanding this, it does not imply that all claims would get paid. Only legitimate claims warrant settlement. Legitimacy of a claim is a contentious issue and the objective is to establish this by causing least possible inconvenience to the client. The sanctified legal principle is 'Innocent until proven guilty'. Considering the nascent stage of the private life insurance industry, where most of the target population has practically no knowledge of the industry, it would be extremely unproductive for claim analysts to consider all claimants being 'Fraudulent until proven otherwise'.

PROMPT CLAIM SETTLEMENT - THE SUCCESS MANTRA[1]

When the industry was opened up in 2000, the new players could just talk about the strength of their promoters to win over customers, as there was little product differentiation. However the real credibility and trustworthiness of an insurance company is put to test when a claim actually arises. It is the empathy towards the customer/client and a sound understanding of the terms of cover, which determines the strength of the insurance company.

It would not be an exaggeration to say the customer service begins with claims settlement and need not necessarily begin with the policy issuance. Claims settlement plays an intrinsic role in providing a whole consumer centric insurance solutions. You could to certain extent, cherry pick the business that you want to underwrite in line with your underwriting policies, but not the claims, which has to be paid.

[1]Swaraj Krishnan - Prompt Claim settlement - The Success Mantra, IRDA Journal, May 2006 P. 12-13

NEW PROCESS ADOPTED:–

Over the years, the process of claims settlement has also improved drastically and has witnessed several innovations. Cashless settlement is one of the prominent changes, which has benefited the customers.

Technology also has been used to improvise the process of settling claims. Now customers can register a claim, view the claim status and monitor its progress till its settlement. Claims can be registered on-line and the claimant need not visit the insurer's office. What is more, they can download the relevant forms and even track the status.

For new players the only way to demonstrate their earnestness in prompt settlement of claims is to be as transparent as possible.

A regular evaluation of the performance and benchmarking against the best insurance companies worldwide is a good way of monitoring the process.

An escalation mechanism for any non-settlement of claims is a good practice to ensure transparency and quick action by the operational team.

Due to new process once the loss is assessed and procedures are set, the most crucial aspect is the payment of claims. Here also there have been massive changes, which benefit the customers. Apart from the standard practices of On-Account payments, improvement in technology from the banking side has also made possible of electronic transfer of funds directly to the claimants' designated bank accounts. This has reduced the time lag and all its associated problems.

EFFECTIVE CLAIMS SETTLEMENT PROCEDURE[1]

In India, the IRDA has issued a set of guidelines named "Protection of policyholders' interests". In their attempts to build brand names and establish corporate identities, insurance companies are placing their claim function (nature, speed and efficiency) in the forefront of their promotion activities.

---

[1] Antony Jocob, Effective Claims Settlement procedure - Need of the Hour, IRDA Journal, May 2006 P. 17-18

Since the source of the largest outflow of money within an insurance company is the claims department, claims management is the key to developing operational excellence. The claims team must Endeavour to provide claimants with appropriate indemnity whilst ensuring that any such payments are justified. In short, they should be able to distinguish between valid and invalid claims quickly and fairly.

This requires competent and well-trained staff, efficient administrative support, efficient claims procedures, efficient record keeping and clear claims philosophy.

While all insurance companies would strive to achieve excellence in these areas, I would like to focus on three areas, which pose a major challenge to the claims function.

(1) Catastrophe management

(2) Frauds

(3) Litigation

CATASTROPHE:

A leading international reinsurance company defines catastrophe as 'an occurrence which claims more than 20 lives, injures more than 50 people, makes more than 2000 people homeless or causes insured damage of over $29 million or a total loss of over $457 million'. By this definition, insurance companies were affected by an equivalent of 20 catastrophes during the Mumbai floods. Such events lead to a huge number of claims. Since Indian insurers had adequate risk control, risk funding and organizational catastrophe plans, they could manage these claims without difficulty.

FRAUD:

Insurance fraud is almost as old as the history of insurance itself. Fighting fraud has become one of the key obstacles of modern claims management.

Experienced claims personnel identify a large number of fraudulent claims quite efficiently. Frequent change of insurers, uncharacteristic increase in the level of cover, and unclear ownership of goods, are some instances of possible fraudulent behavior. Besides excessive pressure to settle, an inconsistent story, lack of co-operation and even perfect documentation make it possible for claims personnel to detect fraudulent cases.

It has always been very difficult to prove fraud in civil litigation. The high burden of proof frequently leads insurers to resort to technical pleas of non-disclosure, misrepresentation and breach of good faith rather than attempting to prove fraud itself.

LITIGATION:

Though the intention of the insurer is to settle claims where they can, and repudiate only where they must, there will be occasions when a claimant may take recourse to litigation or alternative methods of dispute resolution like a consumer court or ombudsman.

In order to reduce such litigation, insurers should sensitize those dealing with claims to have regard for the feelings of claimants - an hour spent in the beginning explaining why no valid claim exists may save many months of fruitless correspondence ending in a reference to the Ombudsman. Correspondence with claimants should use words and ideas familiar to him and jargon is best avoided. It should be kept in mind that people always read the promises in the insurers' advertisements but they rarely read them in the policies.

CLAIMS SETTLEMENT IN LIFE INSURANCE[1]

Life insurance is an emotional business Unlike in general insurance, there are sentiments involved since it is the question of a human being - whether he / she has a critical illness or a severe disability or he / she is dead [in such a case for the family members]. If we, as insurers, delay a claim, then

[1] Ganesh Iyer - Claims Settlement in Life Insurance - Need for personal touch, IRDA Journal, May 2006 P. 24-25

the family is unnerved and frustrated because a person is suffering and the insurer has not kept up his commitment. If we pay, then there is a feeling of gratitude, which can be personally seen in many eyes when they receive a cheque. If we reject, then the family members [in case of death / disability] feel low and dejected because there is a sense of being cheated [though from an insurer's point of view, we may be technically and legally correct]. In case of an illness, the client feels that the purpose of his / her insurance is lost because the insurer has not paid his/her claim when required most. It cannot be expected of the client to step into the shoes of the insurer to see the correctness or fairness of the settlement. So either way [whether we pay or reject or keep it pending], there is always a very emotional outcome.

PRIMARY ROLE OF AN INSURER:

The primary role of an insurance company is to settle claims as that is the value add we provide to our clients. However, this does not mean paying all claims promptly but rather to pay the genuine claims and reject the non genuine claims. Thus the most important aspect to be understood here is the word 'settle'. "Settling a claim" does not necessarily mean paying a claim. A claim can and should be rejected if it is not legally payable. If an insurer pays all claims irrespective of the eligibility criteria, then either it will not remain in business or have to increase the rates for other policyholders. Thus by paying improper claims, the pool of genuine policyholders is disadvantaged.

Claim settlement is not a straight forward process. The basic premise is to pay all "right" claims and reject all "wrong" claims. But that is easier in said than done. Deciding on what is right or what is wrong is not an easy task.

PROBLEMS IN CLAIMS:

(1) The most problematic aspect, in majority of the cases, is that the client doesn't know what he has purchased and what the benefits are. Very few people read the actual policy contract and understand its requirements and implications, be it a literate class or otherwise.

(2) If problems in claims settlement were to be given a rating, then probably casual approach in proposal form filling would be rated at 99%. A life insurance proposal form is filled in like a credit card application, where just the basic address etc. is given and then signed off without even pondering over the other fields in the larger proposal form. The basic fact that a proposal form is the offer for a contract is forgotten.

(3) Apart from ignorance, many times the client does not want to disclose the facts and problems. Hence he purposely does not disclose information in the proposal form.

(4) Not to mention about fraudulent intentions.

Rural Area Problems are remarkable. As we know India consists large part of more than 5 lakh villages with rural areas. Hence, invariably some proportion of the insured clients belongs to this rural population. However, doing business in the rural areas is not a smooth road, whether it is New Business or claims.

Claims investigations become costly, time consuming and difficult affairs. Getting evidence in the rural areas is very difficult. Issuance of death certificates by the local panchayats and the doctors is more from a human angle than from the factual angle, due to proximity of relations. Sometimes there are no authentication checks involved in the issuance of such certificates. In some cases, there are delays in notification of claims to the insurer, sometimes beyond more than six months after the event, by which time the trail is very cold.

NON-DISCLOSURE OF EXISTING INSURANCE COVER/MULTIPLE INSURANCE POLICIES:

We have seen claims where the policyholder has taken a number of policies from different insurers. There is a high risk and a big financial underwriting issue with people taking insurance covers from various insurers without disclosing the facts of the existing covers. The industry is now recognizing this and is sharing claims information. In such cases, the person is more valuable dead than when alive.

QUALITY OF MEDICAL RECORDS:

The biggest problem in India is that we do not have a proper medical records system. Hence, getting any medical history is very difficult. To prove non-disclosure of existing ailments, we have to rely on the client only to give his / her medical records.

JUDICIAL SYSTEM:

The policyholders or their nominees (in the event of death of the life assured) are insulated well by our judicial system. However, the judicial system, sometimes in its attempt to protect the clients, poses some hurdles for the insurers. At whatever forum mentioned above, the insurance companies have to have very strong cases as the tendency is to support the member of the public who has suffered bereavement.

The ombudsmen scheme is a very good one in principle and is also a very low cost option to the clients. It is also a fast track forum. Despite all this, it does create, at times, some problems for the insurers. Ombudsmen sometimes while deciding a case, go beyond the legal definitions and established court rulings.

CONTROL SYSTEM:

In order to have proper documentation and control, it is advisable to keep records of all inward and outward communication. Wherever necessary, use Regd. AD system only and keep acknowledgments handy.

PERSONAL SERVICES:

Be courteous in your communications, written or verbal. Feel for the client and the family. Be a part of the grief. Try to hand over the claim cheques and letters personally [somebody from the company] to the family. This adds value to your claims processing and gives it a personal touch.

While venturing to write on the importance of claims settlement in life insurance, it is apt to recall to memory what the first Prime Minister of the country Jawaharlal Nehru said on the eve of nationalization of life insurance business in India.

"The nationalization of Life Insurance is an important step in our march towards a socialist society. Its objective will be to serve the individual as well as the state.... We require life insurance to spread rapidly all over the country and to bring a measure of security to our people."

Man's economic problems have existed through the ages but today they are more complicated and more difficult to solve than ever before. As a result, life insurance now occupies the foremost place in the economic life of human being. It has, in reality, become a prime necessity, because it provides food, clothing and shelter for the family if the breadwinner dies too soon; and for the breadwinner himself and the family if he lives too long.

CLAIMS SETTLEMENT BY THE LIC

Ensuring fair and quick claims settlement is considered as one of the objectives of the insurers business mission.

In case of settlement of claims, the corporation settles a large number of claims every year. The settled claim includes the written back claims also. Table 7.1 show the claim settlement in terms of number of policies and amount by LIC for the study period from 2000-2001 to 2009-10.

Table: 7.1

Claim Settlement – Number of Policies & Sum Assured

Year	No.of policies (In lac)	% growth over previous year	Sum Assured (Rs. in crore)	% growth over previous year
2000-01	75.86	—	11637.98	—
2001-02	87.67	15.58	14519.25	24.76
2002-03	96.91	10.54	17035.81	17.33
2003-04	103.53	6.83	19607.2	15.09
2004-05	115.05	11.13	23642.54	20.58
2005-06	120.85	5.04	28472.98	20.43
2006-07	135.31	11.97	36485.91	28.14
2007-08	140.95	4.17	37011.47	1.44
2008-09	153.60	8.97	40085.12	8.30
2009-10	215.67	40.41	53535.82	33.56
ACGR		**11.01**		**16.49**

Compiled from the Annual Reports of LIC of India

Table 7.1 reveals that total claims settled in terms of number of policies and amount increased every year during the study period. In case of number of policies, it was 75.86lacs policies settled in 2000-2001, 87.67 lacs, 96.91 lacs, 103.53 lacs, 115.05lacs, 120.85 lacs, 135.31, 140.95 lacs, 153.60 lacs, 215.67 in next year's up to 2009-10. During the study period the highest growth rate was observed 40.41% in 2009-10and the lowest growth rate was observed 4.17% in 2007-2008. The annual compound growth rate during the study period from 2000-2001to 2009-10 was 11.01%. During the study period of ten years, it has been observed that for five years the growth rate of claim settled in terms of number of policies was below the annual compound growth rate and for four years it was above the annual compound growth rate.

In case of amount settled, it was Rs. 11637.98crore in 2000-2001, Rs. 14519.25 crore, Rs. 17035.81 crore, Rs. 19607.20 crore, Rs. 23642.54crores, Rs. 28472.98 crore, Rs. 36485.91 crore, Rs. 37011.47crores, Rs. 40085.12, Rs. 53535.82 crore in next year's upto 2009-10. This reflex 5 fold increase during the period of study. The growth rate was 24.76% in 2001-2002, 20.43% in 2005-2006 and 33.56% in 2009-10. During the study period the highest growth rate was observed 33.56% in 2009-10 and the lowest growth rate was observed 1.44% in 2007-2008. The annual compound growth rate during the study period from 2000-2001 to 2009-10 was 16.49%. During the study period of ten years, it has been observed that for three years the growth rate of claim settled in terms of amount was below the annual compound growth rate and for six years it was above the annual compound growth rate.

ENSURING FAIR CLAIMS MANAGEMENT

The office may have the following objectives in the matter of settlement of claims.

(1). All maturity claims under 'In-force' policies be settled within one month of the date of maturity.

(2). Maturity claims under 'Paid-up' policies be settled within three months.

Table 7.1 reveals that total claims settled in terms of number of policies and amount increased every year during the study period. In case of number of policies, it was 75.86lacs policies settled in 2000-2001, 87.67 lacs, 96.91 lacs, 103.53 lacs, 115.05lacs, 120.85 lacs, 135.31, 140.95 lacs, 153.60 lacs, 215.67 in next year's up to 2009-10. During the study period the highest growth rate was observed 40.41% in 2009-10and the lowest growth rate was observed 4.17% in 2007-2008. The annual compound growth rate during the study period from 2000-2001to 2009-10 was 11.01%. During the study period of ten years, it has been observed that for five years the growth rate of claim settled in terms of number of policies was below the annual compound growth rate and for four years it was above the annual compound growth rate.

In case of amount settled, it was Rs. 11637.98crore in 2000-2001, Rs. 14519.25 crore, Rs. 17035.81 crore, Rs. 19607.20 crore, Rs. 23642.54crores, Rs. 28472.98 crore, Rs. 36485.91 crore, Rs. 37011.47crores, Rs. 40085.12, Rs. 53535.82 crore in next year's upto 2009-10. This reflex 5 fold increase during the period of study. The growth rate was 24.76% in 2001-2002, 20.43% in 2005-2006 and 33.56% in 2009-10. During the study period the highest growth rate was observed 33.56% in 2009-10 and the lowest growth rate was observed 1.44% in 2007-2008. The annual compound growth rate during the study period from 2000-2001 to 2009-10 was 16.49%. During the study period of ten years, it has been observed that for three years the growth rate of claim settled in terms of amount was below the annual compound growth rate and for six years it was above the annual compound growth rate.

ENSURING FAIR CLAIMS MANAGEMENT

The office may have the following objectives in the matter of settlement of claims.

(1). All maturity claims under 'In-force' policies be settled within one month of the date of maturity.

(2). Maturity claims under 'Paid-up' policies be settled within three months.

(3). Death claims other than early claims involving investigation, be paid within a maximum period of three months.

(4). Early death claims, where investigation is necessary, be settled within six months.

(5). Claims should not remain pending over a year unless legal matters are involved.

The basic policy of settling a claim on time is to give the clients the benefits as early as possible; and to serve the purpose for which they bought insurance. It is redemption of faith which the people have reposed in insurance. The office is very vigilant in this vital aspect of its function. The insurer knows that just as it sold the policy, it is its responsibility to see that the fruits of the same are passed on to the policyholders/beneficiaries. Therein lies the fulfillment of its noble task.

It won't be out of place to quote from the message of **late Prime Minister of India, Mrs. Indira Gandhi** on the eve of LIC's 10th Anniversary:

"Life insurance is an ideal form of saving, both from the direct interest of individual and from the interest of the nation .... LIC has done notable work in promoting the saving habit.... The objective of the LIC should be this, as well as constantly to improve its own efficiency in serving policyholders and the national goal."

While playing a vital role in various spheres, the insurer is always conscious of its primary responsibility to the policyholders i.e., to render prompt and better service to them. In this regard the insurer continuously reviews its working and streamlines its procedures. Some of the areas which can be considered by the insurers progressively towards attainment of better customer satisfaction are:

- Certain requirements like age proof and legal evidence of title for settlement of claims up to a particular amount be dispensed with.
- Investigation of early claims is waived for small sums assured inappropriate cases.
- A high level Committee/Body be set up to review claim appeals.

The insurer's efforts at quick settlement of claims need to be both sincere and effective. I find it apt to end this article once again with a quotable quote:

"To know is good, to do is better;
but to be, that is perfect."

- The Mother (Aurobindo)

For a fair and equitable administration of claims, both the insurer and the insured have a role to play.

ROLE OF INSURER:

Insurer plays a prominent role in establishing the best operational practices that include, interalia, a prudent claims management policy; ensuring the expertise of the personnel involved in claims operations; monitoring the outsourced activities with reference to this specific activity of operation; and effective communication etc. These issues are discussed in detail hereunder.

(A) A PRUDENT POLICY:

The life insurer is expected to place a prudent claims settlement policy for expeditious settlement of the claim. This policy, inter alia, shall contain the stipulated time lags within which the personnel shall reply to the queries of the claimants; the manner of calling for the requirements; the modus operandi of the conduct of investigation if that claim warrants one; the operational issues involved while dealing with the various types of claims like early death ones, minor cases, claims of annuitants, claims on health policies, riders etc.; this policy will have to be helpful like a guide to the dealing personnel. The macro issues on this policy could include the manner of settlement of ex-gratia claims; manner of conducting the claims investigation; the prerequisites for repudiation of the death claims like prior review, constitution and composition of claims review committees etc. Placing these issues in the claims policy of the life insurer will also indicate the best governance practices adopted by the life insurer.

(B) EXPERTISE OF THE PERSONNEL:

Quite often the personnel, especially the new entrants, working with the claims settlement section do consider that the settlement of death claims is drainage on the sources of the insurer. The insurer should let the personnel know that the settlement of claims is a part of the business of life insurance. The insurer shall appraise its personnel the importance of settlement of claims periodically to inculcate an impression that it is the most promising part of their business. And all personnel at all levels, should service the claimants empathetically. Further the expertise of these personnel will be felt more when the settlement of claims under critical illness riders/hospital cash benefit riders arises. The definition part of the diseases, the exclusions, the accelerated benefits, waiting period and survival period are important areas the personnel should pay attention while settling these living benefits. Convincing the claimants whose policy stands repudiated is a challenging task. If the personnel of this section are not specifically trained on this aspect, there is a danger of the claimants losing faith in the system of life insurance. An unsatisfied customer is a perennial liability to the insurer.

(C) INFORMATION ON THE DOCUMENTS:

The life insurance document which is considered as an evidence of insurance contract has to contain the terms and conditions governing the settlement of a claim, be it a death claim or a maturity claim. Though, generally the life assured's attention is not drawn to this part of the document during the prime of his life, it is expected to cover the comprehensive requirements of an ideal insurance claim. These contents will be quite handy to the claimants at the time of lodging the claim. If the contents of this part of the document are made self explanatory, the level of dependence of claimants on outsiders would be minimized. The same is the requirement of Regulation 8(1) of IRDA (Protection of Policyholders' interests) Regulations, 2002.

(D) COMMUNICATION:

Communication plays a prominent role in the administration of claims especially in the death claims. The communication received by a hapless claimant will be a great source of relief. At every stage of communication, the insurer has to infuse a sense of faith in the mind of the claimant. Even while repudiating the death claim the insurer has to inject a source of faith in the system of ombudsman. It shall be adopted by the life insurers as a prudent practice voluntarily. The insurer should draw the attention of the claimant to the available redressal mechanisms like claims review committees; ombudsman etc. while sending a convincing communication to a claimant whose death claim is repudiated. A death claim communication to the wrong person lands the life assured in an embarrassing situation.

(E) CLAIMS NOTICES THROUGH CALL CENTERS - ISSUES INVOLVED:

It could be that the personnel who are attending to the calls of the customers may not be professionals in the subject of insurance. The life insurer should ensure that the personnel of the call center are aware of the intricacies of claims aspects of the life insurer. While receiving the claims notices helps the insurer for expeditious settlement, it would be better for the insurer to re-confirm particulars of the claimants for these cases (notices received through call centers) before proceeding further.

(F) EARLY CLAIM INVESTIGATIONS:

Issues while outsourcing: Investigations of early claims is another area of concern to the life insurer. It is the responsibility of the life insurer to ensure that the business carried out by him is not exploited by few individuals by exercising adverse selection against him. The consequences of adverse selection exercised by a few individuals would burden the costs of life insurance to the public in general. Also from the point of view of prudent business practices no business ethics will allow its businesses to be exploited. It is the minimum risk management practice of this class of business, to cause an investigation to find out the veracity of the claims received during the early stages of a life policy. However, statute has placed certain restrictions, which are discussed in the succeeding paras, on calling in question the policy of life insurance by the life insurer. The privatization of the insurance sector has thrown open this area of operation as a source of income to some investigating agencies, surveyors and other individuals. Conducting the early claims investigation is a prudent operational practice of the life insurer. However, when it is outsourced, the life insurer is expected to choose the best agencies/individuals with talented track record.

(G) SETTLEMENT OF SOCIAL SECURITY CLAIMS:

Proactive settlement of social security claims is the social responsibility of life insurers. These sections of society, whose insurance awareness is abysmally low, often consider owning a life policy as a bad omen to the family. Lack of proper identity of the claimants, existence of several persons with the same name etc. is some of the issues that are likely to be faced by life insurers. Not being aware of the insurance benefit itself; or failure to have bank accounts are a few constraints that are faced by the claimants of this section of business which is also an area of problem for the insurers while settling these types of claims.

ROLE OF LIFE ASSURED:

Though, the life assured/policyholder has a limited role, apart from making material disclosures while taking the policy and paying the periodical premiums in time, there are certain issues which he too has to take care of, for supplementing the life insurer's efforts.

(1) The life assured should let his beneficiaries know the existence of a life policy on his own life.

(2) Nomination is considered to be one of the easiest ways of settling the liabilities of the life insurers. The life assured shall ensure the nomination of the intended beneficiary to avoid a rival claimant approaching subsequently.

LAWFUL OTHER ISSUES:

Liability of the life insurer: Unlike in other classes of business, a life insurer should carry his liability to pay the claim for a good number of years. In order to achieve that, he is guided by the following provisions of various acts.

(1) **Section 107 of Indian Evident Act, 1872** leaves the burden of proving death of a person known to have been alive within 30 years, on the person who affirms it. Hence, it is the claimant who has to prove the death of life assured under these provisions.

(2) When the question is whether a man is alive or dead; and it is proved that he has not been heard of for seven years by those who would naturally have heard of him if he had been alive, he is presumed to be dead (Section 108 of the same Act). In such cases, the burden of proving that he is alive is shifted to the person who affirms it. Thus, it is the life insurer who has to prove that such person is alive under these provisions.

LIC EASES NORMS FOR CLAIM SETTLEMENT IN UTTARAKHAND[1]

As a special measure for flood victims in Uttarakhand, Life Insurance Corporation of India will waive the normal condition of seven-year waiting period for settlement of claims in case of missing persons.

LIC chairman Thomas Mathew said the company may also relax the norms for death certificate as it may not be easy to obtain one currently. Under existing norms, a death certificate is issued after a gap of seven years in case of missing persons.

A senior LIC officer told TOI that the exact details of the claim settlement process would be finalized with 72 hours and may include victims of the flash floods in Himachal Pradesh as well. Private life insurers were, however, silent on the claim settlement process that they would adopt.

[1] THE TIMES OF INDIA 26 June 2012

"LIC should follow the same norms for settlement of claims as being followed by it during the tsunami or earthquake in Bhuj and Latur in the past," Chidambaram told senior LIC officials. He suggested that LIC could take an indemnity bond from the claimants and the claims may be settled on priority.

"The calamity that has happened in Uttarakhand. LIC has already issued instructions to all its offices in that area to expeditiously settle the claims and attend to the policyholders. We have earlier instances (like in)... tsunami and Bhuj earthquake where we settled claims expeditiously,"

(3) **Section 44 of the Limitation Act, 1963** enables the claimant of a life policy to apply for a claim within three years from the date of death or maturity. However, in case of repudiating a death claim the period of three years will be counted from the date of repudiation of such claims. Though, the provisions place a limit of three years, at times the liability could be carried for more than three years, when a death claim applied is repudiated at the end of say; two or three years, the claimant's time to proceed further would end only after a further period of three years means five to six years from the date of registering the notice of death.

Section 45 of the Insurance Act: This is a protective provision in the Insurance Act that restricts the insurer to arbitrarily repudiate the claims. As per the provisions of this section, the insurer cannot deny the claim after two years from the date of affecting the contract on the ground of suppression of material fact at the time of taking a policy. However, the provisions enable the insurer to deny the claim if it could prove that the insured has suppressed a matter which is material to disclose, it was with the fraudulent intent the matter was not disclosed and the policyholder was aware of such suppressed material matter. As a part of fair claims management policy, the insurers do not just deny a claim on the ground of misstatement if it is not material to under write such a risk.

Let us take a quick glance at some of the provisions of various sections and acts that are relevant to the administration of claims:

As per Section 60 (kb) of civil procedure code the amount payable under an insurance policy on the life of a judgment debtor (a person against whom a judgment has been entered) are exempted from attachment. Thus these provisions provide immunity to both maturity claims and death claims.

(1) **Section 88** of the civil procedure code enables the life insurers to pay to the court the amount of the claims payable, in the event of a dispute for a claim by the rival claimants. This is known as interpleaded suit. These provisions will discharge the liability of the insurer.

(2) **Married Women's property Act, 1874** protects the rights of the beneficiaries of a policy of life insurers from the creditors of the deceased policyholders. The extent of the statute is to safeguard the very interests of the beneficiaries in line with the objective of taking such a policy.

(3) **Section 47 of the Insurance Act** enables the life insurer to pay to the court the proceeds of maturity claims in the event of his inability to settle the claims due to conflicting claims or inadequate proof of title etc. It amounts to a valid discharge of the liability of the life insurer.

(4)**Section 47A** empowers IRDA to adjudicate the dispute between the life assured and the life insurer in case of a dispute of a life policy whose basic sum assured is not more than rupees two thousand, which shall be final and cannot be called in question in any Court. However, in view of the level of sum assured prescribed, there is no relevance of this section.

REGULATOR'S ROLE:

Being the guardian of the interests of the policyholders, the regulator requires the insurers for expeditious and timely settlement of the claims. Insurance Core Principle 25 (ICP-25) prescribed by the International Association of Insurance Supervisors (IAIS) requires the supervisory authority to set the minimum requirements to insurers and intermediaries while dealing with the consumers. This ICP further explains that for a fair treatment of consumers, good claims resolution process is essential. The IRDA (Protection of policy holders' interest) Regulations, 2002 stipulates the time lag for an expeditious settlement of the claim. These regulations also require the life insurers to pay an interest on delayed claims payments.

SURRENDER OF POLICY

The life insurance is surrendered when the policyholder does not want to continue the contract of life insurance and submits the policy rights to the insurer. The insurer pays the non-forfeiture value in this case.

The minimum guaranteed surrender value for traditional plans has been pathetic. The existing guaranteed surrender value is 30% of all the premiums paid minus the first-year premium and is paid only if premiums have been paid for three years. This has been improved to some extent by the guidelines. For traditional plans with premium paying term of less than 10 years, the guaranteed surrender value will accrue after the second year. For premium paying term of 10 years or more, there will be a guaranteed surrender value after three years. This guaranteed surrender value will be 30% of total premiums paid. The surrender value becomes 50% between the fourth and the seventh years. The surrender value after seven years will have to be cleared by the regulator.[1]

Table: 7.2
Surrender of Policy Amount

Year	Surrender of Amount (In Crore)	% growth over previous year
2004-05	3322.74	--
2005-06	3734.35	12.38%
2006-07	15955.31	327.00%
2007-08	18024.59	12.96%
2008-09	9732.36	- 46.00%
2009-10	22408.76	130.25%
ACGR		**21.03**

Compiled from the Annual Reports of LIC of India

[1]Moneylife IRDA guidelines impact commission and surrender value of traditional products August 2013

The methods by which surrender operation is handled can directly affect the sale. Surrender of policy amount is a very important for the present surrender of policy function will decide the future of the corporation. The surrender of policy performance is shown in Table 7.2. The surrender in terms of amount have increased from 3322.74 crore in 2004-05 to 18024.59 in 2007-08 but it decreased to 9732.36 in 2008-09 and finally it increased to 22408.76 in 2009-10. The annual growth rate of surrender of policy in term of amount varied between a low of – 46.00% in 2008-09 and a high of 327.00% in 2006-07.

MEANING OF LAPSATION[1]

Life insurance is a valued property, which will be a live with periodic payment of premia as stipulated in the contract. However, on account of non-payment of premiums on due dates the contracts cease to be in force i.e., the policy lapses and consequently insurance protection. Depending on the number of premiums paid before the policy holder stopped paying them, the policy becomes totally lapsed or becomes a 'paid-up' policy.

Though the term 'lapsation' had not been directly defined in the Insurance Act, 1938 - a study of insurance literature suggests that lapsation can be termed in the following 3 ways.

Pure lapse [the policy is discontinued within 3 years]

Lapse [the policy is discontinued after 3years]

Zero duration lapse [policy is discontinued within the financial year of issue].

CONCEPT OF LAPSATION[2]

A committee which was constituted by Department of Economic Affairs, Insurance Division, Ministry of Finance, and Government of India under the chairmanship of A.V. Ganesan termed lapsation in the following ways:

[1]Principles and Practice of Life Insurance(2008), The Institute of charted Accounted of India, New Delhi, P-207

[2]Principles and Practice of Life Insurance(2008), The Institute of charted Accounted of India, New Delhi, P-208

(1) Lapsation of policy after payment of the first premium only.

(2) Lapsation of policy before it acquires a paid-up value i.e, in respect of LIC, before payment of premiums for the first 3 years from commencement of the policy.

(3) Lapsation of policies within the financial year of issue, i.e. "zero duration lapse".

Perhaps the most disturbing feature of Indian life insurance business is the high proportion of lapses. The traditional indices for measuring lapsation are

(i) Overall net lapse ratio, i.e., percentage of lapse to the mean business in force,

(ii) Percentage of net lapses to new business according to duration.

CONSEQUENCES OF LAPSATION[1]

(a) **Consequences of lapsation to the policyholder**:

Lapse of policies will not be beneficial to any parties to the contract. The insured not only loses Life Insurance Protection, but also a portion of the savings accumulated with considerable effort over a period of time. The loss is disproportionately high because of the concept of the level premium system.

(b) **Consequences of lapsation to the industry**:

Lapsation of insurance policies is also detrimental to the business of the insurer, particularly when the policy is lapsed within one or two years of taking the policy. This is because the insurer incurs heavy expenditure at the time of issue of policy which the insurer assumes to recover in subsequent years' premium.

[1]Principles and Practice of Life Insurance(2008), The Institute of charted Accounted of India, New Delhi, P-209-10

(c) **Consequences of lapsation on intermediaries, society and government** :

The negative effect of lapsation is not only for the main parties of the contract but also the efforts of the intermediaries' right from agents, branch-marketing supervisors, branch managers, assistant branch managers who have toiled to bring in the policyholders to the books of their company become futile.

And the cost of lapsation on society is also high because Lapsation reduces financial security of individuals. The presence of risk with the lapsation of policies results in certain undesirable social and economic effects. A severe burden of risk of lapsation on society is the worry and fear.

Lapsation of life insurance policies increases pressure on the social welfare system in many states. It is a disadvantage in the context of public finance. It is a burden for government to bear the growing financial difficulties of the old age pension systems.

Table: 7.3

Lost premium caused by lapsed policies (individual life insurance business)

Year (1)	Total Premium (2)	First Year Premium (3)*	Regular FYP (4)**	Actual Renewal Premium (5)***	Expected Renewal Premium (6)****	Premium Lost (7)*****	Premium Lost as a % of Premium due (8)
2000-01	34,898	9,707	15,484	25,191	--		
2001-02	50,094	19,857	14,523	30,237	40,675	10,438	25.7%
2002-03	55,748	16,942	13,295	38,806	44,760	5,954	13.3%
2003-04	66,654	19,788	13,352	46,866	52,101	5,235	10%
2004-05	82,855	26,218	15,881	56,637	60,218	3,581	6%
2005-06	105,876	38,786	21,276	67,090	72,518	5,428	7.5%
2006-07	156076	75649	45361	80427	88366	7939	9%
2007-08	201,351	93,713	54,889	107,638	125,788	18,150	14%
2008-09	221,785	87,331	49,371	134,454	162,527	28,073	17%
2009-10	265,447	109894	60714	155553	183825	28272	16%

Source: Data compiled from IRDA Annual Reports

Figures in Rs crore

*** Including single premium**

**** Figure calculated as [6] (present year) - [5] (previous year)**

***** Figure calculated as [2] - [3]**

****** Figure calculated as [4] + [5] (of previous year)**

******* Figure calculated as [6] - [5]**

REVIVAL OF LAPSED POLICIES[1]

The word 'Revival' means 'To bring back to life.' In cash of LIC 'Revival' is required when a policy gets lapsed if the premium is not paid within the grace period (minimum 1 month if mode of payment is Yly/Hly/Qly and 15 days if mode is monthly). If a policy gets lapsed it can be revived any time within 5 years from the date of first unpaid premium. The lapsed policies can be revived under the following 5 different schemes.

ORDINARY REVIVAL:

Under this scheme a policyholder can revive his/her lapsed policy by paying all the balance unpaid premiums (from the date of 1st unpaid premium) in lumpsum with interest @existing rate. 'Declaration OF Good Health (DGH)'in from no. 680 and medical report (if necessary) is required.

SPECIAL REVIVAL:

If the policyholder or L.A. is unable to pay all the premiums in lumpsum his policy can be revived scheme by which the date of commencement will be shifted and he will have to pay only one premium according to age (on the time of revival). DGH and medical report (if necessary) are also required. The following condition are to be satisfied under special Revival scheme;

1. Special Revival can be done only once during the policy term.
2. Special Revival is allowed within 3 year of lapsation.
3. Policy should not have acquired any surrender value.

---

[1]www.licindia.com

INSTALMENT REVIVAL:

In cash of the policyholder is unable to pay all the unpaid premiums in lumpsum and special Revival scheme also doesn't suit him, he can use this scheme to revive his policy. Under this scheme he can revive his policy by paying the following amount immediately:-

1. In the yearly mode of payment, half of the yearly premium
2. In the half-yearly mode of payment, one half yearly premium
3. In quarterly mode of payment, 2 quarterly premium. 4 in monthly mode of payment, 6 monthly premiums.

Rest of unpaid premium is to be paid in installments within two year along with the regular premium DGH and medical report (if necessary) are required according to the policy term.

SURVIVAL BENEFIT-CUM-REVIVAL SCHEME:-

Money-back type policy can be revived by using the survival Benefit (S.B.) whish falls due in it, in cash of the S.B. due amount, the date is earlier then the date revival. If the revival amount is more then the S.B. amount, the remaining amount will be given back to the policyholder. The S.B. amount, requirements for revival and S.B. settlement are to be satisfied.

LOAN-CUM-REVIVAL SCHEME:-

A policy can be revived by taking a policy loan in cash of the policy acquires the surrender value on the revival date. The policyholder can get the loan on the basis of premium paid by him up to the revival date. If there is any shortfall in the revival amount, the policyholder will have to pay it. If the revival amount is less than the lone amount the remaining will be paid back to the policyholder.

REPUDIATION OF CLAIMS

Repudiation of a claim in an insurance contract would mean conveying the decision of denial of liability under the circumstances leading to such recourse by the insurer. The insurer needs to notify the insured of that decision and the intention to rescind the contract, supported by reasons thereof. How, why and when it happens is a breath-taking question.

GENERAL POSITION

The business of life insurance is effecting contracts whereby a person (insurer) agrees, for a consideration (that is payment of a sum of money or a periodical payment, called the premium) to pay to another (insured or his estate) a stated sum on the happening of an event dependent on human life. In essence, right to payment of the sum assured by insurers in certain circumstances is acquired by the assured and in consideration the assured agrees to pay the stipulated premium.

THE PRINCIPLE OF UBERRIMA FIDES

A contract of life assurance is a contract of "uberrima fides," i.e., a contract requiring the utmost good faith, and proceeds on the basis that every material fact concerning the health of the life to be assured and that of his family is disclosed.

PROVISIONS OF SECTION 45 OF THE INSURANCE ACT, 1938

Under this Section, a policy which has been in force for two years cannot be disputed on the ground of incorrect or false statements in the proposal and other documents, unless it is shown to be on a material matter and was fraudulently made. This provision is meant to protect policyholders from suffering for minor inaccuracies on stated facts.

It will, therefore, be seen that in all cases where evidence is available either during the currency of the policy or on the claim arising by death, to show that the life assured had made an untrue statement in the proposal or personal statement, and where two years have not elapsed from the date on which the policy was effected, the insurer would be entitled to repudiate the policy contract, no matter whether the untrue statement was material for the consideration of the risk or not, and whether it was fraudulently made or not. Where, however, two years have elapsed from the date on which the policy was effected, the insurer is required to prove not only materiality of the misstatement but also knowledge and fraud on the part of the proposer.

In dealing with the cases of the first category, i.e., where two years have not elapsed, it may be noted that it is not the policy of the insurer to avoid a policy contract on a mere in accurate statement not material for the consideration of the risk, except in cases where there is a strong suspicion of fraud and where attempts made by the insurer to obtain proper evidence in support thereof have been thwarted by the claimant.

MAJOR TYPES OF FRAUDULENT CLAIMS

Various types of cases would arise and as it would not be possible to deal with all, a few major types, which offices would usually come across in dealing with Early Claims are stated:

- Where the insurer has been induced to issue a policy by misstatement of material facts or fraudulent suppression of true facts about personal or family history, etc. at the time of proposal or before completion of the contract or at the time of revival of a lapsed policy.
- Where the company has been induced to issue a policy by gross understatement of age.
- Where due to similarity in names, or in the case of twins, the deceased person is found to be someone other than the Life Assured under the policy.
- Where the death of the Life Assured has not taken place at all, and attempts are made to recover the policy amount by submitting fictitious claim certificates etc.
- Where the insurer has been induced to issue a policy by impersonation.
- Where a policy has been obtained by way of gambling on insurance, otherwise known as wagering contract.

PRINCIPLE OF WAIVER

Whenever a proposal is declined it is generally the practice of the insurer to keep records of such cases in what is known as Declined Card

Index, in which relevant particulars are maintained. In cases where the claim is repudiated on the ground of non-disclosure of correct information about the declinature etc. of a previous proposal, the claimant may contend in a Court that in view of the existence of the Declined Card Index, the company was not justified in repudiating the claim, because through the medium of its Declined Card Index, it could and should have discovered the true position before accepting the further proposal which resulted in the claim; and that since the company did not do so, it should be deemed to have waived its right to raise that issue when the claim arose.

WAGERING CONTRACT OR GAMBLE IN INSURANCE

Where there is a suspicion that a deceased Assured has not got sufficient means to maintain the policy which resulted into a claim, and if there is an assignment or nomination of the policy in favour of some one, other than a close relative, proper enquiries should be made with a view to finding out what was the real income of the deceased when he proposed for the assurance, and who paid the first and subsequent premiums. If the deceased assured is found to have not been in a position to maintain the policy and if it is found that the assignee or nominee had paid the first and subsequent premiums, it would be a "Wagering Contract" entered into by the assignee or nominee with the view to benefit him and the claim should be repudiated.

HAZARDOUS OCCUPATION

Although after the issue of a policy it is free from all restrictions as to occupation, if, in any Early Claim case, the claim papers show that the deceased's occupation or pursuit at the time of his death was of a hazardous nature while that stated in the proposal was non-hazardous and the cause of death could be attributed to that hazardous occupation or pursuit, proper enquiries should be made of the employers or the authorities concerned, in order to find out since when the deceased had been engaged in the hazardous occupation or pursuit even at the time of his proposal, of which proper evidence is available, the matter may be referred to the Underwriting

Department enquiring of them as to how the disclosure of the true nature of occupation or pursuit would have affected the consideration of the proposal at the inception. If in the opinion of the Underwriting Department, the occupation was such that, had it been disclosed, it would have resulted in the proposal being rejected, deferred or accepted on terms other than those proposed, then the claim needs to be repudiated.

MATERIAL INFORMATION

Material information is a question of fact. A person is said to have suppressed information on a material point when the information suppressed is such that had it been disclosed, it would have resulted in deferring consideration of the proposal or charging an extra premium, or accepting the proposal on terms other than those proposed, or declining the proposal.

CORRELATION BETWEEN THE CAUSE OF DEATH AND A PREVIOUS ILLNESS

It is not necessary, for the purpose of repudiation of a claim, that there should be any correlation between the illness which caused the death and the illness which was not disclosed, even in cases where Section 45 of the Insurance Act, 1938 applies, so long as the illness suffered from was of such a nature that its disclosure would have affected the decision in accepting the proposal as stated above.

CASE STUDY ON CLAIM SETTLEMENT[1]

Madhya Pradesh High Court

Bhagwani Baivs Life Insurance Corporation of ... on 22 February, 1983

Equivalent citations: AIR 1984 MP 126

Author: Faizanuddin

Bench: G Singh, Faizanuddin

JUDGMENT

Faizanuddin, J.

---

[1]Indian Kanoon - http://indiankanoon.org/doc/215969/

1. This is an appeal, at the instance of the plaintiff directed against the Judgment and decree dated 29-7-1978,passed by the Addl. District Judge, Satna, in Civil Suit No. 6-B of 1975, dismissing the plaintiff's suit.

2. It was not disputed that the plaintiff's husband late Moolchand had insured himself with the defendant, Life Insurance Corporation of India (herein after referred to as the 'Corporation') on 28-3-1972 for a sum of Rs.25.000/- against policy No. 28948907 and that he had filled in a proposal form (Ex. D-I) dtd. 27-3-72 and made a personal statement (Ex. D-2) on the same date. After taking the said policy, Moolchand died within a month on 16-4-72. The plaintiff being his widow was nominated in the said policy as a beneficiary. After his death, she made a demand of the amount covered by the said policy but the Divisional Manager of the defendant Corporation, by his letter dated 29-12-1973 (Ex. D-3) refused the payment. It was also not disputed that before the insurance policy in question, late Moolchand had obtained three policies in March 1965, which had all lapsed in March 1970.

3. The plaintiff instituted the suit to enforce her claim for recovery of Rs. 25,000/-which is the amount covered by the said policy on the ground that after the death of her husband, she was entitled for the said amount as the beneficiary of the Policy. It was averred that at the time of filling of the proposal form (Ex.D-J), her deceased husband had disclosed that he had taken three more policies in the year 1965 which had lapsed but this fact was not recorded by the agent and field officer of the Corporation who had filled in the said form. It was also averred that even if the said fact was not disclosed, it was not material so as to entitle the defendant Corporation to repudiate the Policy The plaintiff also claimed interest amounting to Rs.11.000/-w.e.f. 16-4-1972 at the rate of 12% per annum.

4. The Corporation contested the plaintiff's claim by contending that late Moolchand had suppressed the material facts with a view to obtain the insurance policy by fraudulent misrepresentation and if the said facts were known to the Corporation it would not have accepted the proposal. The

defendant Corporation took the pica that the deceased Moolchand had submitted his proposal (Ex. D-J) for insurance on 27-3-1972 and also made a personal statement (Ex. D-2) on 27-3-72 itself wherein he made a declaration that the personal statement and the answers given in proposal form were true in all particulars and no information had been withheld or concealed and that he further agreed that the said statement and declaration shall be the basis of contract of insurance between him and the defendant Corporation and that if any part of the statement was found untrue, the contract of insurance shall become absolutely null and void and money paid by him shall stand forfeited to the Corporation. The defendant contended that it was under the aforesaid conditions that the policy was issued. The defendant Corporation further proceeded to aver that since the assured had died within a month from the date of commencement of policy, it made inquiries to ascertain the bona fides of the plaintiff's claim. The defendant Corporation found that the assured late Moolchand while answering the question No. 8 in the proposal form (Ex. D-I), he did not disclose the material particulars regarding the three prior policies which had all lapsed in March, 1970, which were within his knowledge and thus the reply to question No. 8 was false to his knowledge and, therefore, the policy was rightly repudiated by the Corporation in accordance with Section 45 of the Insurance Act, 1938 (hereinafter referred to as the Act).

5. The Corporation took the stand that the nondisclosure of the aforesaid material fact deprived it of its right to consider and assess the underwritten risk in the proposal as well as the right to have special medical Bhagwani Baivs Life Insurance Corporation Of ... on 22 February, 1983Indian Kanoon - http://indiankanoon.org/doc/215969/ 1examination and tests so as to compare the two medical reports of March 1965 and March 1972, as the assured had declined in health and was suffering from diabetes and heart ailments. The defendant Corporation also took the plea that under the Rules a new proposal cannot be accepted in the previous policies had lapsed within a year from the date of new proposal unless the lapsed policies are revived.

6. The learned trial Court found that the assured deceased Moolchand Manglani had not disclosed to the officials of the Corporation about his three lapsed policies and that this fact was concealed by him but it was not a material fact. However, the trial Court dismissed the suit by holding that though the suppression of the fact of lapsed policies was not of a material fact, yet under Section 45 of the Insurance Act, the Corporation was entitled to repudiate the contract of insurance within two years from the date the policy came into effect, on the basis of misstatement or non discloser of fact in the proposal form (Ex. D-1) and personal statement (Ex. D-2), the same being against the express warranty.

7. The consensus of opinion of the English decisions as well as of various High Courts in India is that a contract of insurance is contract uberrimaefide and there must be utmost good faith on the part of the person securing insurance of his life, who is under an obligation to disclose all material facts which may have bearing on the risk undertaken by the insurer. In view of this settled opinion the points for our determination in this case are (i) whether the policy holder Late Moolchand had deliberately suppressed the fact of his three lapsed policies which he was bound to disclose while making the personal statement, with a view to obtain the fresh insurance policy, by fraudulent misrepresentation, and (ii) whether the concealment of this fact had any bearing on the risk undertaken by the Corporation by insuring his life which if known to the Corporation it would not have accepted the proposal for insurance. As stated earlier the defendant Corporation denied the liability under the policy on the ground of repudiation under Section 45 of the Act, by contending that the assured Late Moolchand was guilty of making a false statement in as much as he did not disclose the three lapsed (sic) in answer to question No. 8 in the proposal form (Ex. D-I) which invalidated the policy. The question No. 8 in terms was as under:

8. At this stage it would be relevant to refer to Section 45 of the Act also the material part of which runs asunder;.---"Section 45 : No Policy of life insurance effected before the commencement of this Act shall after the expiry of two

years from the date of commencement of this Act and no policy of life insurance effected after the coming into force of this Act shall, after the expiry of two years from the date "n which it was effected, be called in question by an insurer on the ground that a statement made in the proposal for insurance or in any other report of a medical officer, or referee, or friend of the insured, or in any other document leading to the issue of the policy, was inaccurate or false, unless the insurer shows that such statement (was on a material matter or suppressed facts which it was material to disclose and that it was fraudulently made) by the policyholder and the policy holder knew at the time of making it that 'the statement was, false (or that it was suppressed facts which it was material to disclose)."

A fair reading of Section 45 of the Act would reveal that all that it contemplates is that a policy can be called in question after expiry of a period of two years from the date on which it was effected on the ground that the false or inaccurate statement made in the proposal for insurance was on a material matter or that the assured suppressed facts which it was material to disclose and that such statement or suppression was fraudulently made which the assured knew at the time of making such a false or inaccurate statement that it was false 'and that it was material to disclose the same. Section 45 however does not specifically contemplate repudiation of a policy of insurance on any of the aforesaid grounds before the expiry of the period of two years from the date on which the policy was affected. It may, however, be contended that the said section indicated by necessary implication that even if a policy is repudiated within two years under Section 45 of the Act still it has to be shown that the fact misrepresented or suppressed was a material fact which affected the other party.

It may also be avoided even on any other grounds which may otherwise be available under the general Law of Contract. See L. I. C. of India v. Manjula (AIR 1975 Orissa 116) and KamlaWanti v. L. I. C. of India (AIR Bhagwani Baivs Life Insurance Corporation Of ... on 22 February, 1983Indian Kanoon - http://indiankanoon.org/doc/215969/ 21981 All 366).

9. Admittedly, in the case before us, the policy came into effect on 28-3-1972 and that' the said policy was repudiated by the defendant Corporation by its letter (Ex. D-3) dated 29-3-1973 within two years. It has been found on appreciation of evidence adduced by the Corporation, that the assured late Moolchand did not disclose in answer to question No. 8 of the proposal that life prior three policies had lapsed and, therefore, the defendant Corporation vehemently urged that the non-disclosure and suppression of this fact in the proposal as well as in the personal statement made by the assured had rendered the contract of insurance void because of the aforementioned misrepresentation on the part of the assured. Learned trial Court recorded a definite finding that the non-disclosure of the above said fact was not a suppression of a material matter-and there was no reason for us to differ with that finding consequently the second part of Section 45 of the Act was not attracted. In these circumstances; in our opinion it would be the general law of contract which would be attracted because in substance the question with which we are now confronted is whether the non-disclosure of the information about lapsed policies by the assured amounted to misrepresentation and whether the said fact had such a bearing on the risk undertaken by the defendant Corporation that it would not have accepted the proposal if the fact of lapsed policies was made known to its officials. Even if Section 45 of the Act is also attracted then also it has to be shown by the Corporation that the fact suppressed was material fact having bearing on the risk.

10. Now reverting back to the general law of contract we may first refer to Section 19 of the Contract Act which deals with voidabitity of agreements without free consent. Section 19 of the Contract Act so far it is relevant in this case reads as under: --"Section 19. When consent to an agreement is caused by coercion, fraud or misrepresentation, the agreement is a contract voidable at the option of the party whose consent was so caused. A party to a contract, whose consent was caused by fraud or misrepresentation, may, if he thinks fit, insist that the contract shall be performed, and that he shall be put in the

position in which he would have been if the representations made had been true.

Exception ....

Explanation -- A fraud or misrepresentation which did not cause the consent to a contract of the party on whom such fraud was practised, or to whom such misrepresentation was made, does not render a contract voidable."

The perusal of explanation attached to Section 19 above clearly goes to show that in order to avoid a contract misrepresentation or fraud must be proved to be the main cause in obtaining the consent of the other party to the contract and if it is not found, the fraud or misrepresentation of fact would not render the contract voidable.

11. Here it may also be relevant to look to the provisions of fraud and misrepresentations under the Contract Act. Section 17 defines fraud and Section 18 defines misrepresentation. A combined reading of Sections 17and 19 of the Contract Act makes it clear that representation is a statement of fact, past or present, distinct from statement of opinion and a fraudulent misrepresentation of fact confers on the represented with a right to avoid the contract. It may be said that a misrepresentation will not be effective to ground the avoidance of a contract unless it was material in the sense that a reasonable man would have been influenced by it in deciding whether to enter into the contract and if it was material in this sense, the represented may have considerable difficulty in satisfying the Court that he was in fact influenced by the misrepresentation. Mere non-disclosure of fact, material or not, does not ordinarily amount to misrepresentation unless it was fraudulent. The insurer cannot repudiate the liability by showing only some inaccuracy or falsity of statement nor can it avoid the policy for an immaterial misrepresentation or even for a material misrepresentation which had no bearing on the risk. Similarly mere non-disclosure of some immaterial facts would not per se give right to rescission. In Bhagwani Baivs Life Insurance Corporation Of ... on 22 February, 1983 Indian Kanoon- http://indiankanoon.org/doc/215969/ 3 Other

words a misrepresentation would not ipso facto to be a ground available to an aggrieved party to avoid the contract unless it was found that the consent of the other party was secured by practicing some deception.

Thus on every misrepresentation or concealment of a fact a contract cannot be avoided merely on trivial and inconsequential misstatement or non-disclosure. In Joel v. Law Union and Crown Insurance Company (1908)2 KB 853 it has been pointed out that to apply strictly the rigid rule of warranties even to the immaterial and inconsequential concealments is to throw the innocent assured at the mercy of the insurer. Further, Lord Fletcher Moulton L.J. strongly disapproved the way in which an insurance policy was effected. To quote in his own words, he observed that "I wish I could adequately warn the public against such practices on the part of insurance offices. I am satisfied that few of those who insure have any idea how completely they leave themselves in the hands of the insurers should the latter wish to dispute the policy when it falls in.

12. The question whether a particular misrepresentation was of such a character from which it could be deduced that it did influence the mind of the other person while obtaining his consent or whether it was of such a nature that his consent could in no manner be said to be influenced by the misrepresentation is a question depending upon the facts of each case. A circumstance of misrepresentation may be material if it would influence the-judgment of a prudent insurer in accepting the proposal for insurance of a policy for life, in fixing the premium or determining whether he will take the risk. The test to determine materiality is whether the fact has any bearing on the risk undertaken by the insurer. In other words without proof of bearing on the insurability of policy cannot be invalidated. If the fact has any hearing in the risk, it is a material fact but in case it is not, it is immaterial. In such a situation the question arises in the instant case whether the defendant Corporation could be said to have been misled by the non-disclosure of the fact of three policies having been lapsed in 1970 and whether it had any bearing on the risk undertaken by the insurer in insuring the life of the assured

late Moolchand. It is difficult to appreciate as to how the fact of three lapsed policies had any bearing on the risk of insurance. No case was cited before us in whom it was held that non-disclosure of lapsed policies had any effect or hearing on the risk. If the assured had not given his correct age or had not disclosed any serious illness with which he was suffering at the time of proposal so as to affect the longevity of the assured or any fact which tends to suggest that the life insured was likely to fall short of the average duration, then it could be said that these factors being material matters and relevant would certainly have influenced the mind and judgment of a prudent insurer in accepting the proposal and, therefore, the insurer could avoid the policy as such facts would have a bearing on the risk undertaken. But it is difficult to accept that the nondisclosure of the lapsed policies had any such bearing on the risk. In our opinion even if the said fact was known it would have in no way influenced the mind of the insurer. Learned counsel for there spondent Corporation could not place before us any facts or circumstances to demonstrate as to how and in what manner the said fact had any bearing or that the insurer would have been influenced while accepting the proposal. The only reason pleaded was that by non-disclosure of lapsed policies the defendant Corporation was deprived of its right to have special medical examination and tests so as to compare the two medical reports of March 1965 and March 1972 as the assured was suffering from diabetes and heart ailment. But it may he noted that the defendant Corporation neither produced any of the medical reports nor the doctors who had examined the assured. This apart, the Corporation gave up this plea of defence during the course of arguments as is clear from paras 18 and 37 of Judgment of the trial Court.

13. Learned counsel for the respondent Corporation produced no Rules before us in support of the contention that a new proposal cannot be accepted if the previous policies had lapsed within a year from the date of new proposal unless the lapsed policies are revived. This contention, therefore, has no force.

14. In supporting the impugned judgment of the trial Court, learned counsel for the respondent Corporation placed his reliance on the decisions in East India Railway Company v. Major Andrew Torton Kirkwood (AIR1922 PC 195), Brahm Dutt v. Life Insurance Corporation (AIR 1966 All 474), L. I. C. of India v. Janaki Ammal (AIR 1968 Mad 324), Mithoolal v. L. I. C. of India (AIR 1962 SC 814) and Rami Bai v. L. I. C. of India (J981 MPLJ 192) : (AIR 1981 MadhPra 69). In the Privy Counsel case the materiality of the untruth was not in issue. In the Allahabad case (Supra) it was found that the declaration given by the assured in the Bhagwani Baivs Life Insurance Corporation Of ... on 22 February, 1983 Indian Kanoon - http://indiankanoon.org/doc/215969/ 4 proposal form in respect of his status and occupation was untrue which had a bearing on the risk undertaken by the insurer while in the case before us we find that the non-discloser has no such hearing. The Madras, Supreme Court and M. P. decisions (supra) were the cases in which the policy was repudiated after two years and the effect of second part of Section 45 of the Act was considered. But in our case the facts are quite distinguishable in which the provisions of second part of Section 45 of the Act are not attracted at all. These decisions are thus not directly applicable to the facts of the present case and, therefore, none of them advance the case of the Corporation.

15. It is true that the assured did not disclose the fact about his lapsed policies which at the most could be said to be a foolish concealment but without any fraudulent intention. In the facts and circumstances of this case we have no hesitation) in holding that the non-disclosure of fact regarding lapsed policies had no bearing on the risk and it did not amount to fraudulent misrepresentation as no undue advantage was sought to be derived by conceal-ment of said fact. Thus, the Corporation had made out no case for avoiding or repudiating the policy, and it is liable for payment of the policy amount with interest. The Corporation by its letter (Ex. D-3) dated 29-12-1973 had refused the demand of the plaintiff for payment of the amount covered by

the policy while it was legally bound to pay the same. We, therefore, direct that the Corporation shall pay interest at the rate of 6% per annum on the amount of policy w.e.f. 29-12-1973 till payment of the policy amount.

16. In the result, the appeal succeeds and is hereby allowed. The plaintiff's suit for recovery of Rs. 25,000/-being the amount of policy on the life of her deceased husband is decreed with cost. The plaintiff shall also been titled to get interest on the said amount at the rate of 6% per annum w.e.f. 29-12-1973 till payment. Counsel's fee as per schedule, if certified.

PROBLEM & SOLUTION

The delay in settlement of claims seems to be unjustified.

It is suggested that all life insurance claims should be settled on or before the maturity date because the settlement of claims therein is relatively simpler and less subject to individual interpretation. There are well laid out procedures and tables which reduce the subjective element in deciding the claim.

CHAPTER-VIII

ANALYSIS OF LOANS GIVEN BY LICI

CHAPTER-VIII
ANALYSIS OF LOANS GIVEN BY LICI

Dreams and Aspirations-we are constantly driven in our pursuit of these. House, consumer durables, visits to exotic locations are some of those dreams we live for and the best way to fulfill them is through easy loans available at today's low interest rates. With small equated monthly installments, the price is not too heavy.

Yet, who can predict the unfortunate twists and turns in life? And in case of unfortunate death of the loanee, the burden of repayment falls on the family. Protector plan is the perfect plan to protect family from the repayment liability of outstanding loans. All these are at a very nominal cost. Now, is there is a better way to provide for family's financial security through LIC loan scheme.

These loans can be subdivided into four classes: (a) Housing Loan (b) Loan on Policies within their surrender values, (c) Housing to LIC employees and (d) Loans Granted by L.I.C on Mortgage Property. Of these four classes, loan on policies within surrender values are the most important and most of the loans granted by Indian life insurers are loans on life policies within their surrender values.

HOUSING LOAN[1]

Genesis

Of late, housing loan has not only become popular, but the procedure for obtaining a loan has become so simplified that housing loans are easily available. This may be attributed to the change in the housing policy of both the Central and State governments. A redeeming feature of Indian housing loan is the recent entry of commercial banks in a big way. In fact, State Bank of India has set up a separate subsidiary for housing loan called 'SBI Home Finance'. Similarly, the Canara Bank has set up a separate housing finance company. HUDCO provides refinance facility to the State Governments and

[1] Dr. S. Gurusamy (2009) "Indian Financial System, Tata McGraw - Hill Education Private Ltd New Delhi P.283

also to financial institutions involved in housing finance & LICI also provide facility in housing finance. World Bank is providing soft loans, repayable in 25 to 40 years, for the purpose of slum clearance. Housing development is an important policy of the World Bank, and provides huge amount of funds in many underdeveloped countries.

HOUSING FINANCE

A set of all financial arrangements that are made available by Housing Finance Companies (HFCs) to meet the requirements of housing is called 'housing finance.

HOUSING FINANCE IN INDIA—MAJOR ISSUES[1]

According to rough estimates, the unfulfilled housing demand in India is currently about 38 million units. The Indian economic planning has, apparently, neglected housing right from the beginning. The seven and eighth five-year plans have focused on housing. The contribution of housing to economic development is generally measured in terms of Gross Fixed Capital Formation (GFCF) in housing, its share in Gross Domestic Product (GDP) and the share of income from housing. Currently less than 4 dwelling units per 1000 of population per annum get constructed in India. However, the UN recommendation for developing countries is 8 to 10 dwelling units per 1000 population per annum.

The major issues facing the Indian housing financial sector are discussed below:

HIGH STAMP DUTY

The cost of transferring land, stamp duty and registration charges payable are prohibitively high. This dissuades people from seeking housing development and financing. Moreover, the procedure followed is also not transparent.

[1] Dr. S. Gurusamy (2009) "Indian Financial System, Tata McGraw - Hill Education Private Ltd New Delhi P.285

OBSOLETE RENTAL LAWS

Obsolete tenancy and rental control laws keep a large part of the urban properties off the market. The rental laws must be revised to protect the owner and the property from the tenant, it is incumbent that steps are taken to get rid of all the old tenancies, remove restrictions on increase of rentals and empower owners to reclaim their properties without any court proceedings, which currently may even take decades.

FORECLOSURE LAWS

Though the level of foreclosure for the housing finance companies are relatively low at around 1.5 to 2 percent, the foreclosure laws are obsolete and outdated. The laws for non-payment of Equated Monthly Installment (EMI) and consequent foreclosure and repossession of the property must be revised. This would help financing companies to have the final rights on the property, which is the collateral for the housing loan. Moreover, this would further boost the housing finance business.

HOUSING FINANCE ASSISTANCE—FACTORS[1]

Housing finance companies consider the following factors before making any financial assistance for housing:

1. Loan Amount
2. Tenure
3. Administrative and processing costs, etc
4. Pre-payment charges
5. Services
6. Value Addition
7. Sources of finance like HFC's and Banks
8. EMI calculation methods

[1] Dr. S. Gurusamy (2009) "Indian Financial System, Tata McGraw - Hill Education Private Ltd New Delhi P.290-291

THE LOAN AMOUNT

The amount of loan that any HFC decides to provide to a loan seeker depends on the following variables:

a. Customer's repayment capacity

b. Rate of interest charged

c. Term of the loan

Repayment is done through EMI, which includes principal and the interest. As a rule, an HFC fixes the EMI between 30 and 40 percent of the customer's gross monthly income, or 50 percent of the net monthly income.

LOAN COST

The two methods, which banks and finance companies generally follow, are:

1. **Monthly rest system**:

Under this system, the principal amount is deducted every month from the outstanding amount, and the interest for the following month is calculated on the outstanding principal. The loan amount is 100000 for tenure of 5 years, interest rate 13% and EMI is 2275.00 than total payable amount is Rs. 136500.00 and for 10 years, EMI is 1493.00 the total payable amount is Rs. 179,160.00 for same loan amount and rate of interest.

2. **Annual rest system**:

Under this system, although the principal amount is paid every month, it is accounted only at the end of the year. The loan amount is 100000 tenure is 5 years, interest rate is 13% and EMI is 2,370.00 than total payable amount is Rs. 142200.00 and for 10 years, EMI is 1536.00 the total payment is 144320.00 for same loan amount and rate of interest.

The above example illustrates that for the same amount and for same rate of interest, the amount of EMI varies with the type of method used.

LIFE INSURANCE CORPORATION HOUSING FINANCE LIMITED (UCHFL)

The corporation was set up under the Companies Act, 1956. Incorporated on 19th June 1989, it is recognized by NHB. It commands about

25 percent market share in the housing finance industry. It has a wide network in the industry with 67 Area/Unit Offices and 6 Regional Offices across the length and breadth of the country besides about 5,000 L1C agents trained for housing finance.

PURPOSES

1. To assist individuals by providing finance to construct/purchase residential house/flat. Assistance for second residential house/flat is also available.
2. To provide assistance for extension/renovation of residential unit
3. To grant loans to corporate bodies (Public Limited Companies/Public Sector Undertakings) for Staff Quarters.
4. To provide loans to Corporate bodies (Public Limited Companies/Public Sector Undertakings for onward lending to employees to construct/ purchase residential house/flat on ownership basis (Line of Credit "TO") and Loans to individual employees of the company as guaranteed by the employer (Line of Credit "THROUGH").
5. To extend loans to corporate for office premises.
6. To sanction loans to cooperative societies—Loans to individual members of cooperative housing societies formed by employees of Public Sector Undertaking/Public Limited Companies with guarantee of the undertaking.
7. To provide loans to public agencies like housing boards, etc for residential housing projects.
8. To extend bridge loans to reputed developers/builders for housing projects.

HOUSING LOAN[1]

Housing Loan Schemes offered are usually backed up with life insurance Cover as a Collateral Security. This helps the family to own the house without paying any installment in case of unfortunate death of the borrower. Jeevan Griha Policy (Table 104 & 105) is specially designed for housing loan purpose as it offers double and triple risk coverage respectively.

[1] Wings Ready Reckoner for LIC Premium (1998), wing publication Bangalore P. 20-22

There are usually, five different types of Housing loan schemes: (1) Griha Prakash (2) Griha Tara (3) Griha Jyoti (4) Griha Shobha (5) Griha Lakshmi.

SALIENT FEATURES

(1) The minimum loan amount given by LIC HFL is Rs. 25,000/- (In rural areas, it can be as low as Rs. 10,000/-). Maximum limit is Rs.1crore.

(2) Loan facilities are available for:

- Construction of a new house
- Extension of house/flat
- Purchase of Newly constructed house/flat
- For purchase of an old house/flat (already constructed)

(3) Loans are given to salaried employees of State/Central Govt., Public Sector Undertaking, Autonomous & Semi-Govt. Organisations/ Institutions, Public Ltd. Co. and Reputed Pvt. Ltd. Company. Salaried Employees should have PF, ESI & other facilities.

(4) Loans are given to Businessmen and Professionals like Doctors, Lawyers, Charted Accountants, Income-Tax Professionals etc. They have to produce Income-Tax Returns and/or Assessment Orders of the previous three years.

(5) Central Government Employees will be given additional loan on the Second Mortgage of the Property.

(6) Those who have already availed of housing loans from LIC of India can take additional loan from LIC HFL on the second Mortgage of the property for the purpose of extension to the existing house only.

(7) Loan will be also given to those having Agriculture Income. They have to submit Tahsildar's Certificate of Income. The Certificate should show survey No., extent of Land ownership etc. The maximum loan amount given to them is Rs. 50,000/- if agriculture income tax returns (AITR) is not produced. If produced, then there is no ceiling for maximum loan amount.

(8) Partners in a partnership firm can also avail loan. They have to produce last three years P&L A/C and balance sheet. The younger partner is usually treated as Guarantor.

(9) There is no restriction on the number of houses/flats for which loans can be granted.

(10) Loans can be applied jointly by persons. Joint applications can be from husband and wife, father and sons, mother and sons who must be co-owners. Income of both the persons shall be taken into consideration for the purpose of determining the loan amount.

(11) (a) Two guarantors are necessary in case of loan for flat.

(b) Guarantors may be insisted upon for house loan also.

(c) Persons offered as guarantors should have sufficient income.

(12) Loan applicants are eligible for certain tax benefits under Income Tax Act 1961 on principal repayment and interest components of the loan.

(13) Normally, LIC HFL takes about 40% to 45% of the net income p.a. of the applicant as his capacity to repay the loan.

(14) The size of the loan amount does not depend on the LIC policy amount. One can take housing finance loan without a Insurance policy. However, after availing loan, one has to take Life Insurance Policy for an equal amount of loan.

(15) The size of the loan amount depends on the following:

(a) Repaying capacity of the applicant (depending on his/her income, family size etc.)

(b) Value of the house/flat

(c) Clear and marketable title to the property

(16) A Non-Refundable processing fee (NRPF) of 0.5% of the loan amount will be collected by LIC HFL subject to a minimum of Rs. 250/- and a maximum of Rs. 5000/-.

(17) A Non-Refundable Administrative fee (NRAF) also will be collected as loan amount upto 50,000.00 NRAF percentage of loan sanctioned 1.50%, the minimum amount is Rs. 600 and loan amount is above 50,000.00 upto 1,00,000.00 NRAF percentage of loan sanctioned is 1.25%, the minimum amount is 750 and above 1,00,000.00 loan amount NRAF percentage of loan sanctioned is 1.00% the minimum amount is 1250.

(18) In addition, a stamp fee of appropriate amount (depending upon state Govt. rules) will also be collected by LIC HFL.

(19) Time limit for sanction of loan amount depends on the submission of required documents by the applicant. However, under normal circumstances, loan will be sanctioned in about one to four weeks time.

(20) Loan amount will not be disbursed in one lumpsum. LIC HFL releases in installments depending on the progress of the construction. In case of outright purchase of a house or flat, the loan is disbursed in one installment on the date of registration.

(21) Usually, loan amount sanctioned will be 75% to NRI's and 80% of the cost of the property to Resident Indians depending on the housing loan scheme and repayment capacity.

(22) Applicant has to invest his share first in the construction work i.e., the difference between the estimate & the loan sanctioned by LIC HFL. Later on, LIC HFL will release first installment.

SECURITY FOR THE LOAN

(1) LIC policy/policies will have to be assigned to LIC HFL.

(2) Mortgage of the house/flat (Mortgage means deposit of title deeds).

The following title deeds may have to be deposited with LIC HFL.

(i) All original title deeds at least for the last 12 years including power of attorney, if any.

(ii) An encumbrance certificate for a minimum period of 15 years (to be issued by the sub-Registrar).

(iii) Tax Receipts – In case of purchase cases, building tax receipt.

(iv) Affidavit by the loan applicant – in respect of purchase cases, the affidavit by the Vendor also is necessary.

(v) Copy of the Sale Deed or Agreement to sell in respect of purchase cases.

(vi) Any other documents considered necessary to provide the root of the title.

(3) The above assigned /mortgaged documents will be released only on repayment of loan in full.

(4) Other documents required are:

(a) Fire Insurance policy taken on the property for appropriate value.

(b) Deed of Guarantee on stamp paper.

(c) Promissory Note.

(d) Valuation Report of property by LIC HFL valuer.

(e) N.A. permission.

(f) 712 Extract mutation entry.

(g) Original receipts for payments made to the builders/vendors/Society.

(5) When the loan application is complete with all requirements and the processing fee is paid, the applicant will be interviewed by an official of LIC HFL at their office to assess the repaying capacity & to help and clarify the applicant's doubt and give him a direct personal guidance

(6) Loan may be repaid by Equation Monthly Installments (EMI). It means a uniform amount which includes repayment of a part of the principal amount plus interest. EMI is $1/12^{th}$ of the Equated annual Installment.

The following table gives you the EMI for a loan amount of Rs. 1000 payable monthly calculated on the annual balance of the loan.

Terms	Rate of Interest				
	7.75%	8.00%	8.25%	8.50%	9.00%
5 years	2016	2028	2040	2052	2076
10 years	1200	1213	1227	1240	1267
15 years	941	956	970	985	1014
20 years	821	836	852	868	900

(7) Loan may be repaid by Repayment By Policy Money method. It means paying only interest during the term of the loan and principal out of the policy amount available on maturity of the policy.

Thus, the performance of the Housing LOANS Sanctioned BY L.I.C in India has been analyzed for the years 2000-01 to 2009-10.

$$\textbf{Percentage growth over previous year} = \frac{\text{Current Years Value}}{\text{Previous Years Value}} * 100 - 100$$

ACGR (Annual Compound Growth Rate)$(t_n, t_o)=[V(t_n)/V(t_o)]^{1/tn-to}-1$

t_n =Finish Value, t_o = Start Value

ANALYSIS OF HOUSING LOANS

The housing loans performance of LIC is presented in table 8.1.

Table: 8.1

Analysis of Housing LOANS Sanctioned BY L.I.C (Rs. in Crore)

Year	Housing Loan sanctioned	% growth over base year
2000-01	1716.56	---
2001-02	2545.28	48.28
2002-03	3265.78	28.31
2003-04	4693.00	43.70
2004-05	5209.00	11.00
2005-06	5147.00	-1.19
2006-07	6105.00	18.61
2007-08	8618.00	41.16
2008-09	10898.00	26.46
2009-10	18043.00	65.56
ACGR		**26.52**

Compiled from the Annual Reports of LIC of India

Table 8.1give the detailed picture of the housing loans sanctioned by L.I.C. The housing loan of the corporation has shown tremendous growth 2000-01 to 2004-05. In 2000-01 the housing loans sanctioned was Rs. 1716.56crores which increased and reached to Rs.5209.00crores in the year 2004-05. Then the growth rate falls during the period of 2005-06 the housing loans sanctioned came down to Rs.5147.00crores. In 2006-07 again the housing loans sanctioned increased and it gone up to Rs.6105.00crores which shows the almost 18.61% growth over the previous year housing loans sanctioned. During the study period the highest housing loans sanctioned was Rs. 18043.00crores in 2009-2010 and the lowest housing loans sanctioned received in 2000-2001 i.e. Rs. 1716.56crores. During the study period the housing loans sanctioned has gone up from Rs. 1716.56 crores in 2000-2001to Rs. 18043.00crores in 2009-2010 i.e. approximate 10.51 times growth during the period of 10 years. The annual compound growth rate during the study period 2000-01 to 2009-10 was 26.52%. During the study period of ten years, it has been observed that for three years the growth rate of housing loans sanctioned by L.I.C was below the annual compound growth rate and for six years it was above the annual compound growth rate.

The performance of the Housing LOANS Disbursed BY L.I.C in India has been analyzed for the years 2000-01 to 2009-10.

Table: 8.2

Analysis of Housing LOANS Disbursed BY L.I.C (Rs. in Crore)

Year	Housing Loan Disbursed	% growth over previous year
2000-01	1597.00	--
2001-02	2240.00	40.26
2002-03	2941.20	31.30
2003-04	4104.00	39.53
2004-05	4650.00	13.30
2005-06	4896.00	05.29
2006-07	5121.00	04.60
2007-08	7071.00	38.10
2008-09	8762.00	23.91
2009-10	14853.00	69.52
ACGR		**24.98**

Compiled from the Annual Reports of LIC of India

From the above Table 8.2 that the housing loans disbursed by LIC is increasing year by year during the study period. Total loans disbursed has increased from Rs. 1597.00 crores in 2000-01 to Rs. 14853.00 crores in 2009-10 means it has been increased by more than nine times during the study period.

During the study period the percentage growth over the previous year lies between 04% and 70%. The highest growth rate has been observed 69.52% in the year 2009-10. The lowest growth rate has been observed 04.60% in the year 2006-07.

In 2000-01 the total housing loans disbursed by LIC was Rs. 1597.00crores which increased to Rs. 2240.00 crores in 2001-02 with 40.26% growth, Rs. 2941.20 crores in 2002-03 with 31.30%, Rs. 4104.00 crores in 2003-04 with 39.53%, Rs. 4650.00 crores in 2004-05 with 13.30%, Rs. 4896.00 crores in 2005-06 with 05.29%, Rs. 5121.00crores in 2006-07 with 04.60%, Rs. 7071.00crores in 2007-08 with 38.10%, Rs. 8762.00crore in 2008-09 with 23.91% and in 2009-10 Rs. 14853.00 crores with the growth rate of 69.52%.

The annual compound growth rate of loan disbursed was 24.98% which is a welcome trend. During the study period of ten years, it has been observed that for four years the growth rate was below the annual compound growth rate and for five years the growth rate was above the annual compound growth rate.

POLICY LOAN[1]

Policyholders are eligible to take loan on their policies subject to certain rules.

The Policyholder has to apply for loan in a prescribed form and submit the policy bond with the form duly completed. The loan amount is calculated depending on the Surrender Value (S.V.) the policy would have acquired. Approximately 85% of the surrender value is given as loan.

[1] Wings Ready Reckoner for LIC Premium (1998), wing publication Bangalore P. 46-47

Presently, LIC is charging 9% interest on policy loans. Interest is payable half-yearly. A Policyholder can repay the loan amount either in part or in full any time during the term of the policy. The minimum repayment should be Rs. 50 and thereafter in multiples of Rs. 10.

If loan is not repaid during the term of the policy or early claim, the amount of loan plus interest, if any, will be deducted from the claim money and the balance amount will be paid to the claimant.

If interest is not paid regularly every half year, then the interest is calculated on compound interest basis. As a final resort, LIC has powers to recall the entire loan amount.

For following Plans /Policies loans are not granted:

41, 43, 50, 92, 94, 96, 97, 102, 109, 113, 116, 122, 123, 124, 125, 126, 128, 131, 135, 136, 140, 146, 147, 148, 150, 152, 153, 154, 155, 156, 157, 159, 160, 163, 164, 169, 170, 172, 173, 176, 177.

Note:- Interest paid on policy loan increase from 9% to 10% w.e.f. 1.04.2012(Circular No. ACPL/PS/ 2202/4 Dated 28/04/2012).

Paid-Up Value, Surrender Value and Loan Value

The ready-made Loan values given aside are calculated based on certain assumptions. However, an agent can calculate the paid up value, Surrender value and finally, Loan value for any Sum Assured, for any year and any type of Policy, provided certain steps are observed.

To get Loan value, one should know the surrender value and that Surrender value is dependent on paid up value of the Policy. Hence, they can be obtained by using the following formula in a step-by-step method as shown below:

(1) Paid up value = $\left[\frac{\text{No. of years Premium paid}}{\text{Policy Term}} \times \text{Sum Assured}\right] + \left[\frac{\text{Bonus}}{1000} \times \text{Paid up Value}\right]$

(2) Surrender value

The cash value payable by LIC on termination of the policy contract at the desire of policyholder before the expiry of term is known as surrender value.

A policy can be surrendered provided the policy is kept in force for at least three years.

The bonus will be added provided the policy is in force for at least three years, i.e., premium should have been paid for three years & three years should also have been completed from the date of commencement(this condition is not applicable in respect of claim by death).

$$\text{Surrender value} = \frac{\text{Surrender value Factor}}{100} \times \text{paid up value}$$

Thus, the performance of the Policy Loan Disbursed BY L.I.C in India has been analyzed for the years 2000-01 to 2009-10.

Table: 8.3

Policy LOANS Disbursed BY L.I.C (Rs. in Crore)

Year	Policy Loan Disbursed	% growth over previous year
2000-01	560630.50	--
2001-02	732421.50	30.64
2002-03	950432.25	29.80
2003-04	1210512.66	27.36
2004-05	1514206.30	25.10
2005-06	1881934.67	24.28
2006-07	2302216.25	22.33
2007-08	2930519.38	27.29
2008-09	3397007.58	15.92
2009-10	3770834.25	11.00
ACGR		**21.00**

Compiled from the Annual Reports of LIC of India (Schedule 9)

From the above Table 8.3 that the policy loans disbursed by LIC is increasing year by year during the study period. Total loans disbursed has increased from Rs. 560630.50crores in 2000-01 to Rs. 3770834.25crores in 2009-10 means it has been increased by more than seven times during the study period.

During the study period the percentage growth over the previous year lies between 11% and 31%. The highest growth rate has been observed 30.64% in the year 2001-02. The lowest growth rate has been observed 11.00% in the year 2009-10

In 2000-01the total policy loans disbursed by LIC was Rs. 560630.50 crores which increased to Rs. 732421.50crores in 2001-02 with 30.64% growth, Rs. 950432.25crores in 2002-03 with 29.80%, Rs. 1210512.66crores in 2003-04 with 27.36%, Rs. 1514206.30crores in 2004-05 with 25.10%, Rs. 1881934.67crores in 2005-06 with 24.28%, Rs. 2302216.25 crores in 2006-07 with 22.33%, Rs. 2930519.38crores in 2007-08 with 27.29%, Rs. 3397007.58 crore in 2008-09 with 15.92% and lastly to Rs. 3770834.25crores in 2009-10 with the growth rate of 11.00%.

The annual compound growth rate of policy loan was 21.00% which is a welcome trend. During the study period of ten years, it has been observed that for two years the growth rate was below the annual compound growth rate and for seven years the growth rate was above the annual compound growth rate.

HOUSING LOAN & ADVANCES TO LIC EMPLOYEES

Under various staff housing loan schemes and agents housing loan scheme and Loan was sanctioned to employees and agents of the corporation respectively.

ADVANCES TO LIC STAFF[1]

The LIC offered loan/advances facilities to its staff are as follows:

1) **Festival Advance**:- (Per./A/3443/ASP/71 dt. 31.12.71)

(a) Class – I: one month's salary or 20000/- whichever is less.

(b) Class – II/III/IV: one month's salary or 17000/- whichever is less. (Per/ZD/1167/ASP/2010 dt. 03.11.2010)

[1] WWW.LIC India.com

RPT Workmen: 8500/- (or) One month's Salary (Basic+DA) being received by them on pro-rata basis, whichever is less. Recovery in 10 equal monthly installments (Cir.No. ZD/1168/ASP/2010 dt. 03.11.2010).

Interest Free Payable for the festival earlier availed or for any other festival after a lapse of 12 months.

2) **Cycle Advance**-(Ref:Per/A/3666/ASP/13.7.83 & IR/3751/ASP dt.11.5.89)

1600/- or the actual cost of cycle, whichever is less Recovery in not more than 15 equal monthly installments Interest Free (1) Advance is payable to confirmed Cl. III & IV employees only & for purchase of a new cycle only. (2). Maximum thrice in service once in seven years.

VEHICLE ADVANCE

(Ref.C.O.Cir.Ref:Per/IR/ZD/693/ASP/89 dt. 3.8.89, C.O.Cir.Ref:ER/ZD/802/ ASP/93 dt. 30.11.93, C.O Cir Ref:ZD/956/ASP/2000 dt.31.05.2000)

3) Car Advance allowed to Officers of the rank of ADM & DM on the administration side full purchase price of car 96 equated monthly installments 5% p.a. (simple) (1). Insurance Premium & Road Tax will be reimbursed by the Corporation in full during the period of repayment of Loan. (2). Maximum twice in service with 8 years gap.

4) Two – wheeler advance class I officer: For full purchase price of two wheeler recovery in 60 equated monthly installments 3% p.a. (simple)

1. Insurance premium & Road Tax will be reimbursed in full during repayment term
2. Maximum twice in service with 7 yrs. gap.

Class III & IV employees: For full purchase price of the two wheeler recovery in 60 equated monthly installments upto 35000/- @ 5% p.a. and @ 9% p.a. for balance amount:

1. Insurance Premium & Road Tax would be borne by the employee
2. Maximum twice in service with 7 yrs. gap

5) Car Advance allowed to officers of the rank of:

a) AAO & AO with less than 3 yrs service Maximum of 1,00,000/- or purchase price, whichever is less 96 equated monthly installments 5% p.a. (simple) 5%

p.a. upto 1 lac & 9% p.a. for the balance amount Insurance Premium & Road Tax would be borne by the employee of full purchase price.

b) AAO & AO with more than 3 yrs service Insurance Premium & Road Tax would be borne by the employee.

6) Flood Advance Extent of damage or 25000/- or three month's basic pay, whichever is less recoverable in 36 installments Interest free. (Ref. Circular No. ZD/1060/ASP/2005 dated 02/08/2005)

7) Advance for purchase of Personal Computer including Laptops (Intel / AMD Mobile Processor Laptop) 36000/- or 80% of purchase price whichever is less. 36 equated monthly installments 9% p.a. (simple rate) All classes of employees having confirmed service for at least five years shall be eligible. Thrice, once in three years. While sanctioning advance it should be noted that, the net salary after taking into account the EMI for the advance under consideration should not be less than 25% of the Gross salary. (C.O Circular Ref: ZD/981/ASP/2001 Dtd.14/7/2001, ZD/1034/ ASP/2003 Dtd.15/12/2003).

Analysis of Housing Loan to staff

The housing loan disbursed to LIC staff members during 2000-01 to 2009-10 is presented in table 8.4

Table: 8.4
Housing Loan to LIC Staff Members (Rs. in Crore)

Year	Housing Loan Disbursed (Rs. in Crore)	% growth over previous year
2000-01	122.45	--
2001-02	124.00	1.26
2002-03	127.00	2.42
2003-04	125.00	-1.57
2004-05	120.20	-3.84
2005-06	114.32	-4.89
2006-07	107.63	-5.85
2007-08	96.46	-10.38
2008-09	83.31	-13.63
2009-10	60.67	-27.18
ACGR		**-6.78**

Compiled from the Annual Reports of LIC of India

From the above Table 8.4 that the loans disbursed by LIC to staff is decreased year by year during the study period. Total loans disbursed have decreased from Rs. 122.45crores in 2000-01 to Rs. 60.67crores in 2009-10.

In 2000-01 the total loans disbursed by LIC to staff was Rs. 122.45 crores which increased to Rs. 124.00crores in 2001-02 with 1.27% growth, Rs.127.00crores in 2002-03 with 2.40%. Now it start decrease to Rs.125.00 crores in 2003-04 with -1.57%, Rs. 120.20crores in 2004-05 with -3.84%, Rs. 114.32crores in 2005-06 with -4.89%, Rs. 107.63crores in 2006-07 with -5.80%, Rs. 96.46crores in 2007-08 with -10.38%, Rs. 83.31crore in 2008-09 with -13.63% and lastly it decrease to Rs. 60.67crores in 2009-10 with the rate of -27.18%.

HOUSING LOAN TO LIC AGENTS

The performance of the housing loans disbursed by L.I.C to agents in India has been analyzed for the years 2000-01 to 2009-10.

Table: 8.5

Housing Loan to LIC Agents (Rs. in Crore)

Year	Housing Loan Disbursed (Rs. in Crore)	% growth over previous year
2000-01	23.15	--
2001-02	26.38	13.95
2002-03	24.35	-7.69
2003-04	22.35	-8.21
2004-05	24.25	8.50
2005-06	26.26	8.29
2006-07	22.08	-15.92
2007-08	27.55	24.77
2008-09	33.40	21.23
2009-10	31.40	5.99
ACGR		**3.09**

Compiled from the Annual Reports of LIC of India

Table 8.5 give the detailed picture of the housing loans sanctioned by L.I.C to its agents. In 2000-01 the housing loans sanctioned to agent were Rs. 23.15crores which increased and reached to Rs.26.38crores in the year 2001-02. Then the growth rate falls during the period of 2002-03 and 2003-2004 the loans sanctioned came down to Rs.24.35crores and 22.35crores respectively. In 2004-05 and 2005-2006 again the loans sanctioned increased and it gone up to Rs.24.25crores and 26.26crores which shows the almost 8.50% growth and 8.29% growth over the previous year loans sanctioned and again it decreased to 22.08crores in 2006-2007 and again goes up to 27.55crores in 2007-2008 and 33.40 in 2008-2009. At last the loan sanctioned to agents fall and came down to 31.40crores in 2009-2010. During the study period the highest housing loans sanctioned was Rs. 33.40crores in 2008-2009 and the lowest housing loans sanctioned in 2006-2007 i.e. Rs. 22.08crores. During the study period the housing loans sanctioned has gone up from Rs. 23.15crores in 2000-2001to Rs. 31.40crores in 2009-2010 i.e. approximate 1.40 times growth during the period of 10 years. The annual compound growth rate during the study period 2000-01 to 2009-10 was 3.09%. During the study period of ten years, it has been observed that for three years the growth rate of housing loans sanctioned by L.I.C to agents was below the annual compound growth rate and for six years it was above the annual compound growth rate.

LOANS GRANTED BY L.I.C ON MORTGAGE PROPERTY

The word mortgage is a French Law term meaning "death contract", meaning that the pledge ends (dies) when either the obligation is fulfilled or the property is taken through foreclosure.

MORTGAGE LOAN BASIS

Legal regulation about mortgage

Mortgage lending is the primary mechanism used in many countries to finance private ownership of residential and commercial property. Although the terminology and precise forms will differ from country to country, the basic components tend to be similar:

- Property: the physical residence being financed is called property in ownership tittle.
- Mortgage: the security interest of the lender in the property, which may entail restrictions on the use or disposal of the property. Restrictions may include requirements to purchase home. Insurance and mortgage insurance, or pay off outstanding debt before selling the property.
- Borrower: the person borrowing who either has or is creating an ownership interest in the property.
- Lender: Lenders may also be investors who own an interest in the mortgage through a mortgage-backed security. In such a situation, the initial lender is known as the mortgage originator, which then packages and sells the loan to investors. The payments from the borrower are thereafter collected by a loan servicer.
- Principal: the original size of the loan, which may or may not include certain other costs; as any principal is repaid, the principal will go down in size.
- Interest: a financial charge for use of the lender's money.

Mortgage loans are generally structured as long-term loans, the periodic payments for which are similar to an annuity and calculated according to the time value of money formula.

MORTGAGE LOAN TYPES

Payment amount and frequency:

The amount paid per period and the frequency of payments; in some cases, the amount paid per period may change or the borrower may have the option to increase or decrease the amount paid.

Prepayment:

Some types of mortgages may limit or restrict prepayment of all or a portion of the loan, or require payment of a penalty to the lender for prepayment.

FIXED AND FLOATING RATE

Combinations of fixed and floating rate mortgages are also common, whereby a mortgage loan will have a fixed rate for some period, for example the first five years, and vary after the end of that period.

- In a fixed rate mortgage, the interest rate, and hence periodic payment, remains fixed for the period of the loan. Therefore the payment is fixed, although ancillary costs (such as property taxes and insurance) can and do change. For a fixed rate mortgage, payments for principal and interest should not change over the predetermined period of the loan,
- In an adjustable rate mortgage, the interest rate is generally fixed for a period of time, after which it will periodically (for example, annually or monthly) adjust up or down to some current rate of interest in market. Adjustable rates transfer part of the interest rate risk from the lender to the borrower, and thus are widely used where fixed rate funding is difficult to obtain or prohibitively expensive. Since the risk is transferred to the borrower, the initial interest rate may be, for example, 0.5% to 2% lower than the average 30-year fixed rate; the size of the price differential will be related to debt market conditions, including the yield curve.

MORTGAGE UNDERWRITING

Upon making a mortgage loan for the purchase of a property, lenders usually require that the borrower make a down payment; that is, contribute a portion of the cost of the property. This down payment may be expressed as a portion of the value of the property. The loan to value ratio (or LTV) is the size of the loan against the value of the property. Therefore, a mortgage loan in which the purchaser has made a down payment of 20% has a loan to value ratio of 80%. For loans made against properties that the borrower already owns, the loan to value ratio will be imputed against the estimated value of the property.

CAPITAL AND INTEREST

Mortgage payments, which are typically made monthly, contain a capital (repayment of the principal) and an interest element. The amount of capital included in each payment varies throughout the term of the mortgage. In the early years the repayments are largely interest and a small part capital. Towards the end of the mortgage the payments are mostly capital and a smaller portion interest. In this way the payment amount determined at outset is calculated to ensure the loan is repaid at a specified date in the future. This gives borrowers assurance that by maintaining repayment the loan will be cleared at a specified date, if the interest rate does not change.

INTEREST ONLY

The main alternative to a capital and interest mortgage is an interest-only mortgage, where the capital is not repaid throughout the term. This type of arrangement is called an investment-backed mortgage or is often related to the type of plan used: endowment mortgage if an endowment policy is used, similarly a Personal Equity Plan (PEP) mortgage, Individual Savings Account (ISA) mortgage or pension mortgage.

VARIATIONS

Graduated payment mortgage loan have increasing costs over time and are geared to young borrowers who expect wage increases over time. Balloon payment mortgages have only partial amortization, meaning that amount of monthly payments due are calculated (amortized) over a certain term, but the outstanding principal balance is due at some point short of that term, and at the end of the term a balloon payment is due. When interest rates are high relative to the rate on an existing seller's loan, the buyer can consider assuming the seller's mortgage. A wraparound mortgage is a form of seller financing that can make it easier for a seller to sell a property. A biweekly mortgage has payments made every two weeks instead of monthly.

MORTGAGE INSURANCE

Mortgage insurance is an insurance policy designed to protect the mortgagee (lender) from any default by the mortgagor (borrower). It is used commonly in loans with a loan-to-value ratio over 80%, and employed in the event of foreclosure and repossession.

This policy is typically paid for by the borrower as a component to final nominal (note) rate, or in one lump sum up front, or as a separate and itemized component of monthly mortgage payment. In the last case, mortgage insurance can be dropped when the lender informs the borrower, or its subsequent assigns, that the property has appreciated, the loan has been paid down, or any combination of both to relegate the loan-to-value under 80%.

Thus, the performance of the loans on mortgage property by L.I.C in India has been analyzed for the years 2000-01 to 2009-10.

Table: 8.6

Loans Granted by L.I.C. on Mortgage Property (Rs. in crore)

Year	Loan On Mortgage Property (Rs. in Crore)	% growth over previous year
2000-01	1057582.56	--
2001-02	1124541.29	6.33
2002-03	1216501.00	8.20
2003-04	1304560.40	7.24
2004-05	1410381.39	8.11
2005-06	1497962.21	6.21
2006-07	1628492.74	8.71
2007-08	2004514.32	23.10
2008-09	2276920.75	13.60
2009-10	2430268.44	6.73
ACGR		**8.68**

Compiled from the Annual Reports of LIC of India (Schedule 9)

From the above table 8.6 that the loans on mortgage property by LIC is increasing year by year during the study period. total loans disbursed has increased from Rs. 1057582.56crores in 2000-01 to Rs. 2430268.44crores in 2009-10 means it has been increased by more than two times during the study period.

In 2000-01 the total loan on mortgage property by LIC was Rs. 1057582.56crores which increased to Rs.1124541.29crores in 2001-02 with 6.33% growth, Rs. 1216501.00crores in 2002-03 with 8.20%, Rs.1304560.40 crores in 2003-04 with 7.24%, Rs.1410381.39crores in 2004-05 with 8.11%, Rs.1497962.21crores in 2005-06 with 6.21%, Rs.1628492.74crores in 2006-07 with 8.71%, Rs. 2004514.32crores in 2007-08 with 23.10%, Rs.2276920.75 crore in 2008-09 with 13.60% and lastly to Rs. 2430268.44crores in 2009-10 with the growth rate of 6.73%.

During the study period the percentage growth over the previous year lies between 6% and 24%. The highest growth rate has been observed 23.10% in the year 2007-08. The lowest growth rate has been observed 6.21% in the year 2005-06.

The annual compound growth rate of loans on mortgage property was 8.68% which is a welcome trend. During the study period of ten years, it has been observed that for two years the growth rate was below the annual compound growth rate and for seven years the growth rate was above the annual compound growth rate.

LOANS GRANTED BY L.I.C. ON MORTGAGE PROPERTY OUT OF INDIA

Thus, the performance of the loans on mortgage property by L.I.C out of India has been analyzed for the years 2004-05 to 2009-10.

Table: 8.7

Loans Granted by L.I.C. on Mortgage Property out of India (Rs. in crore)

Year	Loan on Mortgage Property (Rs. in Crore)	% growth over base year
2004-05	4331.96	--
2005-06	5121.28	18.22
2006-07	4316.15	-15.72
2007-08	4409.56	02.16
2008-09	4007.43	-09.11
2009-10	3447.12	-13.98
ACGR		**-02.25**

Compiled from the Annual Reports of LIC of India (Schedule 9)

In 2004-05 the total loan on mortgage property by LIC out of India was Rs. 4331.96 crores which increased to Rs.5121.28 crores in 2005-06 with 18.22% growth than it fell down to Rs. 4316.15 crores in 2006-07 with -15.72% and again rise to Rs.4409.56 crores in 2007-08 with 02.16% and again fell down to Rs.4007.43 crores in 2008-09 with -09.11% and Rs.3447.12crores in 2009-10 with-13.98% respectively. The annual compound down rate of loans on mortgage property out of India was -02.25%.

PROBLEM AND SOLUTION

Most loanees find that the existing procedure for obtaining loans from LIC against life policies is cumbersome.

Loans are an important avenue of investments of the LIC. So it is suggested that the amount of loan at any time is not allowed to exceed the amount which the holder can get on surrendering the policy. However, this is an important investment and it improves business-customer relationship and is a great facility given to policy holders.

CHAPTER-IX

EVALUATION OF FINANCIAL PERFORMANCE OF LIC

CHAPTER -IX

EVALUATION OF FINANCIAL PERFORMANCE OF LIC

INTRODUCTION

After the formation of IRDA private players started entering the life insurance industry in India. For almost four decades, LIC has been the sole player with virtual monopoly in the life insurance sector. Now, the entry of so many companies in this sector is likely to affect the performance of LIC. It is therefore, the researcher has decided to study the financial performance of Life Insurance Corporation of India. The financial performance of Life Insurance Corporation of India has been evaluated on the basis of quantum of income as well as investment pattern of the corporation. The analysis has been made by using the following performance measures.

CAPITAL OF THE CORPORATION

The original capital of the corporation shall be five crores of rupees provided by the central government after due appropriation made by parliament by law for the purpose & the terms & conditions relating to the provision of such capital shall be such as may be determined by the central government.

Table 9.1

Share Capital of LIC (Amount in Crore)

Particulars	Non-linked Business (Crore)	Linked Business	Total Current Year	Total previous Year
Authorised Capital Capital(provided by the Central Government in terms of section 5 of the Life Insurance Corporation Act 1956)	500.00	0.00	500.00	500.00
Total	**500.00**	**0.00**	**500.00**	**500.00**
Share Capital in India	500.00	0,00	500.00	500.00
Share Capital out of India	0.00	0.00	0.00	0.00

Complied From Annual Repot of LIC 2009-10 (Schedule 5)

ANALYSIS OF TOTAL INCOME

Income of an organization is one of the important parameters for evaluating its financial performance. Total income includes premium income, income from investments and miscellaneous. Premium income is denoted by first year premium and renewal premium as well as single premium.

Table 9.3 and Graph 9.1 shows the total income of Life Insurance Corporation of India during the study period 2000-01 to 2009-10

Table No:- 9.2
Analysis of Total Income

Year	Amount (Rs. In Crores)	% growth over base year	Index
2000-01	53,998.76	-	100
2001-02	72,769.82	34.76	134.76
2002-03	80,938.49	11.23	149.89
2003-04	93,088.00	15.01	172.39
2004-05	1,12,392.74	20.74	208.14
2005-06	1,32,146.88	17.58	244.72
2006-07	1,75,527.08	32.83	325.06
2007-08	2,06,362.98	17.57	382.16
2008-09	2,00,280.65	-2.95	370.90
2009-10	2,98,721.55	49.15	553.20
ACGR		**18.66**	

Compiled from the Annual Reports of LIC of India

CHAPTER -IX
EVALUATION OF FINANCIAL PERFORMANCE OF LIC

INTRODUCTION

After the formation of IRDA private players started entering the life insurance industry in India. For almost four decades, LIC has been the sole player with virtual monopoly in the life insurance sector. Now, the entry of so many companies in this sector is likely to affect the performance of LIC. It is therefore, the researcher has decided to study the financial performance of Life Insurance Corporation of India. The financial performance of Life Insurance Corporation of India has been evaluated on the basis of quantum of income as well as investment pattern of the corporation. The analysis has been made by using the following performance measures.

CAPITAL OF THE CORPORATION

The original capital of the corporation shall be five crores of rupees provided by the central government after due appropriation made by parliament by law for the purpose & the terms & conditions relating to the provision of such capital shall be such as may be determined by the central government.

Table 9.1

Share Capital of LIC (Amount in Crore)

Particulars	Non-linked Business (Crore)	Linked Business	Total Current Year	Total previous Year
Authorised Capital Capital(provided by the Central Government in terms of section 5 of the Life Insurance Corporation Act 1956)	500.00	0.00	500.00	500.00
Total	**500.00**	**0.00**	**500.00**	**500.00**
Share Capital in India	500.00	0,00	500.00	500.00
Share Capital out of India	0.00	0.00	0.00	0.00

Complied From Annual Repot of LIC 2009-10 (Schedule 5)

ANALYSIS OF TOTAL INCOME

Income of an organization is one of the important parameters for evaluating its financial performance. Total income includes premium income, income from investments and miscellaneous. Premium income is denoted by first year premium and renewal premium as well as single premium.

Table 9.3 and Graph 9.1 shows the total income of Life Insurance Corporation of India during the study period 2000-01 to 2009-10

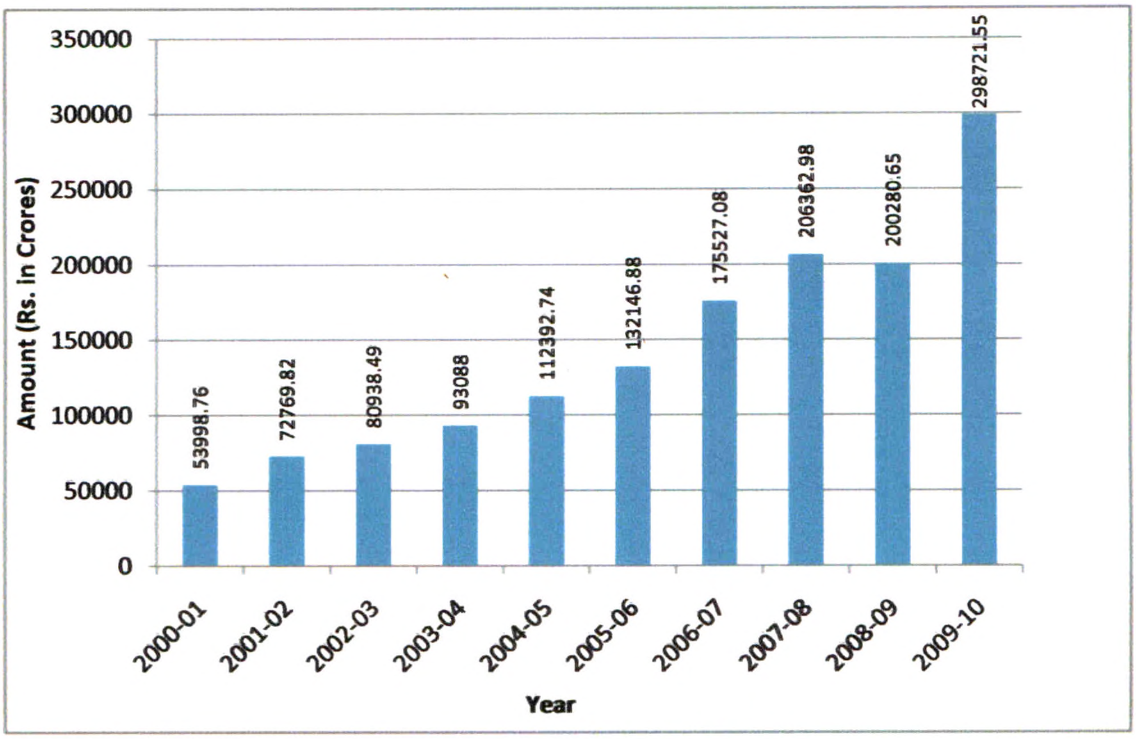
Table No:- 9.2
Analysis of Total Income

Year	Amount (Rs. In Crores)	% growth over base year	Index
2000-01	53,998.76	-	100
2001-02	72,769.82	34.76	134.76
2002-03	80,938.49	11.23	149.89
2003-04	93,088.00	15.01	172.39
2004-05	1,12,392.74	20.74	208.14
2005-06	1,32,146.88	17.58	244.72
2006-07	1,75,527.08	32.83	325.06
2007-08	2,06,362.98	17.57	382.16
2008-09	2,00,280.65	-2.95	370.90
2009-10	2,98,721.55	49.15	553.20
ACGR		**18.66**	

Compiled from the Annual Reports of LIC of India

GRAPH: 9.1

Total Income of LIC



From the above Table 9.2 and Graph 9.1 reveals that the income of LIC is increasing year by year during the study period. Total Income has increased from Rs. 53,998.76 crores in 2000-01 to Rs. 2,98,721.55crores in 2009-10 means it has been increased by more than five times during the study period.

During the study period the percentage growth over the previous year lies between 11% and 49%. The highest growth rate has been observed 49.15% in the year 2009-10. Only the down rate has been observed -2.95% in the year 2008-09

In 2000-01 the total income of LIC was Rs. 53,998.76crores which increased to Rs. 72,769.82crores in 2001-02 with 34.76% growth, Rs. 80,938.49crores in 2002-03 with 11.18%, Rs.93,088.91crores in2003-04 with 15.01%, Rs.1,12,392.74crores in 2004-05 with 20.74%, Rs.1,32,146.88crores in 2005-06 with 17.58%, Rs.1,75,527.08crores in 2006-07 with 32.83%, Rs.2,06,362.crores in 2007-08 with 17.57%.In 2008-09 the total income of LIC was decreased upto Rs.2,00,280,65crores with -2.95% and lastly it increased to Rs.2,98,721.55crores in 2005-06 with the growth rate of 49.15%.

The annual compound growth rate of income was 18.66% which is a welcome trend. During the study period of ten years, it has been observed that for five years the growth rate was below the annual compound growth rate and for four years the growth rate was above the annual compound growth rate.

ANALYSIS OF TOTAL OUTGO AMOUNT

The payment made by LIC out of its income constitutes the outgo amount of the corporation. The total outgo amount of the corporation consists of benefits to policyholder, managerial expenses and transfer to special reserve.[1]

Table 9.3 and Graph 9.2 shows the total outgo amount of Life Insurance Corporation of India during the study period 2000-01 to 2009-10

Table No: 9.3

Analysis of Total Outgo Amount

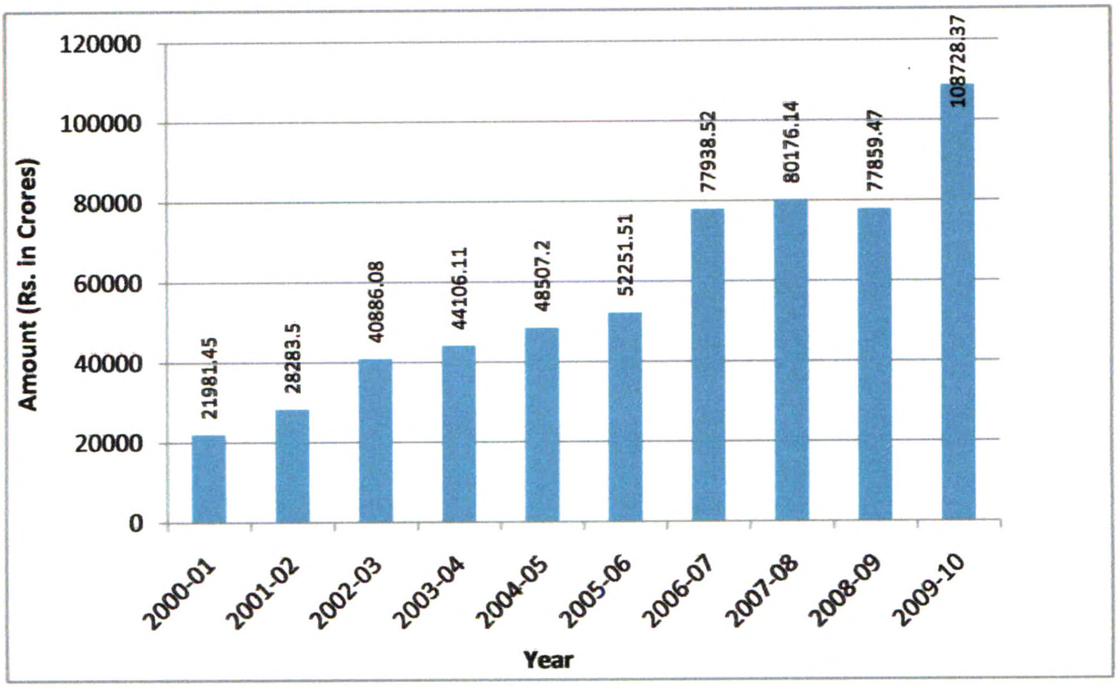
Year	Amount (Rs. In Crores)	% growth over base year	Index
2000-01	21,981.45	—	100.00
2001-02	28,283.50	28.67	128.67
2002-03	40,886.08	44.56	186.00
2003-04	44,106.11	7.88	200.65
2004-05	48,507.20	9.98	220.67
2005-06	52,251.51	7.72	237.71
2006-07	77,938.52	49.16	354.56
2007-08	80,176.14	2.87	364.74
2008-09	77,859.47	-2.89	354.20
2009-10	1,08,728.37	39.64	494.64
ACGR		**17.34**	

Compiled from the Annual Reports of LIC of India

[1] M.N Mishra & S.B. Mishra (2007) "Insurance principles and practice" S. Chand & Company Ltd, New Delhi P. 182

GRAPH: 9.2

Total Outgo Amount



From the above Table 9.4 and Graph 9.2 reveals that the outgo amount of LIC is increasing year by year during the study period. Total Outgo amount has increased from Rs. 21,981.45crores in 2000-01 to Rs.1,08,728.37crores in 2009-10 means it has been increased by more than 4.9 times during the study period.

During the study period the percentage growth over the previous year lies between 7% and 49%. The highest growth rate has been observed 49.16% in the year 2006-07. The lowest growth rate has been observed 2.89% in the year 2008-09 in minus.

In 2000-01 the total outgo amount of LIC was Rs.21981.45crores which increased to Rs.28283.50crores in 2001-02 with 28.67% growth, Rs.40,886.08 crores in 2002-03 with 44.56%, Rs.44,106.11crores in2003-04 with 07.88%, Rs.48,507.20crores in 2004-05 with 09.98%, Rs.52,251.57 crores in 2005-06 with 07.72%, Rs.77,938.00crores in 2006-07 with 49.16%, Rs. 80,176.14crores in 2007-08 with 2.78%. The total outgo of LIC was decreased to Rs.77,849.47 crores in 2008-09 with -2.89% and lastly it increased to Rs.1,08,728.37crores in 2009-10 with the growth rate of 39.64%.

The annual compound growth rate of Total outgo was 17.34% which is a welcome trend. During the study period of ten years, it has been observed that for five years the growth rate was below the annual compound growth rate and for four years the growth rate was above the annual compound growth rate.

RATIO OF TOTAL OUTGO AMOUNT TO TOTAL INCOME

In order to evaluate the financial stability of the LIC, ratio of total outgo amount to total income is also an important parameter. The ratio shows that how much percentage of income has been spent to get the total income.

Table 9.4 shows the ratio of total outgo amount to total income of Life Insurance Corporation of India during the study period 2000-01 to 2009-10.

Table No: 9.4

Ratio of Total Outgo amount to Total Income

YEAR	TOTAL INCOME	TOTAL OUTGO	% of Outgo to Income
	Amount (Rs.In crores)	Amount (Rs.In crores)	
2000-01	53,998.76	21,981.45	40.71
2001-02	72,769.82	28,283.50	38.87
2002-03	80,938.49	40,886.08	50.52
2003-04	93,088.00	44,106.11	47.38
2004-05	1,12,392.74	48,507.20	43.16
2005-06	1,32,146.88	52,251.51	39.54
2006-07	1,75,527.08	77,938.52	44.40
2007-08	2,06,362.98	80,176.14	38.85
2008-09	2,00,280.65	77,859.47	38.88
2009-10	2,98,721.55	1,08,728.37	36.40

Compiled from the Annual Reports of LIC of India

The percentage of total outgo amount to total income has been lies between 36% and 51%. The highest percentage of outgo amount to total income has been observed 50.52% in the year 2002-03 whereas the lowest percentage of outgo amount to total income has been observed 36.40% in the year 2009-10.

In 2000-01 the percentage of total outgo amount to total income was 40.71% which decreased to 38.87% in 2001-02. Again it increased to 50.52% 2002-03 which was observed the highest percentage of total outgo to total income during the study period & than decreased 47.38%, 43.16%, 39.54% in 2003-2004, 2004-2005 & 2005-2006 respectively. Again it slight increased to 44.40% in 2006-07 over the previous year percentage. Then after it decreased to 38.85% in 2007-08 and then it showed decreasing trend and it came down to 38.83% in 2008-09 & 36.40% 2009-10 which was the lowest percentage of total outgo amount to total income during the study period.

During the study period of ten years, it has been observed that for six years the percentage of outgo amount to total income was below the average percentage of total outgo to total income and for four years it was above the average percentage of total outgo to total income, as seen.

ANALYSIS OF COMPOSITION OF INCOME

Income of an organisation is one of the important parameter for evaluating its performance. Income generated by LIC every year is a composition of various variables. It comes from different areas and in various forms. The total income of LIC can be analyzed in different categories in order to assess the contribution of each variable or category to the total income in each year. Thus, for this purpose the percentage has been calculated of each variable to know the exact contribution of these variables in the total income. The main components of income of LIC are first year premium, renewal premium, single premium & consideration for annuities, income from investments and miscellaneous or other receipts.

Table 9.5 and Graph 9.3 show the analysis of income in percentage for the study period from 2000-01 to 2009-10.

Table-9.5

Analysis of Composition of Income (income in percentage)

Year	First Year Premium	Renewal Premium	Single Premium & Consideration For Annuity	Income From Investment	Miscellaneous Income	Total
2000-01	12.44	45.96	4.99	34.59	2.02	100%
2001-02	14.11	40.74	12.43	31.19	1.53	100%
2002-03	13.87	47.73	4.86	30.93	2.61	100%
2003-04	12.11	50.30	6.60	28.23	2.76	100%
2004-05	10.21	49.55	5.41	31.43	3.40	100%
2005-06	11.39	50.61	1.20	31.55	5.25	100%
2006-07	12.11	48.52	2.63	32.26	4.48	100%
2007-08	13.61	46.82	3.19	30.69	5.69	100%
2008-09	12.36	47.31	4.31	30.04	5.98	100%
2009-10	13.25	48.07	3.31	30.67	4.70	100%

Compiled from the Annual Reports of LIC of India

GRAPH: 9.3

Composition of Income

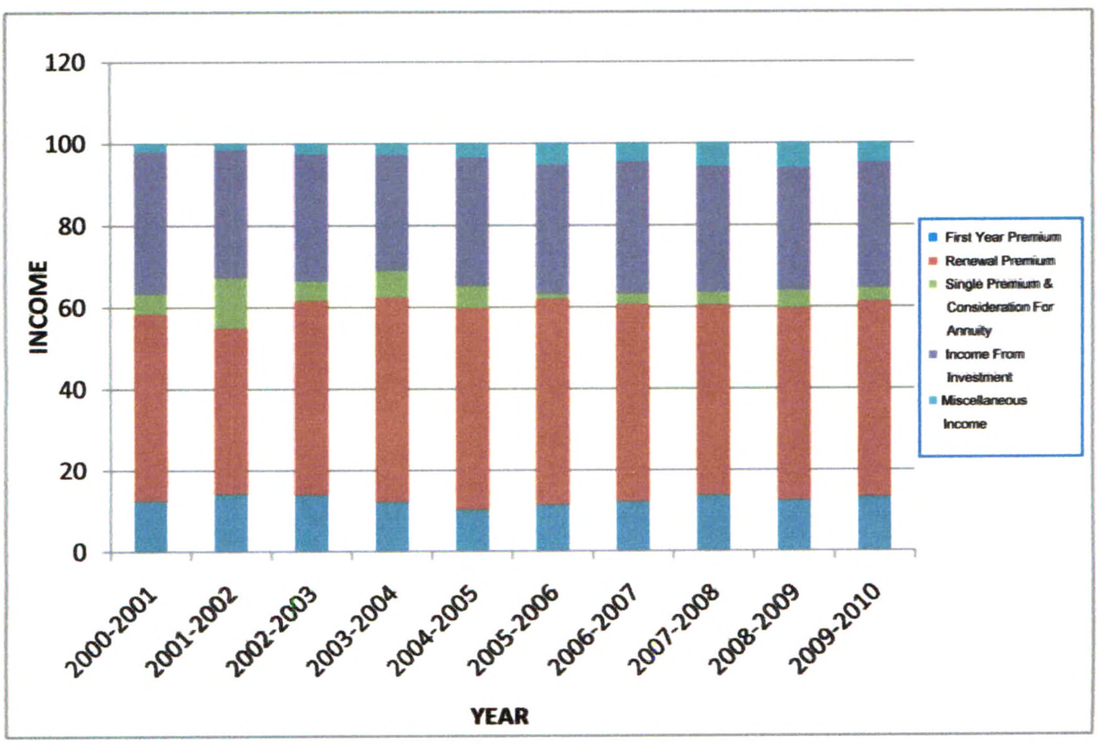


Table 9.6 and Graph 9.3 show the percentage share of each component to the total income of LIC over the period of study. The huge percentage of income comes from renewal premium every year. The second biggest percentage of income comes from investments then first year premium followed by single premium & consideration for annuities and the smallest percentage of income comes from miscellaneous income.

The percentage share of first year premium income to the total income lies between 10% and 15% of the total income over the period of the study. The highest percentage share of first year premium was 14.11% in 2001-02 and the lowest percentage share of first year premium was 10.21% in 2004-05.

In case of percentage share of renewal premium, the percentage share of renewal premium income lies between 40% and 51% of the total income over the period of the study. The highest percentage share of renewal premium was 50.61% in 2005-06 and the lowest percentage share of renewal premium was 40.74% in 2001-02.

In case of percentage share of single premium and consideration for annuities, the percentage share lies between 1% and 13% of the total income over the period of the study except for one year i.e. 2001-02 when the contribution of this component was highest 12.43% of the total income. The highest percentage share of single premium and consideration for annuities was 12.43% in 2001-02 and the lowest percentage share of single premium and consideration for annuities was 1.20% in 2005-06.

In case of percentage share of income from investment, the percentage share lies between 28% and 35% of the total income over the period of the study. The highest percentage share of income from investment was 34.59% in 2000-01 and the lowest percentage share of income from investment was 28.23% in 2003-04.

There are some miscellaneous incomes also which contributes in a very small percentage between 1.0% and 6.0% to the total income. The highest percentage share was 5.98% in 2008-2009 and lowest percentage share was 1.53% in 2001-02.

ANALYSIS OF UTILISATION OF INCOME

The income is generated by LIC from various different sources such as premium income- first year premium, renewal premium and single premium, income from investments etc. The income generated during a year is to be utilised in different areas. The analysis of utilization of income is to be done in order to evaluate the performance of the corporation. The percentages of utilization of income in different activities are calculated in order to analyses the share of each activity in the total income. The income is used for ten basic activities of the LIC and each has its own share of income. The different activities are in the form of making various payments such as payments of claims both maturity as well as death payments, commission to agents, salary to employees, management expenses, taxes, transfer to reserves etc. The excess of income over outgo added to life insurance fund that is also considered as a utilisation of income.

Table 9.6 shows the percentage of various components in which the total income of LIC is utilised every year during the study period from 2000-01 to 2009-10.

Table No: 9.6

ANALYSIS OF UTILISATION OF INCOME (IN PERCENTAGE)

Year	Claims By Maturity	Claim By Death	Surrender.	Annuity
	(%)	(%)	(%)	(%)
2000-01	18.08	3.54	3.16	1.20
2001-02	16.79	2.95	3.15	1.38
2002-03	17.84	3.14	3.17	1.48
2003-04	17.82	3.15	3.37	1.51
2004-05	18.11	2.94	2.96	1.47
2005-06	18.72	2.85	2.83	1.50
2006-07	18.40	2.55	9.15	1.26
2007-08	15.48	2.54	8.73	1.16
2008-09	15.99	2.74	4.48	1.29
2009-10	17.92	2.69	8.56	1.44

Compiled from the Annual Reports of LIC of India

Table 9.7 reveal the utilization of the total income during the year by the LIC for the study period from 2000-01 to 2009-10. Basically the income has been utilized in four categories-payment to policyholder, expenses of management, other outgo amount and government share of valuation surplus. After making all adjustment in four categories, the rest of the income amount called excess of income over outgo amount transfers to life insurance fund.

In the first category-payments to policyholder, there are four types of payments made by LIC i.e. claims by maturity, claims by death, and surrenders.

In case of claims made by maturity for which 16% to 19% of the total income was used during the study period. In 2000-01 the percentage share of claims by maturity was 18.08% to the total income which decreased to 16.79%, 17.84% and 17.82% in 2001-02, 2002-03 and 2003-04 respectively. In 2004-05 and 2005-06 it increased to 18.11% and 18.72%. Then it dropped to 18.40% in 2006-07. There after it showed a steady decrease with 15.48% in 2007-08, 15.99% in, 2008-09 respectively and lastly it increased to 17.92% in 2009-10.

The highest percentage share of claims by maturity to the total income was 18.72% in 2005-06 and lowest percentage share was 15.48% in 2007-08. During the study period of ten years it has been observed that for three years the percentage share of claims by maturity to the income was below the average percentage and for seven years it was above the average percentage.

In case of claims made by death for which 2% to 4% of the total income was used during the study period. In 2000-01 the percentage share of claims by death was 3.54% to the total income which decreased to 2.95% in 2001-02 and increased to 3.14% 2002-03 and 3.15% in 2003-04. Then it decreased to 2.94%, 2.85%, 2.55% and 2.54% in 2004-05, 2005-06, 2006-07 and 2007-08 respectively. Again it increased to 2.74% in 2008-09 and lastly it decreased to 2.69% in 2009-10.

The highest percentage share of claims by death to the total income was 3.54% in 2000-01 and lowest percentage share was 2.54% in 2007-08. During the study period of ten years it has been observed that for five years the percentage share of claims by death to the income was below the average percentage and for five years it was above the average percentage.

In case of claims made by surrenders for which 2% to 10% of the total income was used during the study period. In 2000-01 the percentage share of claims made by surrenders was 3.16% to the total income, which decreased to 3.15% in 2001-02 and again it increased to 3.17% and 3.37% in 2002-03 and 2003-04 respectively. In 2004-05 and 2005-06 claim by surrender decreased to 2.96% and 2.83%. It again increase in 2006-07 to 9.15% and than it decrease to 8.73% and 4.48% in 2007-08 and 2008-09 respectively and lastly it increased in 2009-10 with the growth rate of 8.56%.

The highest percentage share of claims made by surrenders to the total income was 9.15% in 2006-07 and lowest percentage share was 2.83% in 2005-06. During the study period of ten years it has been observed that for seven years the percentage share of claims made by surrenders to the income was below the average percentage and for three years it was above the average percentage.

In case of annuities for which 1% to 2% of the total income was used during the study period. In 2000-01 the percentage share of annuities was 1.20% to the total income which increased to 1.38%, 1.48% and 1.51% in 2001-02, 2002-03 and 2003-04 respectively. In 2004-05 and 2005-06 the percentage share of annuities was 1.52% and 1.63% respectively.

The highest percentage share of annuities to the total income was 1.51% in 2003-04 and lowest percentage share was 1.16% in 2007-08. During the study period of ten years it has been observed that for four years the percentage share of annuities to the income was below the average percentage and for six years it was above the average percentage.

In the second category- expenses of management, there are three types of expenses made by LIC i.e. commission to agents, salary and other benefits to employees and other management expenses.

Table No: 9.7

ANALYSIS OF UTILISATION OF INCOME (IN PERCENTAGE)

Year	Comm.	Salary Etc	Other Mgt.Exp.	Other Outgo	Govt. Share Of Val Surplus	Excess Of Income Over Outgo Added To Life Fund
	(%)	(%)	(%)	(%)	(%)	(%)
2000-01	6.03	5.18	1.39	1.57	0.59	59.26
2001-02	6.31	4.35	1.26	1.56	1.12	61.13
2002-03	6.18	4.09	1.56	12.39	0.60	49.55
2003-04	6.14	3.17	1.84	2.44	0.59	56.06
2004-05	5.56	3.07	2.26	6.18	0.62	53.54
2005-06	5.37	2.72	1.85	3.23	0.47	52.42
2006-07	5.26	2.34	1.72	2.95	0.43	42.39
2007-08	4.64	2.45	1.58	1.86	0.40	42.00
2008-09	4.62	2.66	1.51	2.10	0.43	49.60
2009-10	4.63	3.08	1.60	1.23	0.39	44.79

Compiled from the Annual Reports of LIC of India

In case of commission to agents, 4% to 7% of the total income was used during the study period. In 2000-01, the percentage share of commission to agents was 6.03% to the total income, which increased to 6.31% in 2001-02 and decreased to 6.18%, 6.14%, 5.56%, 5.37%,5.26%, 4.64%, 4.625 in 2002-03, 2003-04, 2004-05, 2005-06, 2006-07, 2007-08 and 2008-09 respectively. Then it slightly increased to 4.63 in 2009-10.

The highest percentage share of commission to agents to the total income was 6.31% in 2001-02 and lowest percentage share was 4.62% in 2008-09. During the study period of ten years it has been observed that for five years the percentage share of commission to agents to the income was below the average percentage and for five years it was above the average percentage.

In case of salary and other benefits to employees, 2% to 6% of the total income was used during the study period. In 2000-01, the percentage share of salary and other benefits to employees was 5.18% to the total income, which showed decreasing trend and it came down to 4.35%, 4.09%, 3.17%, 3.07%, 2.72% and 2.34% in 2001-02, 2002-03, 2003-04, 2004-05, 2005-06 and 2006-07 respectively. Again it increased to 2.45%, 2.66% and 3.08% in 2007-08, 2008-09 and 2009-10 respectively.

The highest percentage share of salary and other benefits to employees to the total income was 5.18% in 2000-01 and lowest percentage share was 2.34% in 2006-07. During the study period of ten years it has been observed that for seven years the percentage share of salary and other benefits to employees to the income was below the average percentage and for three years it was above the average percentage.

In case of other management expenses, 1% to 3% of the total income was used during the study period. In 2000-01, the percentage share of other management expenses was 1.39% to the total income, which decreased to 1.26% in 2001-02. Then it increased to 1.56%, 1.84%, & 2.26% in 2002-03, 2003-04, 2004-05 respectively. There after it decreased to 1.85%, 1.72%, 1.58% & 1.51% in 2005-06, 2006-07, 2007-08 & 2008-09 respectively. In 2009-10 it again increased to 1.60% to the total income.

The highest percentage share of other management expenses to the total income was 2.26% in 2004-05 and lowest percentage share was 1.26% in 2001-02. During the study period of ten years it has been observed that for seven years the percentage share of other management expenses to the income was below the average percentage and for three years it was above the average percentage.

In case of third category- other outgo amount, in which payment of taxes and transfer to reserve done by LIC every year. Almost every year 1.00 % to 4% of the total income was used except in the year 2002-03, when it was exceptionally high i.e. 12.39%. This was due to the new norms used by IRDA regarding maintenance of solvency margins by LIC. Therefore LIC has to increase its resourced to more than 10,000crores. In 2000-01 the percentage share of other outgo was 1.57% to the total income which decreased to 1.56% in 2001-02 and then it increased to 2.44% and 6.18% in 2003-04 and 2004-05. Then it decreased to 3.23%, 2.95% and 1.86% in 2005-06, 2006-07 and 2007-08 respectively. Again it increased to 2.10% in 2008-09. Then it decreased to 1.23% in 2009-10.

The highest percentage share of other outgo amount to the total income was 12.39% in 2002-03 and lowest percentage share was 1.23% in 2009-10. During the study period of ten years it has been observed that for eight years the percentage share of other outgo to the income was below the average percentage and for two years it was above the average percentage.

Out of the total income of the corporation some percentage also goes to central government every year in the form of government share of valuation surplus. The percentage in this respect varies between 0.5% and 2.0%. In 2000-01 the percentage share of government share of valuation surplus was 0.59% to the total income, which increased to 1.12% and it decreased to 0.60% & 0.59% in 2002-03 and 2003-04 respectively and again it increased to 0.62% in 2004-05. Then it decreased to 0.47%, 0.43% and 0.40% in 2005-06, 2006-07 and 2007-08. Again it increased to 0.43% in 2008-09 and lastly it decreased to 0.39% in 2009-10.

The highest percentage of government share of valuation surplus to the total income was 1.12% in 2001-02 and lowest percentage share was 0.39% in 2009-10. During the study period of ten years it has been observed that for eight years the percentage of government share of valuation surplus to the income was below the average percentage and for two years it was above the average percentage.

After making all the payments, rest of the income or excess of income over outgo amount is added to the Life Insurance Fund. Maximum share of the total income goes to this fund every year. In 2000-01 the percentage share of excess of income over outgo amount was 59.26% which increased to 61.13% in 2001-02 and it dropped to 49.55% in 2002-03 because in this year 12.39% of the income was used for taxes and reserves due to the new norms issued by IRDA regarding maintenance of solvency margins by LIC. Again it increased to 56.06% and 53.54% in 2003-04 and 2004-05 respectively. Then it decreased to 52.42%, 42.39% and 42.00% in 2005-06, 2006-07 and 2007-08. Again it increased slightly to 49.60% in 2008-09. Then it dropped to 44.79% in 2009-10.

The highest percentage share of excess of income over outgo to the total income was 61.13% in 2001-02 and lowest percentage share was 42.00% in 2007-08.

ANALYSIS OF LIFE INSURANCE FUND AND TOTAL ASSETS

In 1954, for instance, the total life fund of LIC aggregated to Rs. 277.8crores which increased to 9,99,517.59 in 2009-10, while general reserves, reserves funds and investment fluctuations funds, etc., (i.e., all provisions other than life fund) total to only Rs. 23.2crores which is slightly increased to 23083.64 in 2009-10. From financial point of view, then, funds other than life funds are not very important in comparison to life fund; nor do they give rise to problems typical of insurance finance. We should, therefore, like to concentrate on life insurance fund in our study of life insurance corporation in India.

ANALYSIS OF LIFE INSURANCE FUND

Life Insurance Fund is the excess of income over outgo amount. It is a fund created by the corporation.

Out of the life insurance business the amount of this fund is used by the LIC for making investments and for providing loans. This fund is maintained after making all kinds of payments, expenses, taxes, government's share of surplus etc. To analyse the financial performance of LIC the evaluation of Life Insurance Fund is also important fact.

Table 9.8 and Graph 9.4 show the amount of Life Insurance Fund and also the percentage growth over previous year for the study period from 2000-01 to 2009-10.

Table 9.8

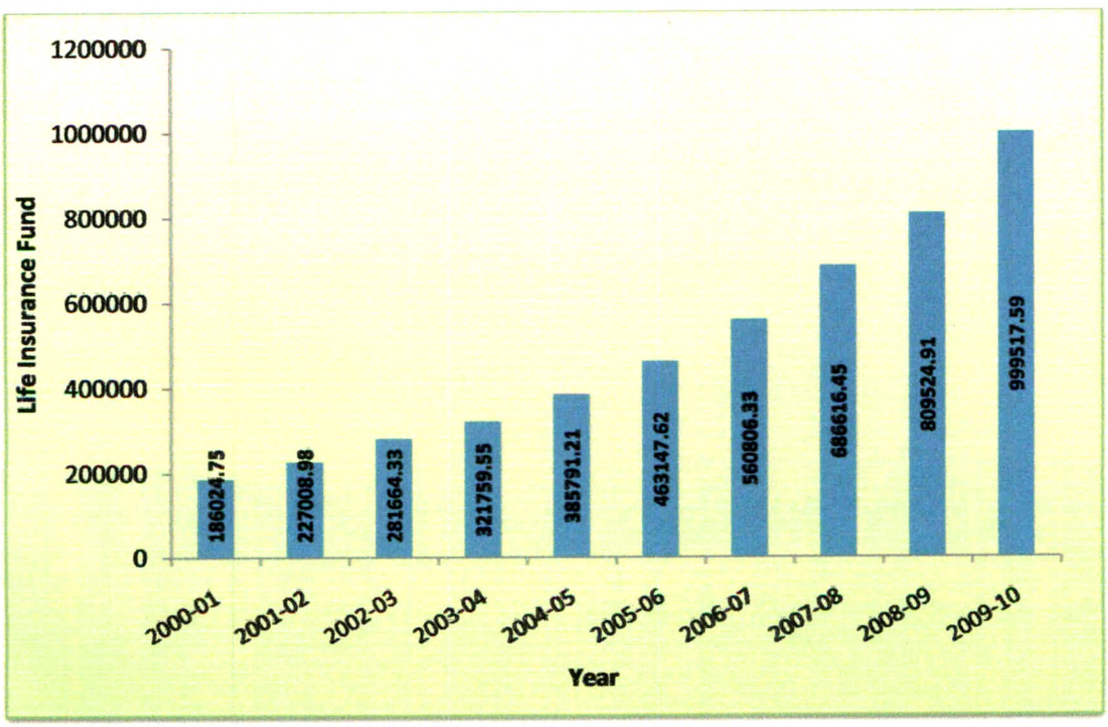
Analysis of Life Insurance Fund (In Crore)

Year	Life Fund	% growth over base year	Index
2000-01	1,86,024.75	—	100.00
2001-02	2,27,008.98	22.03	122.03
2002-03	2,81,664.33	24.08	151.41
2003-04	3,21,759.55	14.24	172.97
2004-05	3,85,791.21	19.90	207.39
2005-06	4,63,147.62	20.05	248.97
2006-07	5,60,806.33	21.09	301.47
2007-08	6,86,616.45	22.43	369.10
2008-09	8,09,524.91	17.90	435.17
2009-10	9,99,517.59	23.47	537.30
ACGR		**18.31**	

Compiled from the Annual Reports of LIC of India

GRAPH: 9.4

Life Insurance Fund



From the above Table 9.8 and Graph 9.4 reveal that the Life Insurance Fund is increasing year by year during the study period. It is seen from the table that Life Insurance Fund has increased from Rs.186024.75crores in 2000-01to Rs.999517.59crores in 2009-10 means it has been increased by more than five times during the study period.

During the study period the percentage growth over the previous year lies between 14% and 24%. The highest growth rate has been observed 24.08% in the year 2002-03. The lowest growth rate has been observed 14.24% in the year 2003-04.

In 2000-01 the total life insurance fund of LIC was Rs. 1,86,024.75 crores which increased to Rs. 2,27,008.98crores in 2001-02 with 22.03% growth over the previous year, Rs. 2,81,664.33crores in 2002-03 with 24.08%, Rs. 3,21,759.55 crores in 2003-04 with 14.24%, Rs. 3,85,791.21crores in 2004-05 with 19.90%, Rs.4,63,147.62crores in 2005-06 with 20.05%, Rs. 5,60,806.33 crores in 2006-07 with 21.09%, Rs. 6,86,616.45crores in 2007-08 with 22.43%, Rs. 8,09,524.91crores in 2008-09 with 17.90% and lastly it increased to Rs. 9,99,517.59crores in 2009-10 with the growth rate of 23.47%.

The annual compound growth rate of life insurance fund was 18.31% which is a welcome trend. During the study period of ten years, it has been observed that for two year the growth rate was below the annual compound growth rate and for seven years the growth rate was above the annual compound growth rate.

ANALYSIS OF TOTAL ASSETS OF LIC

Table 9.9 and Graph 9.5 show the amount of total assets and also percentage growth of assets over previous year for the study period from 2000-01 to 2009-10.

Table 9.9

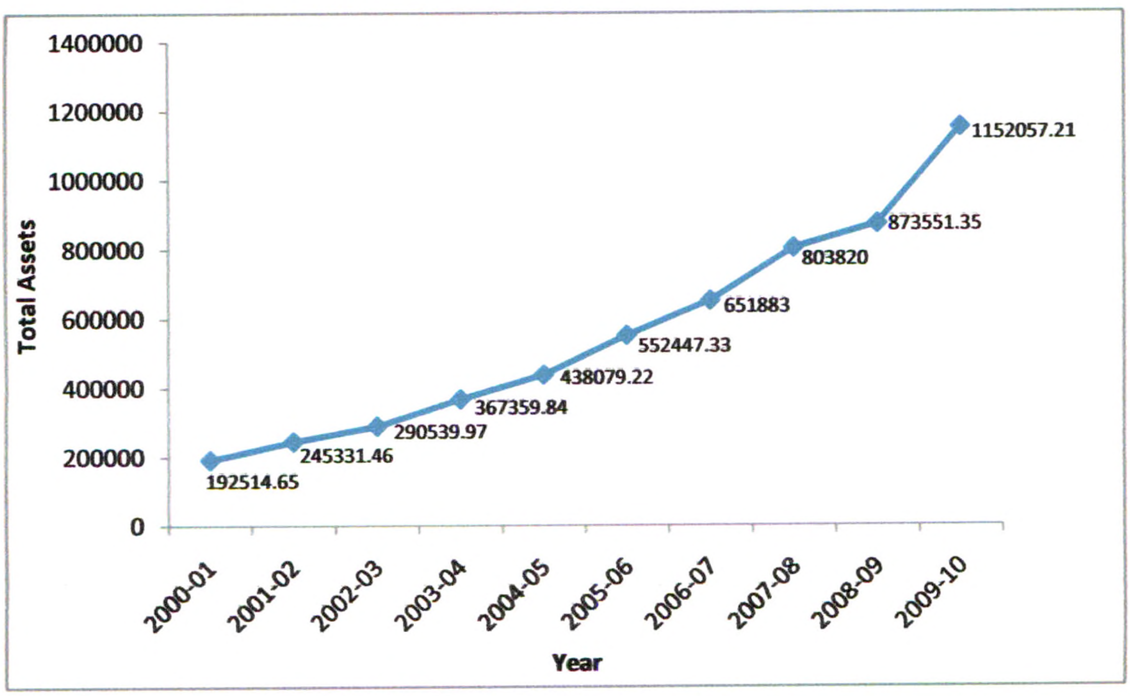
Analysis of Total Assets of LIC (Rs. in Crore)

Year	Assets on 31st March (Rs.in crore)	% growth over base year	Index
2000-01	1,92,514.65	--	100.00
2001-02	2,45,331.46	27.44	127.44
2002-03	2,90,539.97	18.43	150.92
2003-04	3,67,359.84	26.44	190.82
2004-05	4,38,079.22	19.25	227.56
2005-06	5,52,447.33	26.11	286.96
2006-07	6,51,883.00	18.00	338.61
2007-08	8,03,820.00	23.31	417.54
2008-09	8,73,551.35	08.67	453.76
2009-10	11,52,057.21	31.88	598.43
ACGR		**19.59**	

Compiled from the Annual Reports of LIC of India

GRAPH: 9.5

Total Assets



From the above Table 9.9 and Graph 9.5 reveals that the total assets of LIC is increasing year by year during the study period. It is seen from the table that total assets have increased from Rs. 1,92,514.65 crore in 2000-01 to Rs.11,52,057.21crores in 2009-10. The assets have risen by more than six times during the study period.

During the study period the percentage growth over the previous year lies between 18% and 32%. The highest growth rate has been observed 31.88% in the year 2009-10. The lowest growth rate has been observed 18.00% in the year 2006-07.

In 2000-01 the total asset of LIC was Rs. 1,92,514.65 crores which increased to Rs. 2,45,331.46 crores in 2001-02 with 27.44% growth rate, Rs. 2,90,539.97 crores in 2002-03 with 18.43%, Rs. 3,67,359.84 crores in 2003-04 with 26.44%, Rs. 4,38,079.22 crores in 2004-05 with 19.25%, Rs. 5,52,447.33 crores in 2005-06 with 26.11%, Rs. 6,51,883.00 crores in 2006-07 with 18.00%, Rs. 8,03,820.00 crores in 2007-08 with 23.31%, Rs. 8,73,551.35 crores in 2008-09 with 08.67% and lastly it increased to Rs. 11,52,057.21 crores in 2009-10 with the growth rate of 31.88%.

The annual compound growth rate of total asset was 19.59% which is a welcome trend. During the study period of ten years, it has been observed that for four year the growth rate was below the annual compound growth rate and for five years the growth rate was above the annual compound growth rate.

MARKET SHARE OF LIFE INSURANCE CORPORATION OF INDIA[1]

The market share of different players in the gross direct premium during the period of study has been presented in Table 9.9. The performance of insurance companies can be examined further by looking at the trend in their market share during the pre and post-reform period. This trend also differentiates the performance of public sector general companies.

[1] Vineet Kumar & Poonam Kumari (2012) "A comparative study on public VS Private Sector in Life insurance in India - Research Article, VSRD international journal of Business and management research, P. 516

Table 9.10

Market Share (in percentage) of Different Players in the Gross Direct Premium in India

Life Insurance Companies	Percent
LIC	72.1
ICICI pru life	5.3
SBI life	5.1
HDFC life	2.8
Bajaj Allianz	2.6
Reliance life	2.3
Other private life insurance companies	9.8

Complied from Annual Report of IRDA, 2009-10

From the above table we can say that the stat-owned Life Insurance Corporation (LIC) still holds a significant majority of share, other companies have established footholds.

A COMPARATIVE STUDY ON LIFE INSURANCE CORPORATION OF INDIA & PRIVATE LIFE INSURANCE COMPANIES (Premium Base)[1]

Table 9.11

Total Insurance Premium of Public & Private Insurance Companies (Rs. in Crores)

Year	LIC	Growth Rate	Private	Growth Rate
2002-03	54628.49	9.65	1119.06	310.59
2003-04	63533.43	16.30	3120.33	178.83
2004-05	75127.29	18.25	7727.51	147.65
2005-06	90792.22	20.85	15083.54	95.19
2006-07	127822.84	40.79	28242.48	87.24
2007-08	149789.99	17.19	51561.42	82.57
2008-09	157288.04	5.01	64497.43	25.09
2009-10	186077.31	18.30	265450.37	19.69

Complied from Statistical Hand book of Insurance 2009-10

[1] Vineet Kumar & Poonam Kumari (2012) "A comparative study on public VS Private Sector in Life insurance in India - Research Article, VSRD international journal of Business and management research, P. 516-517

Table 9.10 indicates that the total life insurance premium of LIC of India was 54628.49 Crore in 2002-03 and it was increased to 186077.31 Crore in 2009-10. There is instability in the growth rate of LIC of India. It was 5.10% in 2008-09 and it was increased to 18.30% during the year 2009-10. The total life insurance premium of private insurance companies was 1119.06 Crore in 2002-03 and it was increased to 265450.37 Crore in 2009-10. The growth rate of private insurance companies was reduced from year to year. It was 25.09% in 2008-09 and decreased to 19.69% in 2009-10. Compared to LIC of India, the growth rate of total premium of private life insurance companies was high.

The urgent response that is required from the existing public insurers is clear that they must remain competitive by doing things better and faster, and by ensuring cost effectiveness with performance. Large numbers of initiatives have been taken by this public sector company to compete with private sector companies. But still the public sector company needs to reassess their present status after having modified their approach & philosophy in the post-reform period. Today, in this liberalized world, in order to sustain them, the insurance companies have to ensure quality products at a competitive price. Companies can lower the price of the product by reducing the cost. Their survival depends upon their performance in profitability, productivity, efficiency and service quality.

CHAPTER-X

CONTEMPORARY OPERATIONAL PROBLEMS, OPPORTUNITIES AND CHALLENGES

CHAPTER -X

CONTEMPORARY OPERATIONAL PROBLEMS, OPPORTUNITIES AND CHALLENGES

Administration plays a dominating role in the development of any industry. In a service industry, as life insurance is, the administration should be an efficient one. When a keen observation of the functions performed by the Life Insurance Corporation is done, some drawbacks come forward. No administration can be perfect. But even then some ways and means can be suggested for better functioning of the L.I.C after evaluating it critically and thoroughly.

The expansion and growth of an organization pose new challenges which can be termed as problems of growth. The Life Insurance is no exception. The spectacular progress achieved by the corporation both horizontally and vertically in the matter of new business has also been accompanied by such problems. Profitability of the new business has not kept pace with the growth of business with the result that the Corporation is not able to improve the returns to the policyholders. In the field of service to the policy-holders also, though the Corporation has recorded satisfactory progress in the matter of expeditious settlement of claims there is no claims as court cases. yet a number of other equal important matters such as clearance of deposits, the problem of lapses of the policies etc. remain to be tackled effectively.

The development of an industry is not an isolated phenomenon depending neither upon the product or commodity produced nor on the policy of management only. It is the harmonizing or orchestration of individual roles which produce the real image of an industry and consequently of its products in the market. In this context of industrial management, decision – making is one of the important tasks. It is pertinent to note here that the Branch offices of the Corporation are not independent, even in all matters of routine work such as consideration of medical proposals, settlement of claims, loans for higher amount, settlement of disputed matters etc. and there are certain formalities which must be observed by the Divisional office. In some matters the prior sanction of the Divisional office is needed and such procedural formalities cause unnecessary delay on the part of the Branch offices. There should be more delegation of administrative and financial powers, to the Branch Manager with a view to avoiding the delays and proving him to be the responsible representative of the Corporation.

DRAWBACK OF THE CORPORATION'S WORKING:

(1) The Rate of loan interest, while granting loans to the policy – holders, has been increased from 9% to 10% while the loan is given only out of the premium deposits of the policy-holders. It should be fixed for ever.

(2) The Rate of interest for payment of premium is 9% which are paid after the grace period. It should be fixed for ever.

(3) At the initial stage the Life Insurance Corporation had adopted the practice for treating the policies as paid up in cases where the policies were in force for a minimum period of two years from the date of commencement of the policy. On 15-09-1972 this period was increased to three years for treating a policy as paid-up. Instead of decreasing this three years period it has been extended this paid – up period to five years w.e.f. 1-1-1976. It should be three years period as a fair period in over view.

(4) In the same way, the Corporation's "Own Your Home Scheme" has proved to be a mere device for fetching up more business, since the scheme appears to have benefited only the higher classes while the ordinary policy-holder has not been able to avail of its benefit. The red tapism involved discourages any policy-holder from building his own house under the scheme. It should be adapted lower to upper policy holder in performance.

(5) In spite of the sharp decline in mortality rates neither the corporation could decrease the rate in tabular premiums except neither a few nor it could give increased bonus since last so many years. It is not worthy that the life insurance corporation, on its part, could raise the accumulated funds sufficiently by saving on medical fee while booking non-medical business, Fetching high rate of interest from investments, charging high rate of interest on late paid premiums and loan payments, forfeiting the money increasing paid – up period, by providing inadequate staff for increased business etc. but no benefit could be extended to the employees or to the policy-holders. Policy holders will be given low rates interest on rate paid premiums and loan payments, as it is counted in public interest welfare.

(6) Soon after the nationalization, the corporation introduced a scheme of joint life insurance policy. Thus depriving a section of people from the benefits of the said scheme. Actually the corporation should have introduced more and more beneficial policy plans for the benefit of the general public instead of giving more emphasis on increasing in sale of new business only.

(7) On the contrary, the Corporation charges interest on payment of late premia from the policy-holders at the enhanced rate of 9%. So the case in the payment of surrender value which is paid merely at the rate of 30% in the initial years of the policy provided it has acquired the paid-up value.

(8) A plenty of insurance business is done at the end of the financial year and its pressure disturbs the branch administration. Its main reason is that the Branch Manager and the field staff try to do the maximum business at the last hour to come up the given targets for the financial year.

(9) The promotion of the Branch manager is depending upon his performance in the field of new business, with the result that the Branch Manager is usually on tour for 20 days in a period of one month. Thus the Branch manager does not have sufficient time to manage the affairs of the administrative side properly and efficiently.

(10) The official procedure of the insurance of the insurance business is not simple. Almost each entry is made at various places. Consequently the repetition of work involves labour of so many persons and the administration is becoming more and more expensive and causes abnormal delay. At so many instances it has been noticed that the Life Insurance Corporation do not attend to the applications of the policyholders immediately and their services in this respect are not upto the mark.

(11) The Zonal offices of the Corporation are for the present in a stage of transferring most of their functions to the lower offices, viz. the divisional offices. The divisional and branch offices of the Corporation are in the process of acquiring more and more administrative responsibilities which formerly belong to the higher offices.

(12) This charge is often leveled against the trade unions that they bring pressure to bear on their employer for improvement of pay, bonus and other conditions of service but they never encourage the members to render prompt and efficient service to the customers. The impulse to get organized like other profession is natural on the part of the employees of the Corporation as well.

(13) Before the opening of the insurance sector, the state-owned LIC sold insurance as a tax-efficient savings instrument rather than just offering protection. Most customers were underinsured with little flexibility or transparency in their policies. With the entry of the private insurers, consumers are now turning to the private sector for new innovative products.

OPPORTUNITIES

Future is uncertain; no body knows what is going to happen? It may or may not? Insurance is the concept of risk management the need to manage uncertainty on account of above stated risks. Insurance is a way of financing these risks either fully or partially.

Insurance is a contract between two parties whereby one party called insurer undertakes in exchange for a fixed sum called premium, to pay the other party called insured a fixed amount of money on the happening of certain event. Insurance indemnifies assets and income. Every asset (living and non living) has a value and it generates income to its owner. The income has been created through the expenditure of effort, time and money. Every asset has expected life time during which it may depreciate and at the end of the life period it may not be useful, till then it is expected to function. Sometimes it may cease to exist or may not be able to function partially or fully before the expected life period due to accidental occurrences like burglary, collisions, earthquakes, fire, flood, theft etc. these types of possible occurrences are "risks".

LIBERALISATION

1990's saw the emergence of liberalization. Liberalization meant lifting government controls, permits, licenses and allowing competition to play its role in the economy. With respect to the insurance business; liberalization means allowing private enterprises, including. MNCs to operate in the area, which was hit her to monopolized by the government of India. As a first step towards allowing private sector entry, government of India appointed a committee, in its report submitted in 1994, recommended, among other things, that the insurance sector in India be thrown open to private sector. Government accepted the recommendation and allowed 16 private players to offer insurance cover to Indian citizens.

Earlier to allowing private players to operate, it was necessary to cross the legislative hurdles, such as the passage of the Insurance Regulatory and Development Authority Act 1999 and amendment of life Insurance and General Insurance Corporation acts. These legal requirements being completed with, private players are offered a red carpet welcome to start insurance business. Several MNCs, in Joint Venture with Indian private sector firms, have stared Operations in a big way.

Opportunities of insurance sector after liberalization may be discussed under two heads, viz.[1]

A. Opportunities to LIC

B. Opportunities to Private Players

A. OPPORTUNITIES TO LIC

1. UNTAPPED MARKET

Only 22% of market is covered. Rural and health care Insurance, which presently is untapped, will contribute significantly to the growth of insurance business. According to Shanu Sen, CEO, Quadra Advisory, the rural insurance should be looked upon as an opportunity and no obligation.

---

[1] Chandarana, Harish M,(2008), Performance Evaluation of Life Insurance Corporation of India, Saurashtra University P. 113-120

2. TRUSTED BY CUSTOMER CREDIBILITY / BRAND EQUITY

LIC has an edge over private players in terms of trust and brand equity. This can be taken advantage by the organization. It should become prorating, aggressive and reach out the people. After all LIC knows India better this advantage is put to use? And as the survey MARG shows, 67% of respondents are satisfied with service provided by LIC. This is not enough, Infect; people seem to be satisfied because they had no alternative. LIC must satisfy this.

3. WIDER AGENCY NETWORK

True LIC has a wide network of branches and agents. But their reach is restricted and the business generated by the agents fits into the pure to analysis only 5% of agents generate as much as 80% of business and 95% of agents account for just 20% of business. Make these 95% agents to become productive or show the exit route.

4. ABILITY TO PAY HIGH BONUS ON WITH PROFIT POLICIES

LIC is an old company enjoying monopoly all along. It has been running under high profits. At present it can be offer attractive profit schemes for policyholders with the comparison of newly entered private players, for whom it is very difficult to pay high bonus to policyholders.

5. SPREAD OF RISK

LIC has the advantage of spreading the risk over its policies. It can therefore absorb any loss - for example, terrorist attacks and consequent deaths and spread the loss over of her policies. This advantage is not available for other players.

6. BANK ASSURANCE

Public sector banks in Indian can emerge as leading players in the distribution of insurance products across country. With the net work of 60000 branches two third of which are in rural areas, and their 117 million customer accounts, insurance companies would be well advised to use them as channels for their products, says Karbhajan Singh, Member, IRDA. Bancassurance in India has a great future. Distributing insurance products could be one way of providing them with a basket of service under one roof, Geeta Das, Associate Vice President, ORG MARG adds.

7. **AVAILABILITY OF TRAINED PROFESSIONAL**

Scarcity of experts and trained pool of manpower will be a cause of concern for both LIC and newly entered companies. The difficulty in sourcing of human capital with customer care as a prerequisite and high cost of training /recruitment of suitable sales force will limit participation of the new entrant especially Banks and NBFCs entering this sector with joint ventures. Retaining and motivating skilled employees will be a great challenge to other then LIC.

9. PREMIUM CHARGED CAN BE LOWERED

Earlier LIC was charging high premium for its policy-holders, since it is the only one company offering life insurance. But after liberalization it has to lower premium on policies and take this as opportunity for growth of business.

B. OPPORTUNITIES TO PRIVATE PLAYERS

1. INNOVATIVE PRODUCTS

The schemes offered by the private companies are better alternative to Public Sector Company. General assumption is that private companies provide innovative products at lower cost. So, private players have to take advantage of the new products for capturing the market at cost less or equal to LICs prices.

2. INCREASE OF AGE LIMIT

LIC is providing policies for only some people who are coming under one particular age, beyond that it is not providing. It means that the people who are coming at a particular age are left out. At the same time people are feeling that the age limit has to be increased. Newly entered companies have to take this as advantage and they should increase age limits upto 65 to capture the left out market with little higher premium.

3. PROVIDE BETTER SERVICE

In a survey conducted by MARG, 67% of the respondents were satisfied with the service provided by LIC. But it might be due to low level of expectation and that is the only company, which provides life insurance business. It means there are customers who were not satisfied with LIC. Hence new players have to take this as opportunity to capture the unsatisfied customer market through offering better services and other advantages.

4. HEALTH INSURANCE

Rural and Health care insurance, which presently is untapped, will contribute significantly in growth of insurance business. Particularly, health insurance is another segment with great potential because existing Indian products are insufficient. By the end of 1998 GICs mediclaim scheme covered only 2.5 million people. Indian products do not cover disability arising out of illness or disability for over 100 weeks due to accident. Neither do they cover a potential loss of earning through disability. If private players target this definitely-they will capture this market. At the same, time this sector provides a number of challenges, it will also, provide great opportunities.

5. PENSION SEGMENT

New players should concentrate on pension segment, since this area is currently not served at all. For instance LIC focuses on the money back segment. Targeting pension segment offers expansion opportunities.

CHALLENGES BEFORE THE INDUSTRY

The new as well as the old insurers will have to face a number of challenges in the liberalized market.

1. MINIMUM INVESTMENT TO NEW ISSUERS

According to IRDA Act, new insurers will have to invest a minimum capital of Rs. 100 crores. The normal gestation period is five years. The generation of profit normally starts during the sixth year. Hence, the new players will have to be ready for locking up their capital for at least five years before earning any profits.

2. EXEPECTATION OF THE CONSUMERS

At present, LIC is having about 60 products and GIC has about 180 products to offer in the market. But most of them are outdated, as they are not suitable to the needs of the customers. Hence, old as well as new insurers will have to offer innovative products to the customers. The consumers are particularly expecting good pension plans, health plans, term insurance and investment products like unit linked insurance, from the life insurers.

3. DISTRIBUTION CHANNEL

In the liberalized insurance market, there will be multiple distribution channels, which will include agents, brokers, corporate intermediaries, bank branches, affinity group and direct marketing through telesales and internet- The new players will operate with the help of multiple distribution channels but the old players may be forced to operate only, with the help of agents. Hence, intense competition will grow among the old and new insurers in the market to win the consumers. This will pose a great challenge to the insurers in the liberalized insurance market.

4. CONSUMER EDUCATION

After liberalization the market is flooded by a large number of products by fairly large number of insurers operating in the Indian market. Even with limited range of products offered by the LIC, the customers are confused in the market. Their confusion will further increase in the face of a large number of products, which are offered by the new players. The existing level of awareness of the customer for insurance products is very low, it is so because only 62% of the population of India is literate and less than 10% are well educated and well income group. Hence, it is necessary that all the insurers should undertake the extensive plan for education, of customers. This will result in making the awareness of the new insurance for, which leads to expansion of market.

5. BRAND BUILDING

Branding is the new key challenge in the financial services industry. With liberalization of insurance industry, players have to realize the need for branding in a competitive environment. Brand image, is something a company cannot-afford to ignore, if it wants to carve a niche for itself in the long run. It is important that having made a brand promise, a company must identify itself with delivering that brand, lest it lose the opportunity to influence its clientele. Insurance companies need to strive for greater customer focus regardless of whether the customer is the end user or the intermediary. LIC has been successful in creating a strong brand. In rural, India, the LIC is especially synonymous with insurance. But in the wake of competition it has to do a considerable brand building exercise at least in urban India. Brand building is most important for newly entered players. For brand building the companies may incorporate four fundamental building blocks, such as legitimacy, distinctiveness, relevancy and consistency. Brand building is not that much easy but company have to take this as a challenge.

6. E- SERVICE

Internet has brought about a revolution in the way business is done and insurance is no exception to this. According to a recent research by Tower Group 'e-service' will play a vital role in facilitating the process of servicing insurance products. Companies need to take advantage of e-service to serve the consumers online and ensure that the activities are more then mere marketing drives. A better service could, in the course, pave the way for better selling/but companies require a good infrastructure for this. Hence companies have to take this as challenge and try to go for e-service.

7. HUMAN RESOURCE DEVELOPMENT

Agent's network is conventional channel more prevalent across the world and has been quite successful. But now this network has to become proactive. At the same time IRDA has stipulated that all insurance sales agent have to go through 100 hours training and clear an examination conducted by insurance institute of India. High levels of training and development will be required not just for staff but also for agents and distribution organizations. Existing insurance companies will have to train staff for better service and flexibility, while new players will have to train employees to cope with the products and an intensive use of information technology.

8. INNOVATIVE PRODUCTS

LIC's products are outdated, in the sense that public are expecting insurance for different requirement. At the same time mutual funds have picked up in late 1999. So, LIC should take initiative and go into new innovative capital market solution like catastrophe bonds, equities, funds, derivatives, group family insurance, hybrid products to attract new segment of customers. Of course new players have already come up with innovative products; still they have kept an eye on LICs products and come up with innovative products. Yet the people of the whole country have not been covered.

As a result, while India's strong growth prospects pose opportunities for insurers, they also put pressure on the industry, and the economy at large, to better manage the exposure to natural perils. The state-owned Life Insurance Corporation of India (LIC) will draw curtains on 45 of its 52 policies from September 30, following IRDA's (Insurance Regulatory and Development Authority) mandate that all policies with investment as core must be shut in a month's time. "From October 1, LIC's portfolio will reduce from 52 products to 7. The company is planning to launch 4-5 new products in the near future. We will thus have portfolio of about 10 products from next month," said Ajay Kumar, senior divisional manager, LIC. The term assurance, pension schemes and the unit-linked insurance plans (ULIP) are those that will continue. The existing users can avail the to-be-discontinued services post September 30, which will continue for only renewal premiums, but these won't be offered to fresh applicants. According to IRDA's mandate, two basic conditions need to be fulfilled in the new policies from next month. "One, a customer will need to pay service tax (3.09%) on every policy he avails of. Two, all products should focus on risk coverage, rather than investment, which is reason why we had to discontinue 45 policies," said Kumar. These new regulations do not bode well for the Amdavadi, for his three favourite policies are set to face the axe. "Bima Bachat, which accounts for 33% of total premium collected from city this year, will no longer exist," said Kumar. "Jeevan Saral, Jeevan Anand, Jeevan Tarang, Jeevan Shree and Bima Nivesh will also cease to exist, as will conventional policies of moneyback and endowment plans. These will begin again, but in a new format set by IRDA," he added. "We are optimistic about achieving the target, as the new policies focus more on risk coverage"[1].

11. CONCENTRATION ON RURAL AREAS

Malhotra committee advised that new entrants in life insurance should be required to transact a certain minimum business in rural areas. There is need to spread life insurance much more widely and particularly 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, at a reasonable cost, adequate financial cover against risks. Rural and health care insurance, which presently is untapped, will contribute significantly in growth of insurance business. It is important to take advantage of the immense potential that resides in the rural sector. LIC as a major company in life insurance business with 48930 rural agents can definitely be taken as opportunity. At the same time this sector provides a number of challenges, and provides great opportunities.

[1] www.dnaindia.com

CHAPTER-XI

OBSERVATIONS, FINDINGS AND CONCLUSIONS

CHAPTER -XI

OBSERVATIONS, FINDINGS AND CONCLUSIONS

OBSERVATIONS

India is among the most promising emerging insurance markets in the world. Its current premium volume of USD 18 billion has the potential to increase to USD 90 billion within the next decade. In particular, life insurance, which currently makes up 80% of premiums, is widely tipped to lead the growth. The major drivers include sound economic fundamentals, a rising middle-income class, an improving regulatory framework and rising risk awareness. The ground work for realising potential was arguably laid in 2000 when India undertook to open the domestic insurance market to private-sector and foreign companies. Since then, 13 private life insurers and eight general insurers have joined the Indian market. Significantly, foreign players participated in most of these new companies – despite the restriction of 49% on foreign ownership. Incumbent state-owned insurance companies have so far managed to hold their own and retain dominant market positions. Yet, their market share is likely to decline in the near to medium term.

Important steps have thus been already taken, but there are still major hurdles to overcome if the market is to realise its full potential. To begin with, India needs to further liberalise investment regulations on insurers to strike a proper balance between insurance solvency and investment flexibility. Furthermore, both the life and non-life insurance sectors would benefit from less invasive regulations. In addition, price structures need to reflect product risk. Obsolete regulations on insurance prices will have to be replaced by risk-differentiated pricing structures.

In the life sector, insurers will need to increase efforts to design new products that are suitable for the market and make use of innovative distribution channels to reach a broader range of the population.

To unleash this potential, insurance companies will need to show long-term commitment to the sector, design products that are suitable for the rural population and utilise appropriate distribution mechanisms. Insurers will have to pay special attention to the characteristics of the rural labour force, like the prevalence of irregular income streams and preference for simple products, before they can successfully penetrate this sector.

FINDINGS

The summary of the findings of the study are as under-

ANALYSIS OF TOTAL INCOME

Income of an organization is one of the important parameters for evaluating its financial performance. Total income includes premium income, income from investments and miscellaneous. The total income of LIC is increasing year by year during the study period. Total Income has increased from Rs. 53,998.76 crores in 2000-01 to Rs. 2,98,721.55crores in 2009-10 means it has been increased by more than five times during the study period with annual compound growth rate 18.66%.

ANALYSIS OF TOTAL OUTGO AMOUNT

The payment made by LIC out of its income constitutes the outgo amount of the corporation. Total Outgo has increased from Rs. 21,981.45 crores in 2000-01 to Rs.1,08,728.37 crores in 2009-10 means it has been increased by more than 4.9 times during the study period with annual compound growth rate 17.34%.

RATIO OF TOTAL OUTGO AMOUNT TO TOTAL INCOME

In order to evaluate the financial stability of the LIC, ratio of total outgo amount to total income is also an important parameter. The ratio shows that how much percentage of income has been spent to get the total income. The percentage of total outgo amount to total income has been lies between 36% and 51% with average percentage 41.87%.

ANALYSIS OF COMPOSITION OF INCOME

The main components of income of LIC are first year premium, renewal premium, single premium & consideration for annuities, income from investments and miscellaneous or other receipts. The huge percentage of income comes from renewal premium (average-40.18%) every year. The second biggest percentage of income comes from income from investments (average-27.98%) then first year premium (average-9.50%) followed by smallest percentage of income comes from miscellaneous income (average-2.88%) and the single premium & consideration for annuities (average-2.80%).

ANALYSIS OF UTILISATION OF INCOME

The income generated during a year is to be utilised in different areas. The different activities are in the form of making various payments such as payments of claims both maturity as well as death payments, commission to agents, salary to employees, management expenses, taxes, transfer to reserves etc. The excess of income over outgo amount added to life insurance fund that is also considered as an utilisation of income. The average percentage share of claims made by maturity was found 17.51%, claims by death 2.91%, payment to annuities 1.37%, claims by surrenders 4.96%, commission to agents 5.47%, salary and other benefits to employees 3.31%, other management expenses 1.66%, other outgo 3.55%, government share of valuation surplus 0.56% to the total income for the entire period of study. After making all the payments, rest of the income or excess of income over outgo amount is added to the Life Insurance Fund which was found 50.68% to the total income for the period of the study.

ANALYSIS OF LIFE INSURANCE FUND

Life Insurance Fund is the excess of income over outgo. Life Insurance Fund has increased from Rs. 1,86,024.75 crores in 2000-01 to Rs. 9,99,517.59crores in 2009-10 means it has been increased by more than five times during the study period with annual compound growth 18.31%.

COMPOSITION OF INVESTMENT AS PER IRDA GUIDELINES

The investment of the corporation's fund is governed by section 27A of the Insurance Act 1938 and subsequent guidelines/instructions issued by the government of India from time to time. As per regulations approved by IRDA, there must be minimum 50% investment in government securities or other approved securities. Share of investment in government securities or other approved securities was found 67.35% in 2000-01, 66.44% in 2001-02, 71.05% in 2002-03, 62.28% in 2003-04, 65.72% in 2004-05, 68.65% in 2005-06, 66.38% in 2006-07, 63.52% in 2007-08, 60.11% in 2008-09 and 55.45%

in 2009-10 during the study period. As per IRDA guidelines the investment in infrastructure and social sector should not less than 15% of total investment. Share of investment in infrastructure and social sector was found 12.91% in 2000-01, 13.79% in 2001-02, 12.05% in 2002-03, 12.53% in 2003-04, 17.41% in 2004-05, 17.44% in 2005-06, 17.96% in 2006-07, 17.47% in 2007-08, 19.01% in 2008-09 and 22.80% in 2009-10 during the study period. As per IRDA Guidelines investment in exposure/ prudential should not exceed more than 35% of the total investments. Share of investment in exposure/ prudential was found 19.74% in 2000-01, 19.77% in 2001-02, 16.90% in 2002-03, 25.19% in 2003-04, 16.88% in 2004-05, 16.44% in 2005-06, 15.66% in 2006-07, 19.00% in 2007-08, 20.88% in 2008-09 and 21.74% in 2009-10 during the study period. It is clear that the investment in infrastructure and social sector was less than IRDA guidelines from 2000-01 to 2003-04 but from 2004-05 investment in infrastructure and social sector and all other investment follows the IRDA guidelines.

ANALYSIS OF SECTOR WISE DISTRIBUTION OF INVESTMENT IN INDIA

LIC have invested the fund in three different sector of the economy like private sector, public sector and co-operative sector. The book value of investments in India is considered as on 31st march of every year. The book value of the total investments of the corporation was Rs.1,67,003.80crores in 2000-01 which increased to Rs. 9,17,916.60crores in 2009-10. Thus it has been raised by more than five times during the study period with annual compound growth rate 18.89%.

ANALYSIS OF TOTAL ASSETS OF LIC

The total assets of the LIC have increased from Rs. 1,92,514.65crore in 2000-01 to Rs. 11,52,057.21crores in 2009-10. The assets have risen by more than six times during the study period with annual compound growth rate 19.59%.

NEW BUSINESS IN INDIA (INDIVIDUAL INSURANCE)

New Business of Individual in India includes the performance of the corporation in terms of Number of Policies, Sum Assured and the Total Annual Premium.

(a) ANALYSIS OF ANNUAL PREMIUM

During the study period the First year Annual Premium income has gone up from Rs.8851.89crores in 2000-01 to Rs. 20948.53crores in 2009-10 i.e. approximate 2.5 times growth during the period of 10 years with annual compound growth rate 8.99%.

(b) ANALYSIS OF NUMBER OF POLICIES

During the study period the number of policies has gone up from Rs. 19656663 policies in 2000-01 to 30578367 policies in 2009-10 i.e. more than 1.5 times growth during the period of 10 year with annual compound growth rate 4.52.

NEW BUSINESS OUT OF INDIA (INDIVIDUAL INSURANCE)

LIC operates in international markets through its Branch Offices as well as Joint Venture Subsidiaries. New Business of Individual out of India includes the performance of the corporation in terms of Number of Policies, Sum Assured and the Total Annual Premium.

ANALYSIS OF ANNUAL PREMIUM

In 2000-01, annual premium was Rs.11.46crores which increased to Rs. 22.26crores in 2009-10 shows just 51.48% growth in the 10 years period with annual compound growth rate 6.86%.

ANALYSIS OF NUMBER OF POLICIES

In 2000-01 the number of policies was 7911 policies which increased to 12274 policies in 2009-10 shows just 55.15% growth in the 10 years period with annual compound growth rate 4.49%.

NEW RURAL BUSINESS

One of the main purposes of nationalisation was to spread the life insurance business to rural areas where population was less than one lac. For instance, 1200 out of its 2048 branches are situated in rural areas. Basically the change in the definition of rural areas after the formation of IRDA. This lead to a huge change in the figures related to number of policies and sum assured of rural market after 1999-2000.

ANALYSIS OF NUMBER OF POLICIES

In 2000-01 the numbers of policies were 35.34lacs which increased to 102.49lacs in 2009-10 with 17.61% growth rate. The annual compound growth rate during the study period from 2000-01 to 2009-10 was 11.24%.

PREVIOUS YEAR CASES IN INDIA (INDIVIDUAL INSURANCE)

The quantum of business in force indicates the total premium income, sum assured and the number of policies till date. Analysis as under:

ANALYSIS OF PREMIUM INCOME

The premium income of life insurance business in force in India (Individual Insurance) has been increased from Rs. 34117.92crores in 2000-01 to Rs. 104631.17crores in 2009-10.It has been increased by more than 3 times during the study period with annual compound growth rate 11.86%.

ANALYSIS OF NUMBER OF POLICIES

The number of policies of life insurance business in force in India (individual insurance) has been increased from 1130.24lac policies in 2000-01 to 2260.58lac policies in 2009-10. It has been increased by more than 2 times during the study period with annual compound growth rate 7.86%.

PREVIOUS YEAR CASE OUT OF INDIA (INDIVIDUAL INSURANCE)

LIC has its existence in the international market through its branches and joint venture subsidiaries.

ANALYSIS OF PREMIUM INCOME

The premium income of life insurance business in force out of India (individual insurance) has been increased from Rs. 89.85crores in 2000-01 to Rs.145.03crores in 2009-10. It has been doubled during the period of study with annual compound growth rate 4.90%.

ANALYSIS OF NUMBER OF POLICIES

The number of policies of life insurance business in force out of India (individual insurance) has been increased from 0.87 lac policies in 2000-01 to 1.01lac policies in 2009-10 with annual compound growth rate 1.50%.

CLAIMS SETTLEMENT OPERATION

The settlement of claims is a very important aspect of service to the policyholders. The claims settlement is an indicator of the efficiency of the LIC in meeting claim obligation.

CLAIMS SETTLEMENT BY THE LIC

In case of number of policies, it was 75.86lacs policies settled in 2000-01, 87.67lacs in 2001-02, 96.91lacs in 2002-03, 103.53 lacs in 2003-04, 115.05 lacs in 2004-05, 120.85 lacs in 2005-06, 135.31 lacs in 2006-07, 140.95 lacs in 2007-08, 153.60 lacs in 2008-09, 215.67 in 2009-10 during the study period. In case of amount settled, it was Rs. 11637.98crore in2000-01, 14519.25 crore in 2001-02, 17035.81 crore in 2002-03, 19607.20 crore in 2003-04, 23642.54 in 2004-05, 28472.98 crore in 2005-06, 36485.91 crore in 2006-07, 37011.47 crore in 2007-08, 40085.12 crore in 2008-09 and 53535.82 crore in 2009-10 during the study period.

ANALYSIS OF LOANS BY LICI

It is said that "Birds of the same feather flock together" and if you flock together in the evening of your life under the caring hands of LIC, life will be blissful and paradise would seem to have come down to earth. For over the magnitude of this investment, they have scarcely any control. They can give loans only when called upon to do so. They cannot even carry on a campaign for encouraging the consumer to take loan from them. The problem of the magnitude of the loan taken from LIC has a fundamental relation to consumer finance, in which life insurance companies do not, on principal, participate.

ANALYSIS OF HOUSING LOANS SANCTIONED BY L.I.C

In case of housing loan sanctioned, it was 1716.56crores loan sanctioned in 2000-01 which increased to 18043.00crores in 2009-10 with annual compound growth rate 26.52%.

ANALYSIS OF HOUSING LOANS DISBURSED BY L.I.C

In case of housing loans disbursed by LIC, it was Rs. 1597.00crore in 2000-01which increased to Rs.14853.00crore in 2009-10 with annual compound growth rate 24.98%.

POLICY LOAN

The policy loan disbursed by life insurance has been increased from Rs. 560630.50crores in 2000-01 to Rs. 3770834.25 crores in 2009-10 with annual compound growth rate 21.00%

HOUSING LOAN TO LIC STAFF

The housing loan to LIC staff was Rs. 122.45crores in 2000-01 which decreased to Rs. 60.67crores in 2009-10. It has been decreased by more than 2 times during the study period with annual compound down rate -6.78%.

HOUSING LOAN TO LIC AGENTS

The housing loan to LIC agents was Rs. 23.15crores in 2000-01 which increased to Rs.31.40crores in 2009-10. It has been increased by more than 1.35 times during the study period with annual compound growth rate 3.09%.

LOANS GRANTED BY L.I.C ON MORTGAGE PROPERTY

The loan granted by LIC on mortgage property has been increased from Rs. 1057582.56crores in 2000-01 to Rs. 2430268.44crores in 2009-10. It has been increased by more than 2 times during the study period with annual compound growth rate 8.68%.

LOANS GRANTED BY L.I.C ON MORTGAGE PROPERTY OUT OF INDIA

The loan granted by LIC on mortgage property out of India has been decreased from Rs. 4331.96 crores in 2004-05 to Rs. 3447.12 crores in 2009-10 with annual compound down rate -02.25%.

The insurance industry in India has come a long way since the time when businesses were tightly regulated and concentrated in the hands of a few public sector insurers. Following the passage of the Insurance Regulatory and Development Authority Act in 1999, India abandoned public sector exclusivity in the insurance industry in favour of market-driven competition. This shift has brought about major changes to the industry. The inauguration of a new era of insurance development has seen the entry of international insurers, the proliferation of innovative products and distribution channel, and the raising of supervisory standards.

By mid-2004, the number of insurers in India had been augmented by the entry of new private-sector players to a total of 28, up from five before liberalisation. A range of new products has been launched to cater to different segments of the market, while traditional agents were supplemented by other channels including the Internet and bank branches. These developments were instrumental in propelling business growth, in real terms, of 19% in life premiums and 11.1% in non-life premiums between 1999 and 2003. There are good reasons to expect that the growth momentum can be sustained. In particular, there is huge untapped potential in various segments of the market. While the nation is heavily exposed to natural catastrophes, insurance to mitigate the negative financial consequences of these adverse events is underdeveloped. The same is true for both pension and health insurance, where insurers can play a critical role in bridging demand and supply gaps. Major changes in both national economic policies and insurance regulations will highlight the prospects of these segments going forward.

Competition between the LIC and the private sector insurers is intensifying. While innovative products have been underpinning private insurers' premium growth, the threat of losing market share has also led to more aggressive pushes by the LIC to stay competitive and to develop new distribution channels like bancassurance. Such an increase in competition is likely to translate into faster premium growth as well as deeper penetration for the entire market.

The profile of Indian consumers is also evolving. Consumers are more actively managing their financial assets, and are increasingly looking to integrated financial solutions that can offer stability of returns along with more comprehensive protection. Insurance has emerged as an attractive and stable investment alternative that offers total protection for life, health as well as wealth. In terms of returns, insurance products offer competitive returns ranging between 7% and 9%.

The LIC has traditionally sold life business using tied agents (in-house sales forces are not a traditional feature of the Indian life market). All life insurers have tied agents working on a commission basis only, and the majority of private-sector insurers have followed this approach in distributing life products. Nevertheless, as banks are now able to sell insurance products, bancassurance has made a major impact in life sales. Almost all private sector insurers have formed alliances with banks, with a few of the insurers using bancassurance as their major source of new business.

OUTCOME FROM THIS RESEARCH WORK

(1) LIC has a wide range of product to meet the business challenges due to globalization.

LIC has developed itself to meet with business challenges due to globalization. LIC therefore offers a wide variety of products, which fulfills the needs of different segments of the society. As at the end of the financial year 2010-11, the LIC had 52 products available for sale.

During the 2010-11 LIC introduced 5 new plans viz, LIC's pension plan, LIC's endowment plus, LIC's bima account-I, bima account-II, and LIC's Samridhi plus.

(2) LIC has adopted modern technology to serve its customers at large.

LIC is one of the organizations in India which has gone for massive use of technology. It has its own Software Development Centre (SDC), engaged in upgrading existing technology and developing new technology. In LIC, all the jobs processed in branch offices have been mechanized, 2,042 branches (out of 2,048) are now connected through wide area network, LIC has its own portal providing various services, including policy status, bonus calculation, loan quotation, list of lapsed policies. A similar portal has been in place for the agents as well. LIC has also put in place facilities of internet payments, electronic clearing system, ATMs, etc. LIC has also put in place a massive data warehousing system in house IT system thus providing tremendous support to management decisions and improving service quality with speed.

(3) Public trust much more on life insurance corporation of India as compare to private players.

The performance of nationalized LIC of India, as assessed that LIC has been able to fulfill the expectations of the policyholders, with its outstanding achievement in almost every aspect-providing a personal financial management, expanding the life insurance market, spreading insurance in rural areas, contributing to national development particularly through socially oriented investment and creating employment opportunities for millions of people in the country. While implementing national planning the Indian government created many national institutions which played a significant role in building today's India and LIC is one such precious institution of India.

(4) Loan facility provide by LIC is under various policy loan scheme, staff housing scheme and agents housing scheme are secured.

Such loans are very satisfactory from the insurer's point of view. They are unquestionably secure because they are given for an amount below the surrender value of policy and, therefore the security is complete and the principal amount cannot depreciate.

(5) The main aim of LIC is to invest the life fund for the development of the country.

The life insurance corporation of India has been a nation builder since its formation in 1956. True to the objective of nationalization the LIC has mobilized the funds invested by the people in the life insurance for the benefit of the community at large.

The funds invested in terms of loan, securities and other investment is 1265120.20 crore and investment in infrastructure is 15235.94 crore as on 31st march 2011.

(6) **Efforts are made to carry the message of life insurance into rural areas**.

Sustained and conscious efforts are made to carry the message of life insurance to the rural areas, especially the backward and remote areas. As a result, there has been steady growth of new business from these areas.

(7) Analysis of financial process is very important factor to know the overall growth of an organization especially in the field of funds and investment activity.

Life Insurance corporation of India is primarily an organization for selling life insurance protection to its customers but it is at the same time a financial institution of great importance. In the later capacity it collects premiums from a large number of policy-holders which are applied for meeting the current year cost of insurance and expenses of management and for accumulating a life insurance fund.

A life insurance company which is successfully expanding its business will have on over-increasing life insurance fund at its disposal. Thus the life insurance fund at the disposal of the LIC represents the accumulated excess of income over outgo. The income consists of premium, interest, dividends, and rent and the outgo amount is made up of claims, surrenders, annuities, managerial expenses and contribution to special reserve.

(8) Settlement of claims is a very important aspect of service to the policyholders.

The life insurance corporation has laid great emphasis on expeditious settlement of maturity as well as death claims. During the year 2010-11, the corporation has settled 1.90 crore claims for Rs. 57490.29 crore.

CONCLUSIONS

The history of life insurance in India started after the establishment of a british form, oriental life insurance company at Calcutta in 1818 and Bombay life assurance in 1923. The Bombay mutul assurance society was covering Indian lives at normal rates. To regulate the life insurance business, the government passed the Indian life assurance company Act in 1912.

The parliament, by passing the life insurance act of 1956, nationalized the insurance business and created the life insurance corporation of India on 1st September 1956.

After nationalization, the LIC has extends its service to larger geographical area. In 1957, LIC had only 5 zonal offices, 33 divisional offices and 212 branch offices. Now the LIC functions with 8 zonal offices, 111 divisional offices, 2048 branch offices, 31Interactive Ice Response System, 25 Mash Centers, 54 customer zones and 1123 satellite offices.

The enforcement of new economic reforms in 1991 coupled with the formation of Insurance Regulatory and Development Authority Act (IRDA) of 2000 started issuing licenses to private life insurers and it has diluted the monopolistic attitude commanded by LIC.

The performance of LIC during the study period show considerable improvement in business, giving substance to the Corporations objective of extending benefits of LIC to the maximum number of people in the country.

During the period from 2000-01 to 2009-10 the progress of life insurance can be measured on the basis of business in India & out of India, Rural Business, Previous year cases in India & out of India.

The annual premium has show tremendous growth. The New business in term of annual premium was Rs. 8881.44 crores in 2000-01 which increased and reached to 20948.53 crore approximate 2.5 times growth where as new business out of India did not rise satisfactory as there are many fluctuations in the performance of LIC. In 2000-01 annual premium was Rs. 11.46 crore which increased to Rs. 22.26 crore. One of the main purpose of nationalization was to spread the life insurance business to rural area and LIC is successful in achieving more than double growth in term of No. of policies. In 2000-01 the number of policies were 35.34 lacs which increased and reached to 102.49 crore policies.

Business from previous year cases in term of premium in India it has been continuously increasing from Rs. 34117.92 in 2000-01to Rs.104631.17 in 2009-10 growth with more than 3 times in India and two times out of India in term of premium it has been increase from Rs.89.85 crore in 2000-01 to Rs.145.03 crore in 2009-10. I discuss the possible explanations for our findings in detail in chapter-V.

As far as the investment of funds is concerned the analysis has been done in order to see the investment pattern of LIC as per IRDA regulations by LIC. I found that investment in government securities and other approved securities by LIC is 67.35% in 2000-01 to 55.45% in 2009-10 which is not less than 50% but investment in infrastructure and social sector is less than 15% from12.91% in 2000-01 to 12.53% 2003-04 but it increase to 17.41% in 2004-05 to 22.80% in 2009-10 investment is not less than 15%. Investment in infrastructure and social sector is 19.74% in 2000-01 to 21.74% which does not exceeding 35%. In case of sector wise investment it show tremendous growth and it has been raised by Rs167003.80 in 2000-01 to Rs. 917916.60 Crore which more than five times and possible findings discuss in chapter VI.

Life Insurance is essentially an institution for providing financial compensation in case of unexpected death of person taking the insurance cover. It means claims settlement is very important for LIC. The corporation settles claims in terms of policy it was Rs.75.86 lakh in 2000-01 and further it increase to Rs. 215.67 lakh in 2009-10 and in term of amount it was Rs.11637.98 crore and further it increase to Rs.53535.82 crore.

The performance of the LIC has been analysed in term of various loans given in fulfilling the dreams of policyholders and its own staff. The disbursement of housing loan has shown tremendous growth of Rs. 1597.00 crore in 2000-01 to Rs. 14853.00 in 2009-10 and policy loan has increase from Rs.56030.50 crore in 2000-01 to Rs. 3770834.25 crore in 2009-10.

The loans disbursed by LIC to staff show discouraging picture. Loan disbursed have decreased from Rs. 122.45 crore in 2000-10 to Rs. 60.67 crore in 2009-10 but it show satisfactory growth in disbursing the loan to LIC agents with 23.15 crore in 2000-01 to 31.40 in 2009-10 and the loan on mortgage of property by LIC is also increased from Rs. 1057582.56 crore in 2000-01 to Rs. 2430268.44 crore in 2009-10 means it has been increased by more than two times during the study period.

The financial performance of LIC has been evaluated on the basis of quantum of income as well as its utilization by the life insurance corporation.

Total income has increased from 53998.76 crore in 2000-01 to Rs. 2298721.55 crore in 2009-10 and the total outgo amount consists of benefits to policyholder, managerial expenses and transferred to special reserve is increased from 21981.45 in 2000-01 to 108728.37 in 2009-10.

The total assets of LIC is increasing year by year, It is seen that total assets have increased from Rs. 192514.65 crore in 2000-01 to Rs. 1152057.21 crore in 2009-10 raised by more than six times. The excess of income over outgo mean life insurance fund has increased from Rs. 186024.75 crore in 2000-01 to Rs. 999517.59 crore in 2009-10. I discuss the possible explanations for findings in detail in chapter IX.

On examining the various aspects concerned with the present work I tender my conclusions as under.

PROSPECTS FOR POLICY-HOLDER'S BENEFITS:-

A charge is leveled on the Corporation that the L.I.C. premia have not been decreased and most of the plans are very much expensive for the general populace.

The mortality rates have now fallen down on account of improvement in health standards, innovations in medicinal science and advancement in living conditions. All these factors have resulted in reducing the average death claims of the Corporation. Moreover, the corporation has been successful to a great extent in registering new insurance business. Talking the basic factors into consideration, i.e.(i) the risk factor, (ii) the investment factor and (iii) Provision for expenses, there should be substantial reduction in the premium rates. The Corporation is earning higher rates of interest out of its investment of funds and as such it should not lag behind in declaring higher rate of bonus. In order to cover the gap which may arise due to reduction in premium and declaration of higher rates of bonus on policies, it must strive hard to improve its efficiency through budgetary control, rationalization of procedure and reorganization of its administration and field-working at all levels.

RATIONALIZATION AND REORGANISATION OF THE BRANCH:-

It is worth appreciation that the Branch's insurance business in regard to procurement of new business has tremendously increased but on a close examination of first year lapsation of policies I observe that the picture is quite shocking. This is on account of lack of continuous contact between the policy-holders and the field staff. In order to solve this issue 'Servicing Centre's should be established at short distances which may be in continuous touch with the policy-holders.

SETTLEMENT OF CLAIMS:-

It is a contractual duty of the Corporation to discharge its liability timely payment of all genuine claims. By paying the claims promptly the L.I.C. can undoubtedly increase its business upto a maximum extent. A satisfied claimant to be a best media of publicity. The present procedure of settlement of claims needs to be simplified. Sometime back there was a lot of uproar and dissatisfied views were tendered in the parliament regarding the inefficiency of the Corporation in this sphere; now the situation is quite favourable, yet much remains to be done in this context. As soon as death of the policy-holder takes place, it should be the duty of the Corporation to reach at the door of the claimant and not the heir to knock the door of the L.I.C. The insurance staff should explain the nominee to comply with the requirements. In my opinion this must be a compulsory duty of the Agent,(who earns continuous commission from the policy) and the Development officer to process all such papers and bring the two ends nearer (i.e the L.I.C. and the claimant) in a shortest possible time. The claim may be settled quickly and prompt payment may be made.

The percentage of claims outstanding at the end of the year to the claims payable during the year is 0.40% by number of policy and 1.18%by amount as on 31st march 2011 compared to 0.26%by number of policy and 0.94% by amount as on 31st march 2010.[1] Instead of taking months and years, the claim must settle in "days."It must take a period of 30 days or likewise. It is a pertinent issue to be discussed here that when the policy-holder has not failed to deposit the premia-money in time the Corporation should not keep the claim idle with it for months and year together. It is a general feeling among the policy-holders that after death the claim money is generally paid in between six months and in some in years also. This is rather one-sided-treatment and is harassment on the part of this public monopoly.

EFFICIENCY OF FIELD STAFF

It has been noticed that the agents do not maintain constant contact with the policy-holders. This brings dissatisfaction among the policy-holders. The agents should provide adequate services to their policy-holders and alike a businessmen should extend after-sale service. He should examine the problems faced by the policy-holders and should try to solve them in a befitting manner.

[1] 54th Annual Report of Life Insurance Corporation of India P. 69

CHAPTER-XII

SUGGESTIVE MEASURES ON PROBLEMS & PREVALENT ISSUES

CHAPTER -XII

SUGGESTIVE MEASURES ON PROBLEMS & PREVALENT ISSUES

When parliament set up L.I.C as a monopolistic public undertaking in 1956, it was argued and believed that elimination of competition and the malpractices that competition has given rise to, would lead to:

(1) Better and more economic management of the Business of life insurance.

(2) Reduction in administrative expenses.

Considering the first and second point together it would appear that reduction in premium rates would be a natural outcome. It would also lead to progressive simplification of policy conditions and streamlining the conduct of business at low cost.

(3) Improvement in the quality of service.

The third point, i.e., improvement in the quality of service would not only include prompt and efficient replies to queries but also simplification of conditions of policies, which would limit such queries. Certain services such as loan facilities continued insurance cover during the periods of default of premium payments and procedures for prompt settlements of death and maturity claims need streamlining to reduce correspondence.

(4) Increase in volume of business.

The fourth point, i.e., the increase in the volume of business should not only be applicable to underwriting of new business but also preventing business at present going out of the books in substantial measure, other than claims, because loss of such business result in fructuous expenditures which adversely affect the continuing insurance business.

(5) Maximum of social advantages that insurance can provide through higher returns on investments of life fund, consistent with safety and liquidity of the invested funds.

The fifth point i.e. the maximization of social advantages that insurance can provide is to be judged by the steps taken and success obtained to bring the message of insurance to every home at a minimum cost and in an intelligible manner so that the benefits are easily understood and taken advantage of in the remotest corners of the country. It should also include the channelization of investments of life fund to realize socially purposive objectives, according to priorities. The security and adequate return of the life fund is of paramount importance as it is the life's savings of millions of policyholders to achieve certain objectives and is trust money.

The progress of the nationalized life insurance business has, therefore, to be judged by the rate of its progress towards the realization of the goals it set for itself.

It is also essential to take periodic stock of the situation to determine modifications in policies enunciated earlier and to take other steps in the light of the socio-economic priorities for the development of the country.

LIC has already become one of the largest insurance companies in the world, during its existence of just over two decades. However, it has been able to sell insurance to a very small sector of the wage or salary earning class, say about 10% and say about 20% of even the income tax paying class, and has provided insurance cover to only a fraction of the growing adult population.

It may be recalled that the third factor of 'Loading' in premium rates not only provides for the expenses anticipated but also provides for a modicum of profits (surplus) to be disclosed. In the case of LIC, ninety-five percent of the profit is to be distributed equitably amongst different classes of eligible policies and the balance of five percent is placed to the credit of the Central Government, who have stepped into the shoes of the erstwhile shareholders and thus justify their claim to the share to the payment in cash of all policies issued and all bonuses declared in respect thereof (Section 37 of LIC Act 1956).

The three factors-mortality rates, interest rates and provision for expenses and profits-are so adjusted during each biennial valuations that the profits (surplus) disclosed show a steady rise and avoid fluctuations in the rates of bonuses declared.

Expenses pertaining to agents and development officers are enumerated below:

(1) First year and renewal commission.

(2) Bonus Commission.

(3) Gratuity.

(4) Housing facilities to staff as on Nominal rent basis.

(5) Lower rates of premium on policies on their lives, and

(6) Conveyance and telephone, etc

In addition to their salaries development officers are further remunerated on the business conducted by the agents under their charges and receive bonus, housing facilities at subsidized rates, conveyance and telephones and lower rates of premium on policies on their own lives.

Under certain specified conditions the renewal commissions continue to be paid to the dependents for some years when no further new business is received through the agents or the business is received through the agents or the business falls short of the target.

SUGGESTION FOROPERATIONAL EFFICIENCY

To increase operational efficiency of the life insurance the following suggestions are made:

(1) PERSONS IN HAZARDOUS OCCUPATIONS

Additional amount of office work is called for where extra premium is levied to cover the extra risk either because of employment in hazardous occupations or certain inherent or transitory disability to be covered on an individual life.LIC has discontinued charging extra premium in respect of employees in certain hazardous occupation giving the reason that the premium for the extra risk should be shared by all policy holders.

(2) IMPAIRED LIVES

Similarly, the extra premium for impaired lives should come out of a 'special fund' created out of the government's share of valuation surplus or welfare contributions made by the government to encourage such people to insure on equal terms with other first class lives.

(3) LOAN OPERATIONS

Most loanees find that the existing procedure for obtaining loans from LIC against life policies is cumbersome. To avoid hardship to policyholders, it is suggested that loan operations against policies be encouraged through-banking system. The pledging of the policy for loan operations can be simplified by making provision in the Insurance Act of 1938, and it should be made applicable to policies issued and managed by LIC.

(4) POLICY MISTAKE RECTIFICATION

It is noted that policies are often issued which are not complete in all respects, particularly proof of age or mentioning names of beneficiaries, or leaving questions unanswered or with dubious replies. It is suggested that the shortcomings in respect of such policies, i.e., replies to all questions in proposal and allied document should be cleared within a period of three years.

This may be possible if payment of the commission and credit for business are deferred till the deficiencies are removed. If the shortcomings are not cleared within a period of three months, the LIC should have the option to make the policies paid-up by the end of five years with due notice and no commission and credit given for such business. It should be cleared to agents.

(5) SETTLEMENT OF DEATH AND MATURITY CLAIMS

DEATH CLAIMS

Regarding death claims the following suggestions are made:

LESS THAN 5 YEAR'S DURATION

On intimation of claim in respect of a policy of less than five year's duration, paid up amount should be immediately put into the bank account of the claimant; and within six months a further one-tenth of the sum assured should be put in the bank account irrespective of any investigations which may be continuing to determine, the validity of the claim.

MORE THAN FIVE YEAR'S DURATION

When a policy is in existence for more than five years but less than 10 years, the percentage of immediate deposit to be put in the bank account should be two-tenth of the face value of the policy, and within six months a further total claim be made available through a bank account of the claimant.

MORE THAN TEN YEARS DURATION

When a policy is in force for more than ten years and a claim arises, one-fourth of the face value should be made available immediately for the claimant through the bank account then within six months a further total claim value be made available through a bank account of the claimant. The above payments will mitigate the adverse effect 'Bura Din' to some extent and will contribute to restore confidence in the insurance business.

MATURITY CLAIMS

The delays in settlement of maturity claims seem to be unjustified. On the analogy of provident fund accounts, etc., the outstanding problems pertaining to a policy should be looked into and completed at least one year prior to the date of maturity.

One can stretch the point and say that policies that are in force for five years or more should be carefully looked into and no lacunae allowed to remain in:(1) age admission, (2) nominations, (3) assignment, and (4) any change in address be marked which may delay the settlement of claims. It would be in the interest of the policy-holders and their dependents if the name of a nationalized bank together with account number of a nominated beneficiary or assignee is obtained and kept with the existing policy papers. A provision may be made in the proposal forms and in the policy for such information.

It is suggested that, whatever be the timing of settlement of death and maturity claims, the LIC should be directed by the government to pay interest, say at a rate of simple interest of 12% calculated from the date the sums have become due till the date of the issue of a cheque setting it in full.

Section 47A of the Insurance Act may also be suitably modified to ensure that any disputed sum of money in respect of policies of LIC are deposited in such court or tribunal and continue to earn interest.

In my opinion when the policy-holder fails to deposit his premia-money in time, penal interest is levied upon him, so simultaneously 'grace-days' (and not months or years) be fixed under which duration it should be the prime responsibility of the Corporation staff to settle and finalize claim-payment and in case the same is not paid to the party within those grace days the Life Insurance Corporation should and must pay a penal interest to the claimant just equal to that applicable for non-payment of premia by the policy-holders. And on the other hand the L.I.C. staff at fault should be penalized for such beaurocratic delays and red-tapism. This will be only possible when a 'time schedule' for disposal of such papers is fixed and responsibility of the dealing Assistant is also defined so that the staff at fault could be punished for his leniency, in efficiency and delay. The administrative and field staff must join hands in proper 'follow-up' of the claims at all levels.`

(6) In particular, investment, expenses and income in respect of its own housing property and office buildings, whether occupied by itself as accommodation for office use or residential purpose should also be separately drawn up.

It will then be possible to determine whether or not LIC is getting adequate market returns on its building investments and on its own housing properties.

The investments of insurance funds through 'call Money' and 'Underwriting new issues of shares' appear to be doubtful unless covered under section (2) or permitted under section(1)(q) of the modified section 27A of the Insurance Act 1938 made applicable to LIC.

The investments which show a nil return of interest or dividend or show a return lower than the interest rates assumed in the valuations should be separately drawn and attention invited thereto. This will put the LIC on its guard in respect of such investments.

The rate of interest on the fund deposited with the government should be statutorily prescribed or provided for by the executive orders of government as in the case of postal life insurance fund or as for the deposits made in the general provident fund accounts.

The investments in the stock exchange should be made, preferably through the agency of Unit Trust of India, and/or through brokerage firms set up by government in the public sector.

(7) Financial worries like other worries are apt to be sorted out during the course of say two years. The continuance of the policy thereafter will be assured to the mutual advantage of the insurance corporation and the individual. Therefore, the following suggestions are made:

(i) Alternatively, such a policyholder may be entitled to continue, on payment of term insurance premium, so as to have the term-insurance cover for the full face-value of the policy (without profit) for the remaining term not exceeding beyond the age of 60 or 65 years and also receive the paid-up value at the end of the period as per original contract. He may claim the surrender value earlier if he desires to discontinue the term insurance cover.

(8) The efficiency and the success of an corporation depend entirely on the quality of its personnel, particularly those at Managerial levels.

(9) With the rapid growth of life-fund, the problems of investments in various fields and the need to keep continuous check thereon are becoming a complex operation of great magnitude.

To keep track of all investments, realization of interests and dividends and other follow-up actions and to keep continuous watch on their values due to fiscal changes, natural calamities, world events, etc., must require considerable expertise.

The large surplus that would appear to be arising as a result of lower mortality and higher earned on the present existing business should, in equity, be shared with the existing policyholders more liberally than in the past, and should not be utilized to pay for rising excessive expenditure like commission to agent, incentives to development officer, salary to staff and management expenses.

It is suggested that a 'special Reserve' Fund' out of the savings, due to lower mortality experienced and the surplus interest over the prescribed rates in valuations earned should be set up.

The fund should be utilized not only to maintain the ordinary bonus rates in future, but also to meet the claims for "Maturity Bonus', and to get over any adverse effects of untoward increase in mortality(i.e. war earthquakes, floods, epidemic, large scale accidents, etc.). It may also be used to encourage annuity business by additional payments to equalize fall in value of money or rise in price index. Later on 'Additional Bonus' may be extended out of this Special Reserve Fund' in respect of claims due to death under policies which are in force for at least fifteen years or occur-within five years of their maturity dates in case of endowment policies of 20 years or of higher durations.

The State Governments are providing tax free returns on the Life Funds of State Insurance Departments which are deposited with them.

(10) AUDIT OF LIFE INSURANCE CORPORATION ACCOUNTS

Section 25 of the Life Insurance Corporation Act 1956 provides for the audit of the accounts of the Corporation by qualified auditors of companies, to be appointed by the Corporation with the previous approval of the Central Government. The auditors are to submit their report to the Corporation and also forward a copy of the report to the Central Government.

The decision to provide for audit by company auditors was made as it was felt that the operations of LIC are technical and the officers of the Comptroller and Auditor General of India may not have adequate knowledge of the actuarial science, etc., and the officers then available may have been inadequate in number.

The audit by private auditing firms appointed by the Corporation are governed by two main principles:(i) that 'Decisions' have been made by the Corporation, and (ii) the 'Expenditures' are covered by appropriate vouchers. Ordinarily, the interests of the policyholders are adequately served by such audits.

(11) Stress on rapid rural development is now being emphasized to reduce and correct the imbalances that have cropped up in the existing economic developments and avenues of employment opportunities.

(12) The Life Funds Should Be Utilised For Creation of New Assets As Its Legitimate Function

INVESTMENT IN HOUSING:-

The Life Insurance Corporation has devised very attractive plans termed as 'Own Your Home Schemes' while examining in deep the progress recorded at Branch, it is rather very shocking to note that in particular this important scheme has been recklessly deal with. This scheme provides for financing of 60% to 80% of the sum assured to the policy-holders for the purpose of house construction or purchase of a newly built house. It has great potentialities and a lot of new business could be brought to books by way of providing to the policy-holders. A criticism is also leveled that it has advanced funds to the primarily rich policy-holders, whereas it has tremendous scope for extending this facility to the weaker sections of the society. This poses a gloomy picture of the lantern-bearing administrative authorities working at the branch and divisional levels who have bothered or have not even bothered to popularize this venture and seek proposals from policy-holders. It has also been noticed that the procedure in practice being followed for grant of loan is so stereotype, ticklish and lengthy that only a few application could be finalized and more or less the scheme is locked in files, the administrative and execution part is quite dull and monotonous and need a speedy overhauling and complete change over so that benefits may accrue to the policy-holders at large.

(13) To provide for a happiest society the following suggestion are made:

(1) The income-tax rebate on premium paid on life policies may be withdrawn, in progressive stages.

(2) The income-tax rebate concession presumably have been granted on the reasonable assumption that the policy will be maintained. In case of forfeiture, lapsing, or surrender of policies the government may desire that the LIC should intimate the income-tax department so that recoveries of rebates allowed on the policy since its inception are made.

(14) The shortcomings in life insurance business can best be eliminated through, inter alia, statutory control on expenses by:

(a) eliminating development officers for underwriting or getting any bonus on assurances on individual lives.

(b) controlling agency commission, and

(c) deferring their (commission and bonus) payments till one full annual premium is received.

Periodically new premium rates calculated to give full weightage to improvements in mortality rates and better interest returns available on investments will be made. The existing old policies on old rates should be treated as closed series.

(15) We have already suggested that annuity business should also receive encouragement. The annuity business can receive a great fillip if the suggestion made for payment of annuity installment is linked with cost of living index so that the annuitant is able to live without being affected by inflation at working period.

The trend in insurance is now shifting from individual voluntary life insurance to group insurance.

It is understood that similar enhancement of benefits of insurance cover is under active consideration of the Naval and Air Force authorities respectively.

(16) Local newspaper and periodicals can render immense service to individuals and institutions in propagating the principles of insurance and the benefits available under different forms of insurance schemes.

It is suggested that the government may create a special fund out of its share of the valuation surplus after deductions of the following:

(i) Compensation paid to erstwhile insurers.

(ii) Rs. 7 million to keep up the face values of the policies of certain erstwhile insurers being reduced.

(iii) A return of 10% per annum on the sum of Rs. 50,000,000 advanced to LIC as capital in terms of section 5 of the LIC Act 1956.

(17) A ‘nucleus fund’ is to be created for introduction of universal ‘Term Insurance Cover’ by stages to cover all adult persons male and female in rural and urban areas during their working period of life. Contributions from other sources to the ‘Nucleus Fund’ and experience gained will determine the rate at which the term insurances could be spread to all persons and all parts of the country.

(18) The outstanding premiums may be agreed to be cleared in respect of specified individuals by organized industries or existing charitable trusts, labour unions, etc., as a measure of social service.

(19) The efficiency of the employees working at the Branch office can be increased by simplifying procedures, effecting proper co-ordination among different agencies and obtaining maximum cooperation from various departments. Incentive to individual may also help a lot together with active and effective supervision, permitting employee's participation in management and institution of work efficiency-oriented-promotional-policy.

It should be the prime responsibility of the Development officer to see that policy-holders do not fail to deposit their installments timely. Special concession should be extended to the policy-holders for revival of policies. The procedure needs to be reorganized at all levels.

(20) A staff Relation Officer should be appointed at each Divisional office to look into the grievances of all the employees and also recommend rewards in cash or kind for efficiency, as is being done in some institutions. But monetary reward and remuneration alone will not satisfy the ambitious, enthusiastic and dynamic employees. If due recognition is given for drive and initiative, it will go a long way in helping the prosperity of the Corporation.

To a great extent the efficiency of the administrative machinery can be toned up by providing adequate opportunities for promotion. It is an undeniable fact that efficiency in the Life Insurance Corporation all over the country is attaining newer heights with employees working with enthusiasm initiative, gusto and zeal and determination to live up to the standards as set out in the emblems of the Life Insurance Corporation.

Training to Sales Force:

Constantly train your sales force about the importance of claims and make them understand the problems faced by the claims department. Importance of disclosure of material facts has to be drilled into our system. Only when all proponents/policyholders believe in giving the facts, our system will improve on the claims front.

Unlike its life counterpart, non-life insurance poses quite a few challenges to the claims managers. The very fact that there is no 'assurance' from the insurer prompts the policyholder to look for reasons to enforce a claim. It should be understood that insurance is a mechanism to make good the loss arising from any covered peril. In the absence of this awareness, policyholders look forward to making a 'rightful' claim as they have been paying the premiums regularly for some time. It is hoped that the increase in awareness levels would eventually arrest this trend.

For insurance claims to be just and rightful, it is very important that the other 'agencies' involved like the hospitals and TPAs in the case of health insurance; the garages in the case of motor insurance etc. desist from the practice of encouraging the enforcement of a claim or inflating the claim values in a genuine one.

(21) To eliminate the evils of too much specialization as well as the monotony and drudgery of routine work there should be frequent job-rotation as is being practicised in the nationalized banks.

(22) A distinct and separate "complaints or co-ordination cell" should be formed at each office. This cell will analyses all the complaints and grievances of the policy-holders, locate the common pattern of such complaints and suggest timely practicable remedies. It will also forward its findings to other offices in the Division so that red –tape and bureaucratic delays could be minimized.

It is suggested that the panacea for all the complaints lies in properly educating the policy-holders regarding their duties, raising the staff strength commensuration with the increase in the number of policies, maintaining high standards in direct recruitment tests without granting exemption to any class, except by way of relaxation in age, providing fair pay scales and adequate promotional opportunities to the paying employees, sufficient importance to the policy holders servicing functions, eradicating nominal agencies, giving greater importance to the appraisal of development officers, ensuring proper co-ordination between different departments, bettering employer-employee relations and creating a sense of continuous involvement in the employees.

It has been observed by critics that the Life Insurance Corporation has been able to implement in practice various settlements arrived at with the association of the employees in the matters of giving adequate promotion to class III and class IV employees. For one reason or the other the employees have not been benefitted timely and properly. An early action in this matter will booster the moral of the officials, should be taken up by the Corporation. There seems to be a lot of stagnation at so many levels and trained-efficient workers are working at a fixed salary as their promotions have been delayed for one reason or the other. This gives birth to dissatisfaction and inefficiency among the workers.

In the Life Insurance Corporation a stable agency force is also lacking in spite of the realization of the need for it on the part of its officials. This is due to divided emphasis on new business production figures and inadequate attention being paid on appraising the performance of its functionaries and offices at all levels. It is suggested that a specific cadre of such agents should be made one of the principal items in appraising the performance of development officers, Assistant Branch Managers (Development) and Branch Managers.

SUGGESTIONS TO ENLARGE LIFE INSURANCE IN INDIA

Suggestions to enlarge life insurance market are as under:

1. For the development of the life insurance sector, improvement in the insurance density and insurance penetration is required. Development of products including special group policies to cater to different categories should be a priority, especially in rural areas.
2. Consumer awareness campaigns should be encouraged to improve insurance literacy levels by conducting workshops and general meeting in both in urban and rural areas.

3. The life insurers should conduct more extensive market research before introducing insurance products targeted at specific segments of the population so that insurance can become more meaningful and affordable.
4. Institutions like universities & colleges should be encouraged to spread insurance awareness and educating the students/ customers about life insurance benefits.
5. Policyholders' should be made aware of their rights and obligations. Policy holders should know the essential aspects of sales talk, insurance policy, claim form, claims processes etc.
6. Insurance companies adhere to fair trade practices and transparent disclosure norms while addressing the policyholders or the prospects and
7. Life insurance companies should comply with the Advertisement Code as prescribed by the ASCI (Advertisement Standard Council of India) to ensure that misleading advertisements are not issued.

IRDA guidelines impact on surrender value of traditional products

The Insurance Regulatory and Development Authority (IRDA) has issued guidelines for life insurance policies which will have an impact on the settlement of surrender value of traditional products (endowment, money-back, whole-life and term plans).

The minimum guaranteed surrender value for traditional plans has been pathetic. The existing guaranteed surrender value is 30% of all the premiums paid minus the first-year premium and is paid only if premiums have been paid for three years. This has been improved to some extent by the guidelines. For traditional plans with PPT of less than 10 years, the guaranteed surrender value will accrue *after the second year*. For PPT of 10 years or more, there will be a guaranteed surrender value *after three years*. This guaranteed surrender value will be 30% of total premiums paid. The surrender value becomes 50% between the fourth and the seventh years. The surrender value after seven years will have to be cleared by the regulator.

In case the policy is surrendered in the last two policy years, then the surrender value will be 90% of the total premiums paid less any survival benefits, if the term of the policy is less than seven years.

BIBLIOGRAPHY

BIBLIOGRAPHY

BOOKS

Agarwala, Amar Narain		Life Insurance in India-A Historical and Analytical-Allahabad Law Journal Press, Allahabad
Ali Sajid, Mohhamad Riyaz	2007	"Insurance in India", Regal publications, New Delhi.
Randre , Ajit & Ahuja, Rajeev		Life Insurance in India-Emerging issue-Indira Gandhi Institute of Development Research.
Mitra, Debabrara & Gosh, Amlan		Life Insurance in India-Abhijeet Publication
Ray, R.M.		Life Insurance in India-Its History, Law, Practice & Problem-Indian Institute of Public Admin.
Palande, P.S., Shah, R.S. & Lunawat , M.L	2007	Insurance in India-Changing policies and Emerging Opportunities-Response Book, New Delhi
Sadak ,H.		Life Insurance in India-Opportunities, Challenges and Strategies, Response Book.New Delhi.
Ray, R.M.		Life Insurance in India-Perspective in social security, Indian Institute of Public admin
Bishnoi, Ashutosh	2007	Insurance Products (Including Pension Products), Indian Institute of Banking & Finance, Taxmann, New Delhi
Chaturvedi, H., Kumar, Dharmendra & Singh, Rahul	2005	India Insurance Series-I, Birla Institute of Management Technology, Greater Noida India

Tyagi, C.L. & Tyagi, Madhu	2007	Insurance Law & practice-Antlantic Publisher & Distributers (P)Ltd. New Delhi
Gurusamy, Dr. S.	2009	Indian Financial System-Tata McGraw-Hill Education Private Ltd., New Delhi.
Pal Singh, Surya	1974	Investment Pattern of the Life Insurance Corporation of India, Sahitya Bhawan Agra
Bawa, Suminder Kaur	2007	"Life Insurance Corporation of India– Impact of Privatisation and Performance" Regal Publications, New Delhi
Choksi, A.C, Joshi, R.C, Gami, N.D, Saraiya, Y.V	1994-95	Insurance-Principles & Practice", Popular Prakashan, Surat
Desai, Vasant	2005	Fundamentals of the Indian Financial System-New Challenges, New Initiatives", Himalaya Publishing House, New Delhi
Gupta, S.P.	1982	Statistical Methods", Sultanchand & Sons, Delhi
Kothari, C.R.	1996	Research Methodology - Methods &Techniques, Wishwa Prakashan, New Delhi
Kothari, N. S. and Bahal, Dr. Pravesh	1989	Principles and Practice of Insurance, Sahitya Bhavan, Agra
Mahaptra, Sandhya Rani & Patnaik, Sovankumar	2007	LIC for Social Sector Development, Sonali Publication, New Delhi
Mishra, M.N.	2004	Insurance Principles & Practice, S. Chand & Company Limited, New Delhi
Mishra, M.N. & Mishra, S.B.	2007	Insurance Principles and Practice S. Chand & Company Limited, New Delhi
Pal, Karam, Bodla, B.S. & Garg, M.C	2007	Insurance Management–Principles and Practices. Deep & Deep Publications Pvt. Ltd., New Delhi

Pal, Nabendu & Sarkar, Sahadeb	2006	Statistics- Concepts and Applications, Prentice-Hall of India Private Limited, New Delhi
Parmar, S.J.	2001	Financial Efficiency- Modern Methods, Tools & Techniques, Raj Book Enterprises, Jaipur
Patel, D.R.	2002	Accounting and Financial Management" Atul Prakashan, Ahmedabad
Patel, J.H., Joshi, P.M, Kasundra, N.C.	2004-05	Statistical Analysis, C. Jamnadas & Company, Ahmedabad
Patel, N. C.	2006	Life Insurance Purchase Guide Book", Bima Gyan, Ahmedabad
Patel, N. C.	2006	All Life Insurance Products, Bima Gyan, Ahmedabad
Periasamy, P.	2008	Principles and Practice of Insurance" Himalaya Publishing House, Mumbai
Poojari, P. C.	1985	Insurance Salesmanship", Federation of Insurance Institute, Bombay
Ravichandran, K.	2007	Recent Trends in Insurance Sector in India, Abijeet publications, Delhi
Sancheti, D.C.& Kapoor, V.K.	1999	Statistics–Theory, Methods & Applications", Sultanchand & Sons, New Delhi
Sarkar, Partho	2006	Hand book for Life Insurance Agent's Pre-Licensing Examination" Taxmann
Shukla, Somesh & Rastogi, Himanshu	2007	Insurance Law & Principles of Insurance", New Royal Book Company, Lucknow
Taxman	2002	Insurance Law Manual" Taxman Publication
Taxman	2001	Insurance Law Manual with IRDA Regulation 2001, Taxman Publication

Tandon, B. B.& Vashisth, A. K.	2002	Financial Sector Deep & Deep Publication Pvt. Ltd. New Delhi
Tripathy Nalini Prava & Pal Prabir	2006	Insurance-Theory and Practice", Prentice – Hall of India Private Limited, New Delhi
Verma, S.B., Upadhyay, Y. & Shrivastava, R.K.	2007	Risk Management in Banking And Insurance, Deep & Deep Publications Pvt. Ltd, New Delhi
Vinayagamoorthy , A.	2007	Commerce and Information Technology", Serials Publications, New Delhi
Yadav. Surendra	2005	Insurance Law
Krishnaswamy, G	2009	A Text Book on Principles and Practice 0f Life Insurance, Excel Books, A-45, Narina Phase-I, New Delhi.

LIC LITERATURE

Annual Reports of LIC	2004-05 to 2010-11
LIC Profile	2000-01 to 2009-10
Wings Ready Reckoner	2006
LIC Diaries	2000 to 2010

JOURNALS AND PERIODICALS

The ICFAI Journal of Risk and Insurance		
The ICFAI Journal of Insurance Law		
IRDA Journal		
Yogakshema		
VIKALPA • VOLUME 30 • NO 3 •	JULY – SEPTEMBER 2005	Insurance Industry in India: Structure, Performance, and Future Challenges S Krishnamurthy, S V Mony, NaniJhaveri,

Insurance Watch

Insurance World

The Insurance Times

Insurance Chronicle

Insurance Advisor

WEBSITE

www.licindia.com

www.irda.gov.in

WWW. Indiacore.com

APPENDICES

INSURANCE TERMINOLOGY

This chapter deals with the terms which are commonly used in the business of insurance. These are technical terms and have specific meanings in the context of insurance policies. While every insurance contract will have different conditions attached, there are some common terms that apply to all policies.

Insurance:- Insurance is a contract whereby one party (the insurer) agrees, in consideration of money, called the premium, paid to him by another party (the insured or the policyholder) to indemnity the latter against loss resulting to him in the event of a certain happening or to pay a specified sum of money in the event of a certain happening.

Insurer:- An insurer is the person, individual or company, granting insurance protection. In India, apart from the LIC, only companies can be insurers. In certain countries individuals perform the job of an insurer.

Proposal:- Every insurance transaction starts with a proposal in writing, which is made by the person who wants to take out an insurance policy. The proposal will state details of the risk to be insured and the cover that is sought.

Underwriter:- An underwriter, who assesses the risk involved and decides whether the insurance asked for can be given or not if it is to be given what the terms of insurance should be and the premium to be charged.

Premium:- The premium is the consideration to be paid for the insurance. When the insurance contract is completed, the risk commences and a policy is issued by the insurer.

Endorsement:- An Endorsement is an amendment to the standard conditions printed in the policy. The clause making the amendment would be written separately on the policy or written on a separate piece of paper to be attached to the policy. Such additional endorsements which are attached subsequently to the policy, must be signed by the insurer. With computers capable of printing each policy separately, endorsement would be necessary only if an alteration is being made, subsequently to the issue of the policy.

Subject matter of Insurance:- The subject matter of insurance is that which is insured against loss due to a peril. When a claim arise it has to be seen whether damage has been caused to the subject matter of insurance. In case of life insurances, the subject matter will be human beings.

Sum Assured:- The sum assured is always stated in the policy document. This becomes the basis for payments to be made by the insurer under the policy. In life policies, the payment whenever due, is a fraction or a multiple of the sum assured plus bonuses, if due.

Term:- The term of the insurance is the period during which the insurance cover remains effective.

Conditions:- The policy will state conditions, which are to be met in order that the promise of the insurer is operational, Failure to company with the conditions can adversely affect the obligations under the contract. There are three kinds of conditions. Condition precedent is requirements to disclose material facts, which are essential for the policy to be valid. Condition subsequent are requirements like giving notice of change, while the policy is in force. If these conditions are not met, the policy may cease to be operational. It may lapse. Condition precedent to liability are requirements like notice being given of the happening of the event within a stated period of time.

Assignment:- Assignment means transfer of rights and liabilities of the policyholder to another person, who is called the assignee. The person, who makes the assignment is called the assignor. On assignment, the assignor loses rights over the policy. In life insurance, the consent of the insurer is not necessary but the insurer has to be informed when an assignment is made.

Claim:- A Claim is made by the policyholder, when the insured event happen and the insurer is asked to fulfill his promise to pay compensation for losses. In a life insurance policy, the person who makes the claim in the event of the death of the policyholder is called the claimant.

Premium Reserve:- Premium reserve refers to the amount from the premium set aside by the insurer to meet the liabilities. The premium received in a year is meant to meet contingencies during the term of existing policies. These terms will extend beyond the end of the current accounting year. Therefore a part of the premium has to be set aside for such contingencies that may yet arise, but are covered by the current insurance policy. In the case of life insurance business, the life fund is the premium reserve. All the revenues are added to the life fund and all outgoes are met out the Life Fund.

Mortality:- Mortality (Death rates) and Morbidity (other than death loss rates) tables are prepared showing expectations of death and sickness. The 2nd National Family Health Survey (NFHS-2), the Mortality and Morbidity Investigating Centre, an affiliate of the Institute of Actuaries of India (IAI) and the Life Insurance Council and Insurance Regulatory and Development Authority are involved in preparing and updating such tables which reflect the experience in India.

Actuary:- A actuary is a person who is qualified in matters relating to technicalities of insurance. In the course of becoming an actuary, a person learns about statistics (which deal with probabilities), Economics, Finance, and Investments. A actuary will keep abreast of developments affecting these subjects, so that he would be in a position to make a reasonable forecast about the future in interest rates, life spans, demographic changes, etc. He calculates and certifies that the insurer's premium rates are viable.

Ex-gratia:- Ex-gratia payments are sometimes made by insurers, although strictly under the terms of the policy, the claim is not payable. This is usually done, when the insurer is satisfied that there has been a minor irregularity, but that the conditions of insurance have been met substantially.

LIFE INSURANCE

Premium:- The premium paid at the commencement of the policy is called the First Premium and the subsequent premiums are called Renewal Premiums.

Convertible policies:- Convertible policies allow conversion of a whole life policy to an Endowment policy within specified periods, on the request of the policyholder, without any further evidence of health. The insurer will not reassess the risk at that time. The premium will change because the term of the policy would have changed on conversion.

Days of grace:- Days of grace are allowed to pay the premium, which varies according to the mode. In case the premium is not paid within the days of grace there is said to be a default in the payment of premium. Then the policy is said to Lapse. When a policy lapses, the benefits guaranteed by the insurance policy will not remain the same. They may be totally lost or partly lost, depending on the period which has elapsed since commencement and the terms of the contract. Under certain conditions, When a policy lapses, the policy may be converted into a paid up policy, which will secure the benefits of the original policy, but with reference to a smaller sum assured. No further premiums are required to be paid in a paid up policy. Lapsed policies can be brought back to the original status through, what is called, the Revival process.

Deferred Date:- Deferred Date is a date in the case of a children's policies, when the risk cover begins, if the risk does not begin on the date of commencement itself. The deferred date, in the case of annuity, is the date when the annuity begins. The period between the date of commencement of the policy and the deferred date is called the deferment period.

Nomination:- It is possible to make a nomination under the policy. The nominee will be able to give a valid discharge to the insurer, if there is a death claim. The policy continue to remain the property of the policyholder, unlike in an assignment. Therefore, when the policy matures, the policyholder himself and not the nominee will give the discharge.

Assignment:- The policyholder can transfer all the rights under the policy to another person by making an assignment in favour of that other person. That other person is called the assignee.

Bonus:- Bonus is payable on with profit policies which are taken with a right to participate in bonuses.

Surrender Value:- Surrender refers to the request of the policyholder to terminate the policy before it becomes a claim by death or maturity. The amount, which is then payable to the policyholder, is called Surrender Value. This amount will be less than the premiums paid under the policy, It varies between insurers.