

# A STUDY OF A STATE MONOPOLY ENTERPRISE IN OPERATION

*(The Manifesto of the Forum of Free Enterprise, published in 1956, had pointed out "that in the circumstances prevailing in our country today, there is ample room for State enterprise to function alongside of Free Enterprise in the service of the people. Monopoly of any kind, whether State or private, is undesirable. Should any single organisation arrogate to itself the right to do everything, it would upset the delicate mechanism of a free and democratic social order. Under monopoly conditions, the consumer would be forced to buy only that which is offered to him, the worker would find himself gradually deprived of his right to choose his job, to demand higher wages, and to deny his labour; the investor and the entrepreneur would be denied the opportunity to promote the development of industries of their choice." In the light of these words, the following article, reproduced from "Financial Express" of Bombay, of April 10, 1963, is to be studied seriously by all citizens who believe in rapid economic development of the country through democratic means. The Forum of Free Enterprise is grateful to the Editor of "Financial Express" for granting the necessary permission to reproduce this article by the Financial Correspondent of the paper.)*

Although it was not "with a feeling of complacency and satisfaction" that the chairman of the LIC announced the "happy news" that "the Corporation has added Rs. 137 crores of new business" during the 15 months from January 1962 to March 1963, a tinge of complacency was implicit in his statement. A careful analysis of the figures for the period from 1957 up-to-date shows, however, that complacency apart, one should be rather seriously concerned at the fact that for the first time since its inception six years ago, LIC's business this year shows a decline.

The position is summarised in the table on the other side. During the period 1957-61, the amount of new business put through by the Corporation has not only been increasing but, except for one year in 1959, it has been increasing at a faster rate. With the adoption of the official financial year for its annual accounting purposes from 1963 onwards, the amount of new business shown for the year 1962-63 relates to a period of 15 months.

Thus, though the concluded new business at Rs. 745 crores during 1962-63 shows a net increase of Rs. 136.18 crores, i.e., about 22.9 per cent over the figure of Rs. 608.82 crores for the calendar year 1961, this increase is more apparent than real, because when we reduce the figure of Rs. 745 crores proportionately to a period of 12 months, there appears an actual fall in the amount of new business. The proportionate figure for 12 months working out to Rs. 596 crores, the fall will be of the order of Rs. 12.82 crores or about 2.2 per cent over the 1961 figure.

In terms of monthly averages, new business which stood at Rs. 28.7 crores in 1958 and which spurted to Rs. 50.00 crores in 1961 fell to Rs. 49.8 crores per month during the 15 months from January 1962 to March 1963.

This fall in business becomes glaring when we consider that the change-over from calendar year to financial year was made precisely with the objective of increasing business by eliminating the "after-examination spirit" to which the LIC agents were subject in the months of January and February, the post-harvest season, when they should in fact be most active in the rural areas. Thus, the last 15 months to which the figure of new business relates include two post-harvest seasons instead of one.

Even in respect of the average amount per policy, the latest business shows poorer results than in the previous year. The average per policy has been showing a continuous rise since 1957 with the result that the figure which stood at Rs. 3,433 in 1957 rose to Rs. 4,143 in 1961. Calculation of a precise average for the year 1962-63 is not possible because the figures at our disposal are only approximate ones. However, assuming on the basis of the chairman's speech that 18 lakh new policies were taken out during the period, the average per policy works out to about Rs. 4,139 which is lower than the corresponding figure for the year 1962.

The lapses occurring every year in the new business concluded in the previous year is a serious problem facing the Corporation. Whether the lapses reflect the deleterious effect of the increase in the general price level and the savings capacity of the insured population, or whether it indicates the extent of pressure the prospective clients are subjected to by the agents, they cause monetary losses to the policy holders as well as the Corporation, and also mean termination of life insurance protection for a large number of families.

The lapse ratio which fell to 5.1 in 1958 from 6.4 in 1957, has been continuously on the increase ever since and stood at 7.0 in 1961. To counteract such a tendency the Corporation now insists that premium for three months should be paid along with the policy proposal and the effect of this device remains to be seen.

In our country where the total business in force on December 31, 1961, related to 83.36 lakh policies, which means that the number of persons covered was less than this, life insurance is very far

from the stage at which further expansion must necessarily slow down. This might perhaps happen in countries where new policies could be sold only to new entrants to the labour force, or to those adding to their insurance cover. Even in a country like the United States, however, the rate of growth of new business has remained high despite the fact that two out of three persons were already insured at the end of 1960.

What then is the reason for the fall in LIC's business? A favourite explanation of course is the national emergency and the Central budget. But a significant trend in the business of the year was that as much as Rs. 606 crores of it was written during the last nine months from July 1962 to March 1963 which includes the emergency period, the earlier six months accounting for an amount of Rs. 139 crores only. The blame for the poor performance should, therefore, be laid elsewhere than at the door of the national emergency.

**NEW BUSINESS**  
(In crores of rupees)

Year	Amount	Increase	% increase
1957	283.07	61.61	21.8
1958	344.68	84.49	24.5
1959	429.17	68.37	15.9
1960	497.54	111.28	22.4
1961	608.82	136.18	22.7
1962-63			
(for 15 months)	745.00	-12.82	-2.2
(Proportionate for 12 months)	596.00		(Between 1961 figure and 1962-63: Proportionate for 12 months)

*The views expressed in this leaflet are not necessarily the views of the Forum of Free Enterprise.*

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