AN OPEN LETTER TO L.I.C.

By

"Peregrine"

To :

Chairman, Life Insurance Corporation of India, Jeevan Kendra, Jamshedji Tata Road, Bombay.

May I congratulate you on your report before the meeting of the Corporation held last Monday in Bombay? The report presents impressive figures of L.I.C.'s growth—actual premium income of Rs. 112.30 crores in 1961 against Rs. 93.98 crores in the previous year; new business Rs. 608.82 crores against Rs. 497.54 crores in 1960, or 22.4 p.c. increase.

Most of the papers have sung hallelujah to L.I.C.; but allow me to put in a note of discord. L.I.C. deserves a lot of clapping, yes. But also, noisy boos. Not only heaps of bouquets, but also a few brickbats. As most of the papers have handed you the bouquets, I have chosen to hurl brickbats.

I am not good at figures; but there is an anomaly in your figures which seems significant. The business in force in 1961, you said in your statement, totalled Rs. 2,737 crores against Rs. 2,285 crores in 1960. This means an increase by Rs. 452 crores or by 19.8 p.c.

This amount, I suppose, accounts for the new business plus the revived business. But surprisingly this marginal increase in "business in force" is smaller than the new business in the same year claimed in another part of your speech. The new business in 1961, you claimed, totalled Rs. 608.82 crores, but the marginal increase in "business in force" was Rs. 452 crores—a difference of Rs. 156.82 crores.

Unless there is an accounting jugglery, this amount—Rs. 156.82 crores—gives the measure of what is called first year lapsation, the amount of business insured but lapsed in the very first year.

My information is that the first year lapsation in 1961 was still higher —about 30 percent of the new business or about Rs. 182.4 crores. This is the average figure for the whole country; in certain areas, it was still higher, atrociously higher. Jalpaiguri area is an instance. Lapsation ratio to the new business in the area in 1961 was 59 percent.

Would you please contradict me if my information is found wrong? Exact findings are available in your files, locked inside filing cabinets.

Nowhere in your statement, published in most major dailies in India, can I find any mention of the first year lapsation, which is the only key to the soundness and quality of the new business about which L.I.C. drums are beating so loudly. There was a chance reference to this in a report of your statement, published in a Bombay daily. You said, according to this report, that against 14.70 lakh policies issued in 1961, 5.46 lakh policies lapsed. Although this is higher than 30 percent of the new business, this meagre information does not enlighten us either on the amount of insured money lapsed, or on the share of policies lapsed in the first year in the total of 5.46 lakh policies lapsed.

It does not anyway make the percentage of first year lapsation, at my calculation, look like a moonshine, either!

I am therefore sticking to my figure of Rs. 182.4 crores as the closest approximation to the actual figure of first year lapsation last year. A majority of this, I further claim, is the first premium lapsation which is very costly from the viewpoint of insurance business economics.

Suppose, out of Rs. 182.4 crores of first year lapsation, Rs. 150 crores are the amount for the first premium lapsation. What happens is that this amount is entered in the books to add up to the total impressive figure of new business; but L.I.C. pays through its nose for this paper figure. The loss to L.I.C. is accrued this way.

A policy for Rs. 10,000 (whole life

convertible, without profit) may be issued against a person, real or fictitious. The first monthly premium is Rs. 15.86 (It will, of course, vary according to the age of the insured). Against this gain to L.I.C., the following amount has to be paid out : Medical fee — Rs. 16; commission to the agent—about Rs. 3.50; stamp fee, postal registration and acceptance letter—about Rs. 4.50, office-on-cost expenses such as stationery, clerical man-hours etc.—about Rs. 5.00 (per ten-thousand-rupee policy),—totalling Rs. 29.00

In other words, a policy for Rs. 10,000, if lapsed after the payment of the first monthly premium, will cost the company a net amount of about Rs. 13. Calculated on the assumption that Rs. 150 crores worth of new business lapsed in 1961 after the payment of the first premium, L.I.C. lost a net amount of about Rs. 19,50,000.

This is loss in monetary terms, but a still larger loss is in efficiency of L.I.C. staff. Since Mr. Morarji Desai stated in the Lok Sabha in 1959 "I should like to reach the figure of Rs. 1,000 crores in work as early as possible", L.I.C. has instituted a race towards a yearly target which is expected to reach the magic figure of Rs. 1,000 crores by 1966. You have yourself admitted that this is "a very high target."

Apparently, the yearly targets of new business fixed by the Corporation are found to be high too. In the unhealthy rush to fulfil the target by any means, L.I.C. offices enter unsound, if not downright fictitious business, in the books. It is good to have a yearly finishing post and to set a race for it. But unless the rules of the race are revised, it may not always go to the fair.

As things are now, acquisition of new business is considered more important than the servicing or retention of business. High on the list of the appraisal formula for a field worker, under whom agents work, stands the supreme criterion of increase in gross completed business, which makes or mars his chances of promotion. The formula also takes into account the standard of "satisfactory service to policyholders" and the expense ratio (the relation of expense to premium income). But the gross increase in new business is what eventually carries the day. Its place on top of the criteria for assessing a field worker's worth has more than a mere symbolical meaning.

It is this supreme emphasis on recorded new business, it is complained, contributes to first-year lapsation and causes an unnecessary loss to L.I.C. Worse still, it creates a condition where officials are likely to be promoted not on the basis of over-all servicing or quality of business acquired, but on that of mere volume of new business, much of which may be unsound or simply fictitious.

Sometimes, the race for reaching targets can take a vaudeville turn. Last year, I am told, in Calcutta Division alone, about Rs. 20 crores of new business was acquired in a single day, obviously the last day of the calendar month.

Only four weeks before this sensational 'catch', Calcutta held a Branch Managers' Conference and it was found that less than a half of Calcutta area's quota of Rs. 65 crores has been reached. Telephones buzzed and hurried conferences were held; even then, a way has to be found to net the staggering amount of Rs. 20 crores within twenty-four hours—the last day of the year—to save the prestige of this Division. This means a crore of business was made per waking hour, if not faster !

History will probably repeat itself this year too. New business, in this area, according to your records, has not gone beyond Rs. 21 crores on August 15. But the target for the year is Rs. 80 crores. Will you kindly keep a close watch on how the gap is closed in the last few days of the year ?

There is nothing new in my allegation. Everyone talks about the mysterious way insurance business expands during the last few days of the calendar year. And that these talks do not emanate from irresponsible quarters is evident from the records of the Lok Sabha Estimates Committee report published in April last year. The Report said :

"The Committee were told that the Corporation was laying more emphasis on the expansion of its business and adequate attention was not paid to the servicing aspect."

The concentration of new business in the last part of the year attracted the notice of the Committee, and you must have read its suggestion that "the lapses from the business written in the last quarter of the year should be worked out separately for each month and published in the Annual Reports of the Corporation."

I have not seen the draft of the Annual Report for 1961; but your statement, in connection with its submission, does not give any hint that the L.I.C. will follow up the Estimates Committee's advice. The only concession that you chose to make is to set up "a machinery to review the lapse position periodically" and check "any adverse trend" detected at an early stage.

Noble, bureaucratic words which will fail to pacify me—and others—unless "the adverse trend" is made public. I—like millions of others—have a right to know the actual condition of L.I.C. both as a citizen and as a policy-holder.

Yours sincerely
Peregrine.

Calcutta,
August 31, 1962.

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