

PRIVATE ENTERPRISE SHOULD BE ALLOWED IN LIFE INSURANCE INDUSTRY

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At the time of nationalisation of life insurance, too much publicity was given to the reduction of Re. 1 in premiums over the Oriental rates. The official communique, announcing a reduction of Re. 1 for every Rs. 1,000 of sum assured, stated that the 'present premium rates of 95 per cent. of the life insurance companies in India are stated to be higher than the rates quoted by the Oriental' which was not correct.

In fact, the premium rates of the Oriental were among the highest, and the rates of most of the other Indian companies were lower. They were compelled to quote lower rates in order to compete with Oriental, the giant among Indian insurers. An example may be cited here. The premium for a 25 years' with-profits policy at age 30 was Rs. 43-9-0 in the case of Oriental but only Rs. 42-7-0 in the case of New Asiatic. Thus even after the reduction of Re. 1, the premium charged by the LIC is higher than the one charged by the New Asiatic by one anna. But under the Differential Bonus Plan announced by the LIC in October, 1961, the endowment bonus in the case of New Asiatic policies has been fixed at Rs. 14.08 per thousand against Rs. 12.80 for the policies issued by the LIC.

The endowment bonus in the

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case of Oriental was Rs. 18 per thousand. Considering the fact that premium rates were reduced by Re. 1 per thousand, the bonus should not have been less than Rs. 17. This shows that the working of the LIC is not satisfactory and that its efficiency is lower than that of the Oriental. The justifiable expectations of the policyholders about higher bonus have also been belied.

No doubt, the volume of new business completed has been increasing every year and in 1961, it amounted to Rs. 609 crores. But this cannot be taken as an index of LIC's efficiency. Life insurance business was growing steadily from year to year even before nationalisation. Much of this increase in business can be attributed to the natural growth of life insurance. With the steady increase in population, employment and national income, the volume of new life business is bound to increase. However, it would be interesting to know the lapse ratio in respect of new business. Unfortunately no information is available to the public in this respect. There is a general feeling that it is unduly high.

The practice of rebating has increased considerably. Before nationalisation, rebate was usually offered by agents of weaker companies to solicit business. Agents of good companies got business more on the goodwill of their companies. After nationalisation, the position has changed materially. As there is

no other difference for the agents to offer as inducement, the offer of rebate is the only inducement in canvassing business. It is common knowledge that agents compete for business by offering high rebates. A proposer can easily get the agent's commission on the first year's premium as rebate. LIC does not object to accepting premiums partly by cheque and partly in cash. The latter is always item of rebate. In the beginning LIC refused to accept such payments. But later on, it was allowed presumably to facilitate rebating. Thus even the LIC connives at the practice. Dummy agencies continue as was the case before nationalisation. LIC has done nothing to abolish them. These dummy agencies are an active medium of rebating. In most instances, the work is done by the field officers to whom such agencies are attached.

There is general complaint of unreasonable delay not only in attending to letters and inquiries but also in the settlement of claims. The value of insurance is considerably reduced if there is delay in the settlement of claims. LIC's outstanding claims are reported to be in the neighbourhood of Rs. 13 crores, money which is probably badly needed by those entitled to receive it. To avoid delays, a novel suggestion might be adopted. LIC should be made to pay interest at 6 per cent. if the claim is not settled within a month. The amount should be deductible from the salary of persons responsible for the delay.

Before the nationalisation of life insurance, the benefits of the companies' prosperity and the country's declining mortality were being steadily passed on to the policyholders in the form of a reduction in premiums. After the LIC's advent in the field, life business has gone up and the expense ratio has gone down. Average life expectancy of Indians has also improved substantially. But there has been

no reduction in premiums. Had there been competition in life business as before, policyholders would have certainly benefited by a reduction in premiums. But the case for a reduction in premium rates remains.

LIC agents are not properly trained inasmuch as they are not able to suggest policy plans to suit individual requirements. In most cases, endowment plans are proposed. That this is so is clear from the fact that two-thirds of the new business consists of endowment policies. Of course, more recently the practice is to recommend a multi-purpose policy. The present writer can cite his own case as an example. He wanted a policy to provide for the marriage of his daughter. He was straightway asked to take a with-profits endowment policy. He had to tell the agent that for marriage and education policies, premiums were lower by 7 to 8 rupees per thousand. Apparently, the agent was not aware of the cheaper policy plans to suit particular needs. Agents and field officers should be well trained so that they may guide the prospective policyholders in the selection of policy plans to suit their individual requirements. Marriage and education policies can be easily made more popular. First, their premium rates are lower. Secondly, under the existing social set-up marriages involve a heavy expenditure. Similarly, every parent desires his child to get the best possible education which may not be financed out of his current income.

Reference may also be made here to the Retirement Benefit Plan of the United India which admirably suited the requirements of those who wanted to get a good coverage of risk at low rates and yet provide for retirement benefits. This plan provided for the payment of Rs. 50 per month for 15 years certain or Rs. 7,500 cash down at the age of 55 or 60 but the

premium was much lower than an endowment policy for Rs. 7,500. This plan has now been discontinued. The present writer had assured himself under this plan. Now he finds that even after a reduction of premiums by Re. 1 per thousand, he would not be able to buy such an insurance at these low rates. He would strongly plead for the re-introduction of the Retirement Benefit Plan of the United India. There is very wide scope for the expansion of business under this plan because a very high proportion of the salaried class in India is not entitled to pension benefits.

The withdrawal of joint life policies is also without any valid justification. If there had been certain malpractices, attempts should have been made to check them by deterrent punishment of those found guilty. The former companies found it possible to continue them without much difficulty. What was possible for the old companies, should be possible for the LIC as well.

Another matter which the LIC should consider seriously is the abolition of further issue of with-profit policies. Only one class of policies, that is, without-profit policies, should be retained. Besides the fact that it will fit into the pattern of a classless society, there are many sound reasons to support this abolition. First, before nationalisation the rate of bonus declared was a chief element in the competition for new business. In the absence of competition, there is no justification for the retention of with-profit policies.

Second, without-profit policies also contribute to the profits of the LIC but without any compensation in return. This is not fair to the without-profit policyholders.

Third, the object of insurance is to provide maximum coverage of risk at the lowest rates of premium.

This is only possible through without-profit policies, where premiums are lower. Fourth, if with-profit policies are abolished, the entire profit of the LIC can go to the national exchequer and thus contribute to national development. Fifth, it would dispense with the problem of detailed valuation at the end of every alternate year. It would also lead to a reduction in administrative expenses and the expense ratio. After every five years, there can be a valuation to determine whether any reduction in premium rates is possible or an increase is called for. Finally, it would lead to a reduction in premiums for without-profit policies because of (i) lower expense ratio and (ii) elimination of the contribution towards profits. And with a reduction in premiums, even without-profit policies would have some investment value. The reduction in premiums would also lead to an increase in business because the benefit of reduced premiums in the present would prove far more attractive than the expectation of high bonuses to be received when policies mature.

The best way to improve the efficiency of the LIC would be to allow some sound insurance companies like Oriental and New India to start life business again. They would be competing for business with the LIC and among themselves. This competition would act as a spur to greater efficiency. However, if the suggestion is not acceptable for ideological reasons, another alternative would be to implement a suggestion made by the Committee appointed by the Congress Parliamentary Party to look into State Enterprises that 'the LIC would function more gainfully and effectively if it were not all one unit, but consisted of several which would develop their own character, create healthy competition in performance and results. Such a step would also help to effect economies and give oppor-

tunities for more talent to be utilised in positions of higher responsibility'.

If with-profit policies are retained, the participating policyholders should be allowed due representation on the Board of the LIC. Before nationalisation, they had a right to elect some Directors for companies in which they held policies. There is no reason why this representation should not be restored. All policyholders holding with-profit policies of not less than Rs 3,000 and with a standing of

three years, may be asked to elect at least one-third of the members of the LIC. They should have adequate representation in the Investment Committee also, so that they may have a real say in the affairs of the LIC. Even if with-profit policies are abolished, policyholders should have a right to elect some Members. That would be in keeping with the tradition of democracy.

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Published by M. R. PAI, for Forum of Free Enterprise, "Sohrab House", 235 Dr. Dadabhai Naoroji Road, Bombay 1, and Printed by P. A. RAMAN at Inland Printers, Victoria Mills Building, 55, Gamdevi Road, Bombay 7.