ROLE OF LIFE INSURANCE IN NATIONAL ECONOMY

ERA SEZHIYAN

1985

Published by

THE A. D. SHROFF MEMORIAL TRUST

235 Dr. D. N. ROAD,

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OBJECTIVES

(i) Publication of one or more books in English, Hindi, and regional languages annually on some of the great builders of Indian economy aimed primarily at educating the younger generation in high standards of building the national economy as practised by those great entrepreneurs and placing the example of their lives for emulation by India's youth.

(ii) Organising one or more memorial lectures annually on subjects which were of interest to the late Mr. A. D. Shroff, namely, banking, insurance, and industrial finance, the subjects to be chosen in rotation, and the lectures to be delivered by persons eminent in these fields.

(iii) Awarding annual scholarship or scholarships to outstanding student or students in the field of management.

(iv) Instituting a prize to be known as The A. D. Shroff Memorial Prize for the student standing first in Banking at the Sydenham College of Commerce, Bombay.

(v) Doing all such acts, matters and things as are incidental or conducive to the attainment of the above aims or objects or any one or more of them; and

(vi) Without prejudice to the above charitable objects or any of them, the TRUSTEES shall have the power to spend, utilise and apply the net income and profits for the charitable object of education or such of the TRUST FUND for the TRUST FUND for the charitable object of education or such other objects of general public utility not involving the carrying on of any activity for profit as the Trustees may think proper, it being the intention of the SETTLOR that the income and/or corpus of the Trust Fund shall be utilised for all or any of the aforesaid charitable objects without any distinction as to caste, creed, or religion.

INTRODUCTION

One of the objectives of the A. D. Shroff Memorial Trust is to arrange annual lectures either on Banking, Industrial Finance or Insurance, and to publicize them for the benefit of the public. The Trustees have been fortunate in inviting eminent speakers in those fields to deliver thought-provoking lectures.

The lecture for 1985 was presented by Mr. Era Sezhiyan on "THE ROLE OF LIFE INSURANCE IN NATIONAL ECONOMY". Mr. Sezhiyan has distinguished himself as a Member of Parliament and has served on various committees, including the Public Accounts Committee as its Chairman.

His mastery of the working of Parliament and the Government, and the specialized study carried out by him of the insurance industry as Chairman of the Review Committee of the Life Insurance Corporation of India, have rightly evoked great admiration.

Mr. Sezhiyan has not only made an excellent analysis of the functioning and ailments of the Corporation, but has also very ably presented a constructive approach as to the future trends and directions which the Insurance Industry will need to follow and the steps it will have to take for the benefit of the policyholders and the country at large.

On behalf of the Board of Trustees, I have pleasure in releasing the text of Mr. Sezhiyan's lecture in booklet form, in the hope that it will serve the cause of public education which was so dear to the Late A. D. Shroff.

N. A. PALKHIVALA
Chairman
The A. D. Shroff Memorial Trust

Bombay,
October 28, 1985.

A. D. SHROFF

(1899 - 1965)

A. D. Shroff's achievements in the field of business, industry and finance were many and varied. A large number of enterprises owe their origin and development to him. As an economist, his predictions have proved right over the years. Through the Forum of Free Enterprise, which he founded in 1956, as a non-political, educative organisation, he sought to educate the public on economic affairs. It was his firm conviction that a well-informed citizenry is the foundation of an enduring democracy.

George Woods, former President of the World Bank, paid the following tributes to A. D. Shroff :

> "In every age and in every society men must express anew their faith in the infinite possibilities of the human individual when he has freedom to develop his creative talents. For this is in large part how the message of freedom is passed from generation to generation. A. D. Shroff spoke eloquently in a great tradition, and thanks to him we can be sure that other great men of India will continue to speak this message in the unknown context of our future problems."

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ROLE OF LIFE INSURANCE IN NATIONAL ECONOMY *

ERA SEZHIYAN

1. About the subject matter "Role of Life Insurance in National Economy", I intend to deal with three important aspects of it, (1) Benefit of Life Insurance for the individuals and for the country, (2) The objectives and performance of nationalised insurance in India and (3) Attitude of the Government and suggestions for improvement.

SCOPE OF INSURANCE

2. Insurance is a means to provide a pool to which many contribute and from which a few, suffering losses, get due compensation. In case of fire to a property or death of an earning member, insurance undertakes to cover the loss or to give relief to the affected parties. In fact, life insurance came into existence several centuries later to general insurance and in the beginning life insurance operated to cover

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* This is the text of the annual public lecture organised by the A. D. Shroff Memorial Trust in Bombay on 26th April, 1985. Mr. Sezhiyan was Chairman of the Review Committee on Life Insurance Corporation (1979-80); A distinguished member of Lok Sabha (1962-67) and of Rajya Sabha (1978-84); Mr. Sezhiyan was Chairman of the Public Accounts Committee (1971-73) and Chairman of Papers Laid on Table Committee.

only the risk of death during a short period, very much like general insurance. Since the risk of death increases with age resulting in increase in premiums payable, the need for long-term insurance with level premium was felt. From this, the concept of a whole life policy with level premiums depending upon the age of the life assured at entry and payable throughout life was developed. Though premiums at an uniform rate are collected annually under these policies, in the earlier years of a policy the premium paid will be in excess of the amount required to cover the risk whereas this excess is accumulated to provide for the shortfall in the premiums in the later years for covering the risk. Thus in the schemes of life insurance, the concept of savings with risk cover was born.

3. The calculation of premium rates was thus based on three factors, namely the rate of mortality, the rate of interest and the expenses of management. As it was not possible for any expert to forecast exactly the future experience in respect of these factors, the insurance companies made conservative estimates to provide for all possible variations. As the policyholder should not be made to suffer on account of such conservative estimates, the concept of with-profit policy was evolved under which the benefit of a more favourable experience than the one assumed was returned to the policyholder in the form of an addition to the sum assured called "bonus". In due course as the policyholders began to expect bonuses as a matter of right, the Insurance Companies began to charge deliberately an extra amount for accumulation and payment of bonus, this extra charge being called "bonus loading".

Thus in the Endowment Assurance Policy which is the most popular plan in the field of life insurance, the premium consists of (i) savings element, (ii) risk element, (iii) expenses of management and (iv) bonus-loading. Though the premiums are calculated on the basis of past experience and future expectation, we shall see later how distortion in respect of one component affects the outcome of another resulting in deprivation of a legitimate benefit due to the policy-holder.

SOCIAL WELFARE

4. Insurance is a social service in providing security against a contingency which an individual citizen left to himself cannot cope up with. In a country where the Government has the complete control over all economic resources and distribution, it is conceivable that all citizens get due protection from the state against any type of risk. Even in a welfare state where the government undertakes various social welfare schemes to give relief to the underprivileged in times of distress, there is limitation to the capacity of the government itself in providing full cover against all losses and contingencies. Over and above the paucity of resources available to the government, there may be a disproportionate allocation of funds of the government and a social welfare scheme may not get a fair share or priority it deserves.

5. India is an underdeveloped economy with a low level of per capita income. The World Bank in its World Development Report (1984) has classified various countries (126 in number) on the basis of

TABLE

Per Capita GNP and Central Government Expenditure in Social Welfare

Country	GNP per capita (in Dollars 1982)	Percentage of Governmental expenditure on Social Welfare Schemes (1981)
India	260	4.2
Australia	11,140	29.4
Canada	11,320	34.1
West Germany	12,460	59.8
U.S.A.	13,160	36.9
Switzerland	17,010	49.0

Source : World Development Report, 1984 of the World Bank, Tables 1 & 26.

Note : In the World Bank Report, the classification given actually relates to "Housing and community amenities, and social security and welfare" which cover (1) public expenditure on housing, such as income-related schemes; on provision and support of housing and slum clearance activities; on community development; and on sanitary services, and (2) public expenditure for compensation to the sick and temporarily disabled for loss of income; for payments to the elderly, the permanently disabled, and the unemployed; and for family maternity, and child allowances. The second category also includes the cost of welfare services such as care of the aged, the disabled, and children, as well as the cost of general administration, regulation, and research associated with social security and welfare services.

Gross National Product (GNP) per capita and India with per capita income of $260 occupies the 11th place from the bottom. The picture becomes more dismal with the alarming rate of population growth, prevalence of chronic unemployment and under-employment, low capital formation, imbalance in distribution and growing inequalities. In such conditions of economic misery, while the main objective of planning, namely eradication of poverty, has proved so far a wild goose-chase, there is every need for social security or welfare measures to bring some relief to the needy and the neglected.

6. It is ironical, if not painful, to note that in countries like India with very low per capita income, the allocation by the Government on social security and welfare schemes is miserably low whereas countries with very affluent per capita figures are able to spend a high proportion on the social welfare schemes. Table on page 4 gives these particulars taken from the World Bank Report.

7. Many benefits offered by the social welfare and security schemes in the above Table could well be taken care of by one or other plan/type of insurance, provided the needy persons have sufficient incomes and savings to buy the desired insurance. Poverty and insufficiency are clearly marked for large sections in India where with a low per capita GNP of $260 the government allocates a miserable 4.2 per cent whereas developed countries with high level of per capita income ranging from $10,000 to $17,000 have governments earmarking 40 to 60 per cent of their expenditures in

social welfare schemes. The story of the poor getting poor attention and the rich a generous one! From this survey, it is obvious that for a long time to come, insurance in India has a significant role to play in providing security to the teeming millions of disadvantaged people.

LIFE INSURANCE IN INDIA

8. In India, life insurance business was started by the Oriental Life Assurance Co. in 1818 in Calcutta, to be followed by Bombay Life (1823) and Madras Equitable (1829). The first statutory measure to regulate the insurance companies and their business was made by Government in 1912 under the Indian Life Assurance Companies Act. The Indian Insurance Companies Act, 1928 enabled Government to collect and publish annually full statistical information of life and general insurance business in India. The Insurance Act, 1938 gave comprehensive powers to the Government for detailed control over the activities of all insurers, both Indian and foreign.

9. In 1956, life insurance business was nationalised. The prime objective of this historic move was spelt out by the Finance Minister, Mr. C. D. Deshmukh, in his broadcast to the nation on the eve of nationalisation, as given below:

> "The nationalisation of life insurance is a further step in the direction of more effective mobilisation of the people's savings. It is a truism which nevertheless cannot too often be repeated, that a

nation's savings are the prime mover of its economic development. With the Second Plan in the offing, involving an accelerated rate of investment and development, the widening and deepening of all possible channels of public savings has become more than ever necessary. Of this process, the nationalisation of insurance is a vital part."

10. Moving the Life Insurance (Emergency Provisions) Bill, 1956 in the House of People on 29.2.1956 the Finance Minister stated:

"Insurance is an essential social service which a welfare State must make available to its people and the State must assume responsibility for rendering this service once it is clear beyond reasonable doubt that it cannot be provided in any other manner. So, while it is the failure of the general run of insurance companies to live up to the high traditions demanded of them that has led the Government to take this step, I would like to emphasize that nationalisation in this field is in itself justifiable. With the profit motive eliminated, and the efficiency of service made the sole criterion under nationalisation, it will be possible to spread the message of insurance as far and as wide as possible, reaching out beyond the more advanced urban areas and into hitherto neglected, namely, rural areas."

11. The Administrative Reforms Committee in its Report on Public Sector Undertakings (October 1967) recommended that Government should make a comprehensive and clear statement of the objectives of each of

the Public Sector Undertakings. Government accepted this recommendation but decided that the statement should be formulated by the undertaking itself with the approval of Government. In pursuance of this, the LIC formulated its objectives in June 1974 as under:

"(i) Spread Life Insurance much more widely and in particular 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 adequate financial cover against death at a reasonable cost.

(ii) Maximise mobilisation of people's savings by making insurance linked savings adequately attractive.

(iii) 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 community as a whole, keeping in view national priorities and obligations of attractive return.

(iv) Conduct business with utmost economy and with the full realisation that the moneys belong to the policyholders.

(v) Act as trustees of the insured public in their individual and collective capacities.

(vi) Meet the various life insurance needs of the community that would arise in the changing social and economic environment.

(vii) Involve all people working in the Corporation a sense of participation, pride and job satisfaction through discharge of their duties with dedication towards achievement of Corporate objectives."

PROGRESS OF NATIONALISED INSURANCE

12. During the last 28 years, the Life Insurance Corporation has reported rapid progress in many directions.

From a total new business of Rs. 278 crores under 8 lakh policies in 1957, LIC has recorded a new business of Rs. 4,387 crores under 24 lakh policies in the year 1983-84. For the financial year ending 31st March, 1985, the new business is estimated to be over Rs. 5,500 crores. The Bombay Division alone has done a new business of 511 crores.

During this period 1957 to 1984, the business in force has risen from Rs. 1374 crores to Rs. 30,266 crores and the Life Fund from Rs. 409 crores to Rs. 9,800 crores, the annual accrual being over Rs. 1100 crores.

In the area of settlement of claims which is an important service to the policyholders, the performance of LIC has been commendable. The percentage of outstanding claims to the claims payable during the financial year 1983-84 was 12.64 per cent (sum assured). This compared favourably with the performance of some of the leading companies in India before nationalisation, the figures in 1954 being Oriental (36%), Bombay Life (50%), New India (59%), National (75%).

The Renewal Expense Ratio has been the traditional index for measuring the cost of service to policyholders. Against the 'prescribed' limit of 15% under the Insurance Act for the Renewal Expense Ratio, LIC has brought it down from 17.3% for all insurers in 1955 to 12.42% in 1961, but later the ratio went upwards touching the highest level so far of 18.97% in 1974-75. In subsequent years, there was a steady fall coming to 11.16% in 1983-84, well below the prescribed limit.

The LIC has also managed to reduce the staff requirement to handle the ever-increasing volume of business and millions of policies in force. The number of staff available to service one lakh policies in force in 1958 was 502 whereas it has come down to 208 in 1984. The workload on an employee has thus increased to 2½ times since inception of the Corporation, on the assumption that all operations required for servicing the policies are fully and satisfactorily performed. Simplification and rationalisation of work procedures in some areas might have helped reduction in staff requirement. But there has been no scientific assessment of workload vis-a-vis staff strength in the LIC.

13. Generally, the progress in terms of new business, business in force, life fund, etc. are phenomenal. But there are other areas more vital to the welfare of the policyholders and the well-being of the organisa-

tion wherein there is a woeful regress in the performance of LIC. As one who welcomes the nationalisation of insurance, I still believe in the utility of nationalised insurance as a social scheme and as a national means for mobilisation of people's savings. But we cannot afford to ignore the ineptitude of the management and the inexcusable negligence of the Government, which threaten to defeat the very purpose of nationalisation and the objectives of LIC.

14. Spread of insurance to the rural parts and to the socially and economically backward classes was a foremost objective of nationalisation and of the LIC. The new business from rural areas which was 38.5% (by number of policies) of the total business for the year ending 31st March, 1963 has declined to 35.1 per cent for the year ending 31st March, 1984. The craze for new business figures has made the LIC concentrate in urban areas and that too among the salaried class. NCAER Survey has shown that 35.1% of the salaried earners were insured and that of the self-employed farmers only 2.3% were insured. Further, it has been found that only less than 10% of the total insurable male population is covered by life insurance.

15. Even the potential for insurance available in the States with higher level of per capita income appears not to have been exploited properly. The per capita annual income in the State of Punjab was Rs. 2278 and that of Haryana Rs. 1867 (at current prices in 1979-80). The Chandigarh and Jullander Division of LIC accounted for per capita insurance in force at

Rs. 263 and Rs. 322 only whereas the Udipi Division gave per capita insurance at Rs. 453 in its area with per capita income of Rs. 1254 in Karnataka.

16. The undue importance given by LIC to the volume of new business in a year does not reveal the poor quality of business procured or the fragile nature of the agency organisation created. For the year 1983-84, the number of new policies issued and old policies revived was 24.96 lakhs whereas policies surrendered or lapsed during the year came to 10.34 lakhs representing a loss of 41.41 per cent.

17. That "life insurance has to be sold and is not bought" is too true in India. But LIC has not been successful in building a stable organisation of agents. The Review Committee shows that as on 1.4.1975, there were 1,61,013 agents in LIC. During the next four years, on an average, 35,473 new agents were recruited and 45,597 agents went out of business every year. This only reveals that even after two decades, LIC could not establish a stable organisation of some stability and commitment.

18. The twin objectives of a policyholder to have the risk cover and to provide savings for the future are fulfilled by an Endowment Assurance With-Profits Policy which plan accounts for 95 per cent of the total insurance written in a year. The components of an Endowment Assurance (with profit) of 20 year term for an insured at the entry age 30 will be as follows :-

Item	Amount Rs. P.	Percentage
Premium	51.50	100
Risk element	1.68	3
Savings element	25.65	50
Expenses	10.42	20
Bonus loading	13.75	27

It will be seen that the risk element forms a low proportion in the premium charged. This is the reason that an improvement in mortality affects only marginally the premium rate. Further, there will be a different experience in respect of the mortality rate of lives covered by insurance as there is rigorous medical examination and careful selection of lives by insurance companies. Thus an improvement in mortality experienced in the country as a whole, does not lead to a substantial reduction in the premium.

FAILURE TO MOBILISE

19. From the point of view of the Government, the principal reason for nationalisation of life insurance in India was "more effective mobilisation of the people's savings". It was contended that "the widening and deepening of all possible channels of public savings" had become necessary for accelerated rate of investment and development in the planned economy. It is true that among many factors responsible for under-

development of a country, the most important is lack of capital formation. As well-known, capital formation comes out of domestic savings and capital-in-law ; the domestic savings accrue from three areas, viz. household sector, private corporate sector and public sector. Of these life insurance seeks to mobilise financial savings in the household sector. Expressed as a percentage of the gross domestic product, the domestic saving has risen from 10.0 per cent in the First Plan to 23.9 per cent in the fourth year of the Sixth Plan. I do not want to go into the paradox of high rates of saving accompanied with either declining or constant rate of growth of national income. The Working Group on Savings of RBI conceded "the possibility of inefficient use of investments in fixed capital or under-utilisation of capacity in some industries, and needless additions to inventory holdings".

20. The Reserve Bank of India "Report on Currency and Finance 1983-84" gives detailed statistics on absorption of the savings of the household sector. A summary of this for the financial years 1970-71 to 1980-84 is given on page 15.

The household savings attracted by insurance has fallen from 10.6 per cent to 7.3 per cent whereas there has been an increase from 41.3 per cent to 46.6 per cent in respect of deposits in Banks and non-Banking companies. Mobilisation under "Claims on Government" representing investment bonds, national savings, etc. which accounted for about half of the share of insurance in 1970-71 had exceeded the efforts of insurance by over Rs. 200 crores in 1983-84. Life Insurance is loos-

Composition of Financial Savings of Household Sector

Amount in Rs. crore at current price

	Item	1970-71	1983-84
	Total Savings	2,085 (100)	19,000 (100)
1.	Currency	355 (17.0)	2,794 (14.7)
2.	Deposits in Banks and non-Banking Companies	862 (41.3)	8,849 (46.6)
3.	Insurance	220 (10.6)	1,386 (7.3)
4.	Provident/Pension Funds	422 (20.3)	3,217 (16.9)
5.	Claims on Government (Investment Bonds, National Savings)	113 (5.4)	1,594 (8.4)
6.	Others	113 (5.4)	1,160 (6.1)

Source: RBI Report on Currency and Finance, 1984, Vol. II Statement 10.

ing ground against other media of savings and the proclaimed objective of nationalisation for "more effective mobilisation of the people's savings" remains unfulfilled.

21. The primary reason for inability of the life insurance to compete with other media in attracting

savings of the people has been that the return on the investment of life insurance funds is found to be lower than that available on other savings media. The gross return on life insurance fund was 9.19 per cent in 1983-84. If deductions are made for the expenses of management, income-tax and the share of surplus, the net yield will be less than 7 per cent which does not compare favourably with bank deposits (11%), company deposits (15%), Unit Trust (14%) or Post Office Savings (11.5%).

22. The Review Committee, with which I had the honour to be associated as its Chairman, made several recommendations to fulfil the objectives and to improve the functioning and the image of the Corporation as a viable savings medium. As the operations of the Corporation have expanded enormously and there has been a serious deterioration in the service to the policyholders and in the financial controls, the Committee felt that the present unitary structure had been a major factor in inhibiting progress and recommended formation of five independent non-competing corporations in the place of a single organisation.

23. At the time of discussion of LIC Bill, 1956 itself a strong section of opinion in the Select Committee and in the Parliament advocated establishment of five independent corporations competing with each other, but the Government preferred to have a single corporation "to start with" and the Finance Minister and the Prime Minister did not rule out a split-up if subsequent experience made it expedient. Later, the Estimates Committee (1961) and the Com-

mittee on Public Undertakings (1965, 1968) were unhappy about the "monopolistic and monolithic" structure of the Corporation and suggested the setting up of a number of Corporations. The Administrative Reforms Committee (1968) and the Morarka Committee (1969) though favoured retention of the unitary structure, recommended abolition of the Zonal Office and decentralisation of powers. Though the Government accepted the recommendations of these two Committees, efforts to abolish the zonal tier met with difficulties and the status quo ante was restored in no time.

24. Of the various recommendations made by the Review Committee, only the suggestion for restructuring of the Corporation attracted much publicity and criticism, thanks to the introduction of the Life Insurance Corporations Bill, 1983. I was not enthused by the contents of the Bill and did not feel sorry when it was reported that the Bill might not be pursued further. Excepting for the splitting-up of the Corporation, that too not in the way suggested by the Review Committee, the Government and the bill ignored completely other valuable recommendations and further complicated the situation by surreptitiously introducing in the Bill some extraneous considerations to suit the convenience of the Government and the management.

25. Even now, I stand by the recommendations of the Committee on the formation of five independent non-competing corporations. Those who opposed the LIC split-up Bill, however, raised a bogey of "divisive force" "parochial interest" etc. as the outcome of such a restructuring. There was also apprehension that a

split-up of the Corporation might hamper the trade union activities. Nothing could have been farther from the truth. Personally I had been associated for over two decades with a major insurance employees federation as a Zonal President and as an All-India Vice-President. Further the most emphatic form of recommendation for "completely independent corporations" came from the Committee on Public Undertakings (Third Lok Sabha) whose views and recommendations are reproduced below:

> "The Committee have considered this matter carefully. They are convinced that the tardy growth of business, deterioration of service to the policyholders which have been brought out in Chapters IV & V are ascribable to the present size and centralised organisation of the Corporation".
>
> "The Committee feels that if the standard of efficiency in the Corporation is to be improved, with better service to policyholders, and the Corporation is to expand its business on a massive scale, its present Zones must be constituted into completely independent Corporations."

26. It may be noted that this Committee consisted of eminent Members of Parliament drawn from different regions and political parties such as M/s. P. Govinda Menon, Subhadra Joshi, H. C. Mathur, D. N. Tiwari, K. C. Pant, T. S. Pathabiraman (Congress), Homi F. Daji and M. N. Govindan Nair (CPI), S. N. Dwivedi (P.S.P.), N. G. Ranga (Swa.) and others. By no stretch of imagination could all these gentlemen and their parties be accused of "provincial chauvinism" or

"divisive interests". Stretching the same logic to other areas like the constitutional structure of India, one may very well demand abolition of all the States and the federation in India to give way for a unitary form of a Central Government only.

27. The main thrust of our recommendations was in two directions, (1) to extend the benefits of insurance to the hitherto neglected areas and (2) to initiate measures for improving the return to policyholders so that the savings-linked life insurance becomes viable and attractive in competition with other forms of savings. I am quite clear that formal splitting up of the Corporation by itself will not do a miracle unless other recommendations are implemented in right earnest.

HIGH PRESSURE AND LOW RETURN

28. As seen earlier, the LIC is losing ground in the matter of mobilisation of household savings, because of widening gap between what a policyholder gets on his savings invested in life insurance and what he can earn in other forms of savings. As mentioned in the Review Report, "if the LIC is still able to sell a substantial volume of savings-linked life insurance policies, it is mainly due to its high pressure selling on the one hand and lack of awareness amongst the general public of the relative merits of different savings media, on the other". (para 12-8). How long LIC should and could thrive on the sly art of high pressure selling and on the ignorance of the general public ?

29. To improve the return to the policyholders, the Review Committee made several recommendations, some of the important ones being:—

"(i) At present, the LIC is required to invest about 50% of its total investment in Government and other approved marketable securities. The Committee has noted that approved trust funds like provident funds and gratuity funds are required to invest only 40% of their total investment in such securities. The Committee, therefore, recommends that for the LIC also this percentage should be reduced to 40%, 20% in Government securities and 20% in other approved marketable securities.

(ii) In respect of 25% of the investible funds which at present are required to be invested in socially oriented projects, different rates of interest are offered on loans to Government, loans which are guaranteed by Government and loans which are granted to public sector institutions like the State Electricity Board on the security of a mortgage. The Committee is of the view that this distinction is unjustifiable and it recommends that all such loans should be granted at the market rates of interest for such term loans, which also is determined from time to time by the Controller of Capital Issues in case of debentures and by the consortium of financial institutions in case of term loans. At best, a differential of half a per cent may be retained for loans to Government, and also to semi-Government institutions, because of the implied Government guarantee.

(iii) As for the LIC's investments in the private corporate sector, the Committee has already noted that LIC's investments by purchases from the market have been generally very satisfactory and the capital appropriation on such investments has enabled the LIC to offset the depreciation on its investment in Government securities. However, LIC's experience in underwriting of equities of new projects has not been satisfactory. The Committee, therefore, recommends that LIC should restrict its participation in financing new projects in the corporate sector to term loans and that too after closely examining the financial viability of the project. This should not preclude LIC from considering cases where an existing company, well-managed and successful, goes in for further equity capital for financing an expansion or new projects where equity participation may be considered on individual merits. In short, the LIC should not be viewed as a developmental organisation.

(iv) So far as the balance of the funds is concerned, the Committee recommends that LIC should consider increasing its investment in the housing field, both residential and commercial housing, subject to the condition that the net return on such investments after taking into consideration the expenses involved, is not less than what is obtainable on comparable investments in the socially oriented sector."

It is not known what steps have been taken by the Government and the LIC after "active consideration" of these recommendations.

30. Inflation has badly eroded the purchasing power of the sum assured payable to the policyholder. Further, when the interest rates rise due to inflation, there is a depreciation in the market value of the fixed-interest bearing securities in which the funds of LIC are mainly invested. In U.K., the inflation had been more severe than in India. For the years 1970-82, U.K. experienced an average annual rate of inflation of 14.2 per cent whereas during the said period, India had a rate at a lower level of 8.4 per cent. But the insurers in U.K. invest heavily in equities and real estate and the very inflation which caused erosion to the value of money, was helpful in appreciating the market value of investments in equities and real estate. The U.K. insurers were thus in a happy position to mitigate the effect of inflation by declaring "terminal bonus".

LIC IN SLUMBERLAND

31. The Central Government appears to be more pre-occupied with what it can do with LIC than what it can do for LIC. It is like the proverbial story of cutting the golden goose! The institution that is meant to give security and stability to the policyholders, itself stands on feeble security and precarious stability. The Government pays little attention to healthy functioning of the Corporation, to prompt constitution of the Board and other Committees, to proper implementation of statutory requirements. For example, Section 4 of the LIC Act provides for appointment of 16 members to the Board whereas there were only 6 members as on 31st March, 1981, 5 in 1982, 4 in 1983 and 8 in 1984. Earlier the Act provided for a Board of 15 members

which was amended in 1976 to 16, for what purpose nobody knows !

32. During the first 25 years of its existence, the Corporation had as many as 12 Chairmen. The Review Committee felt that there should be some continuity in the post of the Chief Executive and recommended that the post of the Chairman should be treated as a tenure post with a fixed term of five years. The Government should have given some "deep consideration" to our Report submitted in September, 1980 with the result that from 17th September, 1982 there is no such executive at all as "Chairman" in LIC : Section 4 of the LIC says that one of the Members "shall be appointed by the Central Government to be the Chairman thereof". But the Government refuses to abide by this statutory mandate for the last 32 months. There is a C-in-C, a newly created nomenclature for the highest post in LIC. In the olden days of the British Empire, C-in-C would have been the Commander-in-Chief; in the LIC empire, he is only a Current-in-Charge !

33. For a huge organisation like LIC with the sole authority in the field of life insurance in the country and with vast funds accruing by Rs. 1100 crores a year, its functioning leaves much to be desired. There is no worthwhile research section or scientific market survey in the organisation. There is no feedback or reliable data processing. When the Review Committee wanted to assess the performance of LIC, it found that no statistics were available even on the number of lives insured ! The LIC and the Government are blissfully unaware even of the statutory obligations and account-

ability to the Parliament. When a Parliamentary Committee, of which I had the honour to be the Chairman, pointed out in 1982 that the LIC had not been submitting a Report to Parliament under Sections 27 and 29 of the Act, the Chief Executive appearing before the Committee said: "Yes, Sir, our organisation has overlooked this particular thing all these 25 years!"

34. It may be noted that the LIC is not subjected to the audit of the Comptroller & Auditor General. Invariably, a public sector undertaking with capital provided out of the Consolidated Fund of India comes under the ambit of the Comptroller & Auditor General whose comprehensive report on the financial working as well as the performance audit are to be placed before the Parliament. This ensures accountability to the Parliament. What is considered good for the public sector companies, for the General Insurance Corporation and its units, for a large number of financial and credit institutions including the State Financial Corporations, should be good for LIC also. Last year a Parliamentary Committee made a strong recommendation to bring LIC under the audit of the Comptroller & Auditor General of India. So far, the Government has not been inclined to accept such a suggestion to put LIC under the scrutiny of public audit.

35. All along the LIC Management has been living in a world of its own, untouched by criticism, unapproached by recent ideas of management and market research, unaffected by the decreasing share in mobilisation of public saving. Statutory requirements, Parliamentary strictures, public demand, nothing will disturb this modern Alice in slumberland. It takes some

time for LIC even to become aware of things like "Budget proposals of the Central Government", "the tax exemptions and concessions", etc. As you are aware, the Union Finance Minister presented on 16th March, 1985 the Budget wherein he announced abolition of compulsory deposit scheme, increasing the exemption limit of wealth tax, removal of estate duty, etc. But two days later, our glorious LIC came out with a huge advertisement in all leading dailies, i.e. on March 18, 1985, where they have in bold letters proclaimed the attractive tax reliefs that only LIC can give you in respect of Compulsory Deposit Scheme liability, estate duty provision, wealth tax where the net wealth exceeds Rs. 1.5 lakhs. The LIC and its advertisement were blissfully ignorant of the tax exemptions and concessions already announced by the Finance Minister.

36. Unless effective remedial measures are taken to resurrect LIC as a viable savings medium and as an efficient service organisation, the role of LIC will become decadent in the national economy. Instead of "widening and deepening" a possible channel of public savings, the Government may succeed in making the channel of life insurance narrow and silted; soon the flow will slow down and the unhealthy stagnant waters will become the breeding ground of disease and decay. The Government should come out of its blundering pastime in dealing with life insurance and the LIC management out of its slumbering world, otherwise the future of life insurance as a savings medium is very bleak and dismal in India!