Report

of the

Committee on Reforms in the Insurance Sector

January, 1994

Government of India
Ministry of Finance
Department of Economic Affairs, Insurance Division
Lok Nayak Bhawan, Khan Market
New Delhi - 110 003

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Chairman
Committee on Reforms in the Insurance Sector

New Delhi, the 7th January, 1994.

Dear Finance Minister,

I have the pleasure in submitting the report of the Committee on Reforms in the Insurance Sector which was set-up by the Government of India in April 1993.

The Committee would like to express its appreciation to the large number of representative bodies and individuals who responded to its questionnaire as well as to all those who were good enough to tender oral evidence.

The other members of the Committee and I would like to place on record our deep appreciation of the contribution to the Committee's work by its Member-Secretary, Shri M. P. Modi.

The Committee would also like to record its appreciation of the excellent support it received from Shri Niranjan Pant, IA & AS, Financial Advisor to the General Insurance Corporation of India who also ably co-ordinated the production of the report.

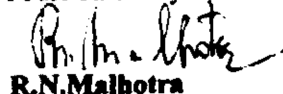
S/Shri P.C.Gupta, Zonal Manager LIC, S.A. Beyabani, General Manager GIC, R. Srinivasan, retired Assistant General Manager GIC provided valuable assistance by way of preparation of working group papers and analytical notes. S/Shri V. Swaminathan, retired Director and S.R. Rohilla, retired Under Secretary in the Ministry of Finance acted as consultants to the Committee and were of great help in ensuring its smooth functioning.

The Life Insurance Corporation of India, the General Insurance corporation of India, and the Unit Trust of India provided logistic support to the Committee for which it would like to convey its special thanks.

Shri R. Madaan worked untiringly to word-process the report and deserves a special mention of commendation.

With regards,

Yours sincerely



R.N.Malhotra

Dr. Manmohan Singh
Union Minister of Finance
Government of India
New Delhi.

Introduction

In furtherance of the *initiatives in the area of financial reforms covering the banking system and the capital markets aimed at creating a more efficient and competitive financial system suitable for the requirements of the economy keeping in mind structural changes currently underway,* and *recognising that insurance is an important part of the overall financial system where it was necessary to address the need for similar reforms,* the Government of India appointed a Committee on Reforms in the Insurance Sector in April 1993. The terms of reference of the Committee are as follows:

> "i. *To examine the structure of the Insurance industry as it has evolved within the existing framework and to assess its strengths and weaknesses in terms of the objective of creating an efficient and viable insurance industry providing a wide reach of insurance services and a variety of insurance products with a high quality of service to the public and serving as an effective instrument for mobilisation of financial resources for development.*
>
> "ii. *To make recommendations for changes in the structure of the insurance industry, as well as the general framework of policy, as may be appropriate for the pursuit of the above objectives keeping in mind the structural changes currently underway in other parts of the financial system and in the economy.*
>
> "iii. *To make specific suggestions regarding LIC and GIC, which would help to improve the functioning of these organisations in the changing economic environment.*
>
> "iv. *To review the present structure of regulation and supervision of the insurance sector and to make recommendations for strengthening and modernising the regulatory system in tune with changing requirements.*
>
> "v. *To review and make recommendations on the role and functioning of the surveyors, intermediaries and other ancillaries of the insurance sector.*
>
> "vi. *To make recommendations on such other matters as the Committee considers relevant for the health and long term development of the insurance sector or which are consequential on other recommendations made by the Committee, including changes in legislation where necessary."* (Appendix I).

2. Having regard to the technical attributes of the discipline of insurance and its role as a financial service, the Committee adopted the following course of action to go about its assigned tasks:

(a) Constitution of working groups from amongst senior executives of the Life Insurance Corporation of India (LIC) and the General Insurance Corporation of India (GIC) to collect, collate and analyse data and information regarding theory and practice of insurance in India and a few selected foreign countries under the guidance of various members of the Committee.

(b) Meeting with a large number of interest groups and opinion leaders across the length and breadth of the country to ascertain their representative and informed views on the present status and future development of the insurance industry. This was preceded by circulation of a questionnaire (Appendix II) to a number of such persons

and groups, some of whom were requested to appear before the Committee to give their views in person (Appendix III).

(c) Engagement of a well known market research agency to elicit popular perceptions about the insurance industry.

3. Chairmen of LIC and GIC made detailed presentations on the status, functioning, achievements and prospects of their respective organisations and also stated their institutional viewpoints regarding many issues before the Committee on the current status and future prospects of the nationalised insurance industry. They and some other senior executives were also heard by the Committee individually and collectively. The Committee met representatives of various associations of officers, staff, agents, and surveyors of the insurance industry and heard their views. In addition, a number of organisations and individuals also sent memoranda to the Committee. (Appendix IV)

Chapter I

Economic Reforms and Insurance

1.1 In considering possible reform of the insurance industry it is necessary to cast a brief look at the wide-ranging developments in economic policies, which have been underway since the middle of 1991 in the direction of liberalisation, notably in the fields of industry including the public sector and direct foreign investment, trade, the exchange rate regime, and finance. These structural changes seek to improve productivity, competitiveness and export orientation of the economy so that it may attain its full growth potential and be in a position to integrate with, and benefit from, the world economy. Together with the ongoing programme for correcting macro-economic imbalances, these measures should stabilise the economy, increase its efficiency, enhance inflow of investment and technology, expand the role of the private sector and allow greater play to market forces. Some of the salient elements of these reforms are indicated below:

a) Industrial licensing has been virtually abolished and is now restricted to a few specified industries, mainly for security, safety and environmental reasons. The requirement of special approval for establishment and expansion of industrial capacity for FERA companies and for large houses under the Monopolies and Restrictive Trade Practices Act has been dispensed with.

b) Industrial areas exclusively reserved for the public sector have been greatly reduced. Public enterprises which are chronically sick can be rehabilitated or wound up by the Board for Industrial and Financial Reconstruction. To raise resources and encourage wider public participation, part of the government share holding in selected public sector units is being offered to the general public, including workers.

c) A clear signal has been given that direct foreign investment is welcome. Approval for foreign equity upto 51% in 34 specified industries is available on an automatic basis. Individual cases involving equity participation of over 51% can be approved by the Foreign Investment Promotion Board. Automatic permission is also given for foreign technology agreements subject to specified limits.

d) There has been a decisive change in the thrust of trade policy. Quantitative restrictions on imports of raw materials, components, intermediates and capital goods have been drastically reduced, tariffs are being gradually lowered, canalisation of imports and exports has been reduced, and export incentives simplified. The rupee has been made convertible on trade account. Thus, the trade and payments regime is undergoing a sea change which should improve the economy's competitiveness and export orientation.

e) Of greater relevance to the task of the Committee are the changes underway in the financial system, including the banking sector and the capital markets:

i) the aim of banking reform is to strengthen the financial position of banks and to make them more efficient and competitive by enhancing their operational autonomy and accountability. Major policy-related constraints on bank profitability are being mitigated. Excessive pre-emption of bank

resources through statutory liquidity ratio and cash reserve ratio is being brought down. Coupon rates on government securities are being increased towards market clearing levels. Interest rates have been considerably rationalised. Time schedules within which banks are expected to reach Bank of International Settlements' capital adequacy norms have been prescribed. Prudential regulations relating to income recognition, loan loss provisions, and transparent accounting practices have been strengthened. Computerisation of banks is to be speeded up. Entry of new private sector banks has been permitted and a more liberal approach adopted regarding opening of branches of foreign banks operating in India. Capital support is being provided by the Government in case of weak nationalised banks. Stronger nationalised banks would access the financial market for augmenting their capital. Regulation and supervision over commercial banks and other financial institutions is being strengthened through the establishment of a board within the Reserve Bank of India.

ii) The capital market has shown phenomenal growth since 1980. Government has repealed the Capital Issues (Control) Act 1947 and no longer controls new issues of capital or their prices. Approved international institutional investors have been permitted access to the capital market. Strong Indian companies have been permitted to issue convertible debentures, bonds, and equities in foreign financial markets. These are important steps towards globalisation of the Indian capital market. The Securities and Exchange Board of India (SEBI) which was set-up in 1988 was given statutory status in January 1992. The SEBI Act, inter alia, empowers SEBI to regulate the business in stock exchanges, regulate mutual funds and intermediaries associated with the securities market, prohibit fraudulent and unfair trade practices relating to securities, and regulate substantial acquisition of shares and take-over of companies. Several measures are underway to improve investor protection, reform trading practices, enhance transparency of transactions, promote professionalism among brokers and encourage stock exchanges to computerise their functions. A national stock exchange is being set-up which will develop a secondary market in corporate bonds, link stock exchanges throughout the country, and facilitate electronic trade. Steps are also being taken to enhance share depository facilities so that, in due course, the market can move to scripless trading.

iii) With improvement in coupon rates on long-term government paper a secondary market in such securities should soon develop. The money market is already quite active, thanks to introduction of new short-term instruments and growth in the number of participants.

1.2 Efforts are thus on to bring the Indian financial system to international standards in terms of its financial viability, competence, technology, prudential requirements, regulation and credibility. In recent decades, owing to rapid developments in telecommunications, information technology and transportation, growing activities of multinational corporations, banks, and securities businesses, and massive increase in cross-border movement of funds due to deregulation and progressive dismantling of exchange control regimes, world financial markets have become highly dynamic and increasingly integrated. While this is true mainly of industrial countries, several fast growing developing economies have also been integrating into these markets. India which is already regarded as an important

emerging market could do the same if its economic reforms are carried to their logical conclusion.

1.3 Economic reforms, particularly those relating to the financial sector, raise several important issues regarding the insurance industry including, importantly, the following:

a) A majority of areas previously reserved for the public sector have been thrown open to the private sector to strengthen the forces of competition. Competition is growing in the banking sector which already includes numerous public sector banks as well as private sector banks, both Indian and foreign. A similar trend is also evident among non-banking financial institutions, including leasing companies, mutual funds, merchant banks, and other intermediaries dealing with securities business. In contrast, life and general insurance companies remain state monopolies. LIC is a monolith. There is very little competition among subsidiary companies of GIC. The question arises as to why the consumer of insurance services should not be provided a wider choice so that he can get the benefits of competition in terms of range of insurance products, lower price of insurance covers, and better customer service.

b) As already indicated, part of government share holding in selected public sector enterprises, including profitable public sector banks, is being offered to the public. Should a similar policy be adopted for the insurance industry? If so, how far should disinvestment go in order to make the insurance companies operationally autonomous, efficient and competitive?

c) Regulation over the capital market as well as the banking sector has been considerably strengthened. On the other hand, thanks to nationalisation, regulation of the insurance industry has atrophied. Re-establishment of effective regulation over the insurance business is a crucial issue which would become all the more urgent if the sector were to be liberalised.

d) There is very high pre-emption of insurance industry's funds through government-mandated investments. This affects the financial results of insurance companies and has implications for rates of insurance premia and returns on savings invested in life insurance. Pre-emption of commercial banks' resources is being reduced. What changes should be made in regard to mandated investments of the insurance industry? The rapid growth of the capital market and likely development of government and corporate bond markets should offer greater investment opportunities and challenges to insurance companies.

e) Information technology is the key to better management, customer service, efficiency and competitiveness. It has not made much progress in the insurance industry. In this area, insurers abroad have a clear competitive edge over their counterparts in India. How to overcome this serious deficiency is an urgent issue that must be constructively addressed.

Chapter II

Indian Insurance Industry: a Perspective

Part I: **Life Insurance.**

2.1 Life insurance in its existing form came to India from the United Kingdom (UK) with the establishment of a British firm, Oriental Life Insurance Company in Calcutta in 1818 followed by Bombay Life Assurance Company in 1823, the Madras Equitable Life Insurance Society in 1829 and Oriental Government Security Life Assurance Company in 1874. Prior to 1871 Indian lives were treated as sub-standard and charged an extra premium of 15% to 20%. Bombay Mutual Life Assurance Society, an Indian insurer which came into existence in 1871, was the first to cover Indian lives at normal rates. The Indian Life Assurance Companies Act, 1912 was the first statutory measure to regulate life insurance business. Later, in 1928, the Indian Insurance Companies Act was enacted, *inter alia,* to enable the Government to collect statistical information about both life and non-life insurance business transacted in India by Indian and foreign insurers, including the provident insurance societies. In 1938, with a view to protecting the interest of insuring public, earlier legislation was consolidated and amended by the Insurance Act, 1938 with comprehensive provisions for detailed and effective control over the activities of insurers. In order to administer the aforesaid legislation, an insurance wing was established and attached first with the Ministry of Commerce and later with the Ministry of Finance. This insurance wing was administratively responsible for deciding policy matters pertaining to insurance. The actuarial and operational matters relating to insurance industry were looked after by an attached office at Shimla headed first by the Actuary to the Government of India, then by the Superintendent of Insurance and finally by the Controller of Insurance. The Act was amended in 1950, making far-reaching changes, such as requirement of equity capital for companies carrying on life insurance business, ceilings on share holdings in such companies, stricter controls on investments of life insurance companies, submission of periodical returns relating to investments and such other information to the Controller as he may call for, appointment of administrators for mismanaged companies, ceilings on expenses of management and agency commission, incorporation of the Insurance Association of India and formation of councils and committees thereof.

2.2 By 1956, 154 Indian insurers, 16 non Indian insurers and 75 provident societies were carrying on life insurance business in India. Life insurance business was confined mainly to cities and better off segments of the society.

2.3 On 19th January 1956 the management of life insurance business of 245 Indian and foreign insurers and provident societies, then operating in India, was taken over by the Central Government and then nationalised on 1st September 1956. LIC was formed in September, 1956 by an Act of Parliament, *viz.* LIC Act, 1956, with capital contribution of Rs 5 crore from the Government of India.

2.4 The then Finance Minister, Shri C.D. Deshmukh, while piloting the bill for nationalisation, outlined the objectives of LIC thus: to conduct the business with the utmost economy, in a spirit of trusteeship; to charge premium no higher than warranted by strict actuarial considerations; to invest the funds for obtaining maximum yield for the policy-holders consistent with safety of the capital; to render prompt and efficient service to policy-holders, thereby making insurance widely popular. In 1974, LIC formulated its objectives in pursuance of recommendations of the Administrative Reforms Commission as under:

> "i) *To 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, at a reasonable cost, adequate financial cover against death.*
>
> "ii) *To maximise mobilisation of people's savings by making insurance linked savings adequately attractive.*
>
> "iii) *To bear in mind, in the investment of funds, the primary obligation to its policy-holders, 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 and obligations of attractive return.*
>
> "iv) *To conduct business with utmost economy and with the full realisation that the moneys belong to the policy-holders.*
>
> "v) *To act as trustees of the insured public in their individual and collective capacities.*
>
> "vi) *To meet the various life insurance needs of the community that would arise in the changing social and economic environment.*
>
> "vii) *To involve all people working in the Corporation to the best of their capability in furthering the interest of the insured public by providing efficient service with courtesy.*
>
> "viii) *To 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 objectives."*

2.5 Since nationalisation, LIC has built up a huge 'life fund'[1] of the order of Rs 41,000 crore as on 31.3.93. It has a vast network of 1906 branches, 93 divisions and 7

1 'Life fund' is the sum total of premiums received to date and interest earnings less expenses of management and claims. It is out of this fund that future policy claims are paid.

zonal offices spread over the country. Its marketing force consists of 17,903 development officers and 4,95,745 full time and part time agents. From a 'new business'[2] of Rs 329 crore sum assured under 9.5 lakh policies procured in India during the period of 16 months from 1.9.56 to 31.12.57, LIC has progressed to the new business of Rs 35,957 crore under 99.6 lakh policies on individual lives in 1992-93. The first year premium received during 1992-93 reached the level of Rs 1609 crore from Rs 13 crore in the 16 month period ending 31.12.1957 (Appendix V). The 'business in force'[3] in India has similarly grown from a level of Rs 1375 crore under 54 lakh policies to Rs 1,77,268 crore under 566 lakh policies as on 31.3.93. The total premium, written in India, which represents LIC's annual mobilisation of funds and which was Rs 82 crore in 1957, now exceeds Rs 7,146 crore (Appendix VI). Group Insurance Business written in India, which was Rs 5 crore sum assured and Rs 21 lakh annuity per annum at the time of nationalisation, has, as on 31.3.1993, grown to 59,128 schemes in force, including group gratuity schemes, on 213 lakh lives which carry an insurance cover of Rs 43,087 crore. In addition, there are 3040 superannuation schemes in force on 2.7 lakh lives with annuities payable amounting to Rs 359 crore per annum (Appendix VII). The 'valuation surplus'[4] and, consequently, the bonus to policy-holders and the Central Government's share, (being 5% of valuation surplus in terms of section 28 of LIC Act, 1956), have been steadily increasing over the years. As a result of valuation as at 31.3.1993, the bonus on 'with profit' endowment assurance policies was declared at Rs 67 per thousand sum assured as compared with Rs 14 in 1957. For the year 1992-93, Central Government's share of the valuation surplus amounted to Rs 117.6 crore (Appendix XVIII).

2.6 Over the years, LIC has acquired a significant presence in the rural sector. Nearly 45% of its new business came from this sector during 1992-93. LIC has also been administering various group insurance schemes for economically weaker sections of society.

2.7 LIC has branch offices in UK, Mauritius, and Fiji. LIC has started marketing unit-linked products in UK since June 1992 with a working arrangement with the Sun Life, one of the leading life insurance companies in the UK. Premium income during 1992-93 in respect of business outside India amounted to Rs 40 crore. LIC formed a subsidiary company called LIC (International) E.C., in Bahrain in 1989 in collaboration with a local company. In Kenya, it has a joint venture, *viz.* Kenindia Assurance Company Ltd. in collaboration with GIC and its four subsidiaries and others.

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2 'New Business' denotes the total life insurance business written during the financial year.
3 'Business in force' is sum assured under policies in force at the end of a financial year.
4 'Valuation surplus' is excess of life fund over actuarially valued liabilities.

2.8 At the behest of the Committee, MARG conducted a market survey on sample selection basis among users of life insurance to assess their perceptions, to find out their satisfaction levels with LIC, and to elicit their reactions to possible liberalisation of the life insurance sector. The market survey also covered LIC's corporate clients (i.e., those who use its services for their employees) and agents, as also non-users of insurance services. The market survey has brought forth a variety of findings: awareness level of various 'plans' of LIC was quite limited even among the policyholders; 67% of respondents cited savings for the future as the main reason for purchasing life insurance, 45% said they wanted to provide risk cover for family in case of death, and only 19% mentioned tax benefits as a motivating factor; a majority of individual respondents who made claims on LIC felt that these were settled satisfactorily (75%) and speedily (67%), although the survey also brought out that average time taken to settle a claim was 87 days; about 64% individual respondents rated the quality of overall service to be excellent or good and only 3% rated it as poor or very poor; however, in regard to ingredients of operations-related service, a large majority of respondents said that while premium receipts were received punctually, they did not get policy documents for a long time after application, that they did not get premium/default notices in time and that premium receipts and policy documents had a lot of mistakes. Only about 57% respondents said that LIC followed their instructions promptly or made changes in nominations/assignments promptly and accurately; there was a feeling that LIC took long time to send payment on maturity; the general consensus was that LIC offered a range of policies suited to the policy-holders, yet it was also felt that the premia were too high; LIC policies were perceived to be an excellent investment inasmuch as they offered tax breaks, forced savings and funds for dependants in the event of the breadwinner's death, but at the same time there was a predominant feeling that yields on policies were not good; the agents and development officers were perceived to be very helpful and knowledgeable at the initial stage of selling a policy but the enthusiasm wore off later on after the policy was bought; LIC employees were regarded as courteous and helpful; LIC branches were stated to be not conveniently located; about half of the individual respondents did not favour the prospect of private life insurance companies for fear that money with private insurers might not be safe; responses of corporate policy-holders were less favourable to LIC than those of individual policy-holders as regards the quality of overall service; a majority of the corporate subscribers were satisfied with the yield; an overwhelming 92% of all corporate respondents felt that LIC had done an excellent job in spreading life insurance; like individual respondents, a majority of the corporate clients also viewed LIC employees to be courteous and efficient, but a third of them felt that they were not efficient; 60% of LIC's corporate customers felt that LIC was

innovative and developed schemes to suit their organisation's needs; while 72% of corporate respondents favoured private sector entry in the area of life insurance, 60% of them preferred a mix of public and private life insurance companies, with only 9% favouring 'only private sector' scenario; though there were fears that money with private insurers might not be safe, payment might not be guaranteed on death or maturity and tax benefits might not be available, the major advantages of privatisation were perceived to be more efficient and better service, more innovative schemes and timely payments of claims (Appendix VIII).

2.9 MARG findings as well as the statistics of growth furnished by LIC have to be viewed in relation to the progression, over the years, of relevant economic indicators such as population increase, economic growth, urbanisation and inflation. Besides, due consideration has to be given to the responses received by the Committee in their personal meetings with a number of opinion leaders and interest groups, including senior management and associations of staff and agents of LIC, and the replies to the questionnaire which, variously, showed a somewhat different picture. On the positive side, it was stated that LIC had achieved several of the objectives of nationalisation: it had spread the insurance culture fairly widely; mobilised large savings for national development and financed socially important sectors like housing, electricity, water supply and sewerage; acquired considerable financial strength and gained confidence of the insuring public; and, had built up a large and talented pool of insurance professionals. At the same time, several negative perceptions and constraints were mentioned. These indicated, for example, that: the vast marketing and services network of LIC was inadequately responsive to customer needs; insurance awareness was low among the general public; marketing of life insurance with reference to customer needs left much to be desired; term assurance plans were not being encouraged and unit linked assurance was not available; insurance covers were costly and returns from life insurance were significantly lower compared to other savings instruments due to, *inter alia*, excessive government directed investments of LIC funds; the marketing organisation was weak and turnover of agents extremely high; development officers concentrated on their incentives to the neglect of training the agents and building up an efficient agency organisation; there was excessive lapsation of policies; while the coverage of the 'insurable population'[5] did go up from 10% in 1971 to 22% in 1992, there was still a vast untapped potential; LIC management was top heavy and excessively hierarchical, especially at the central and zonal offices, the supervision and control functions in the organisation had considerably weakened; LIC was overstaffed; work culture within the organisation was unsatisfactory; trade unionism had contributed to the growth of restrictive practices; failure to adequately

5 'Insurable population' in LIC parlance means the male population between ages 20 and 60 years.

computerise had seriously affected the efficiency of the organisation and the quality of customer service; LIC's functioning was constrained in some respects as it was covered by the definition of 'State'; governmental interference also affected the organisation's functioning; LIC had become too big to be managed efficiently.

2.10 On the issue of introducing competition, a majority of those who met the Committee or responded to the questionnaire was in favour though some expressed reservations apprehending that new entrants would, on profit considerations, concentrate on more lucrative business to the neglect of the small man and the rural sector. In particular, the employees' unions and representatives of agents expressed opposition to this idea and drew attention to the poor financial health of several life insurance companies at the time of nationalisation.

Part II: **General Insurance**

2.11 General insurance would appear to have developed with the industrial revolution in the West and consequent growth of seafaring trade and commerce in the seventeenth century. It came to India from UK. To begin with, this business was transacted by British and other foreign insurance companies through their agencies in India. The first general insurance company, *viz.* Triton Insurance Company Ltd. was established in Calcutta in 1850 whose shares were held mainly by the British. The first insurance company to be set-up by Indians for transacting all classes of general insurance business was Indian Mercantile Insurance Company Ltd. in Bombay in 1907. The British and other foreign insurers had a good share of insurance business, about 40%, at the time of Independence. This share declined thereafter progressively.

2.12 In 1957, the General Insurance Council, a wing of the Insurance Association of India, framed a code of conduct for ensuring fair conduct and sound business practices in the general insurance industry. An administrative set-up headed by the Controller of Insurance was set-up in 1957 at Delhi with branch offices at Bombay, Calcutta and Madras for administering the code of conduct. Further, in order to increase retention of general insurance business in India, the insurers started a reinsurance company, *viz.* India Reinsurance Corporation Ltd. in 1956 to which they all voluntarily ceded 10% of their gross direct business. In 1961, by an amendment to the Insurance Act, this voluntary arrangement was formalised by notifying the Indian Guarantee and General Insurance Company Ltd., a government company, along with the India Reinsurance Corporation as 'Indian Reinsurers'. The cession to each of them was about 10%. Besides, the insurers also had a pooling arrangement in terms of which a percentage of their fire and marine hull insurance business was ceded to the Fire Insurance Pool and the Marine Hull Insurance Pool, respectively. Such business was retroceded among the same insurers thereby spreading a portion of the risk under every policy among the members of the pool. In 1968, the Insurance Act was amended again to provide for extension of social control over insurers transacting general insurance business. The amendments provided, *inter alia,* for regulation of investment of assets, setting up of the Tariff Advisory Committee (TAC) under the chairmanship of the Controller of Insurance, minimum solvency margin, licensing of surveyors and payment of premium before commencement of risk. The Insurance Act also gave powers to the Controller of Insurance, to carry out inspection, investigation, and search and seizure of books. These amendments to the Act came into force on 1.6.1969. Before, however, they could be effectively implemented, management of non-life insurers was taken over by the Central Government in 1971 as a prelude to

nationalisation. General insurance business was nationalised with effect from 1.1.1973 by the General Insurance Business (Nationalisation) Act. 1972.

2.13 Prior to 1973, general insurance was by and large city-oriented, catering mainly to the needs of organised trade and industry. One hundred and seven insurers including branches of foreign companies operating within the country were amalgamated and grouped into four companies, *viz.* the National Insurance Company Ltd., the New India Assurance Company Ltd., the Oriental Insurance Company Ltd., and the United India Insurance Company Ltd. with head offices at Calcutta, Bombay, New Delhi and Madras, respectively. GIC was incorporated as a company in November, 1972 and it commenced business on January 1. 1973.

2.14 The capital of GIC was subscribed by the Government of India, and that of the four companies, by GIC. All the five entities are Government companies registered under the Companies Act.

2.15 The general insurance business has grown in spread and volume after nationalisation. The four companies have 3151 branch offices, 1124 divisional offices and 77 regional offices spread all over the country. Net premium income has grown from Rs 222 crore in 1973 to Rs 3868 crore in 1992-93 (Appendix IX). Investments have increased from Rs 355 crore in 1973 to Rs 7328 crore in 1992-93 (Appendix X). GIC has been declaring dividend @ 25% for a number of years and has also issued bonus shares from time to time; the equity capital has increased from the original capital of Rs 21.5 crore to Rs 107.5 crore in 1992-93.

2.16 GIC and its subsidiaries have representation either directly or through branches in 18 countries and through associate/locally incorporated subsidiary companies in 14 other countries (Appendix XI). A subsidiary company of GIC, i.e. India International Pte. Ltd. is operating in Singapore and there is a joint venture company, *viz.* Kenindia Assurance Co. Ltd. in Kenya. A new wholly owned subsidiary called New India International Ltd., UK has also been registered. On the whole, the foreign operations of the general insurance industry after nationalisation have been profitable.

2.17 The purpose of establishment of GIC as a holding company of the four operating (subsidiary) companies, as stated in the General Insurance Business (Nationalisation) Act, is *superintending, controlling and carrying on the business of general insurance*. The functions of GIC as enunciated in the said Act are as follows :

> *"(a) the carrying on of any part of general insurance business as deemed desirable;*

"(b) aiding, assisting and advising the companies in the matter of setting up of standards of conduct and sound practice in general insurance business and in rendering efficient customer service;

"(c) advising the acquiring companies in the matter of controlling their expenses including the payment of commission and other expenses;

"(d) advising the acquiring companies in the matter of the investment of funds

"(e) issuing directions to acquiring companies in relation to the conduct of general insurance business."

2.18 It has also been stated in the General Insurance Business (Nationalisation) Act that GIC shall keep in mind the desirability of encouraging competition among the subsidiary companies as far as possible in order to make their services more efficient. Though the concept of holding company in the public sector was new at that time, the role assigned to GIC and the need for competition among the four subsidiaries were clearly brought out in the Act itself.

2.19 GIC was designated as the Indian reinsurer under section 101A of the Insurance Act, to which all the domestic insurers were obliged to cede 20% of gross direct premium in India. In order to ensure retention of maximum business in the country and to secure the best terms from foreign reinsurers, GIC and its subsidiaries have a common programme for reinsurance cessions. This programme is submitted by GIC to the Government of India for approval. The Reserve Bank of India (RBI) allows foreign exchange remittances on the basis of the approved programme. Over the years, the Indian insurance market has done well in achieving the objective of increasing market retention consistent with safety. The percentage of retained premium within the country was 86.6% in 1992-93 (Appendix XII).

2.20 Aviation (hull and liability) insurance of national carriers, Hindustan Aeronautics Ltd. and the International Airport Authority of India, is being written directly by GIC. A large proportion of this business is reinsured abroad.

2.21 In case of general insurance industry also, MARG was commissioned to conduct a survey in a number of segments, *viz.* general insurance-individuals (non-auto), general insurance-individuals (auto), general insurance-corporate, non-holders of general insurance policies, general insurance agents and general insurance surveyors. MARG findings present a wide spectrum: public awareness of GIC and its subsidiary companies is low: two-thirds of claimants (non-auto) are satisfied with their last claim settlement; respondents (auto) are moderately satisfied with the time taken to settle a claim; however, fair settlement of the claim amount seems to be an issue; in the case of corporate policy-holders, the distinct problem areas are the speed of claims settlement, speed and accuracy in payments and the handling of grievances;

general insurance companies fare very well in regard to overall service; most of the 'auto' respondents are dissatisfied with the post policy-purchase service by agents and also have some doubts about integrity of surveyors; although the employees are not rated high on efficiency and knowledge by corporate clients, they are perceived to be courteous, helpful and honest; corporate clients rated technical skills, honesty and integrity of surveyors as fair (in contrast with the individual respondents); a large majority of respondents, corporate as well as individuals, responded positively to the idea of allowing private entrants into the general insurance industry; corporate policy-holders think that this is expected to bring more efficient and better service (70%), quicker evaluation and settlement of claims (34%), less paper work (12%), and lower premia (24%); there are, however, apprehensions mainly as regards safety of money with the new companies; the ideal scenario is perceived to be a 'mixed' sector rather than exclusively public or private (Appendix VIII).

2.22 These observations and the growth of general insurance business have to be considered in light of economic indicators such as population increase, economic growth including, in particular, industrialisation, urbanisation and inflation, as well as the views gathered by the Committee itself in its meetings with the opinion leaders and interest groups including the management's of GIC and its subsidiary companies and associations of their staff and of insurance surveyors, and from written responses to the questionnaire. These covered a wide range. On the positive side, it was stated that: (a) the general insurance industry had built a large body of professional talent and was financially strong, (b) the subsidiaries of GIC were now in a position to function as independent companies, and (c) GIC had acquired a good standing in the international reinsurance market. The negative perceptions and constraints included: the expectation that GIC's four subsidiary companies would effectively compete with each other had not been realised; GIC had been exercising excessive and detailed control over the operations of the subsidiaries which inhibited the latter from developing an effective personality of their own; operational flexibility of the subsidiary companies had been greatly hampered by formal and informal controls from various sources, including the government; behaviour of general insurance employees, crucial at the cutting edge of the branches and divisions, was generally not customer-friendly; there was excessive staff; work culture, productivity and discipline among employees left much to be desired; awareness about general insurance among the people, particularly in the rural areas, was poor; the marketing of personal lines of insurance was poor; the spread of rural and welfare oriented insurance was very limited; technical knowledge of most agents and development officers was inadequate and they did not provide sufficient information in regard to the scope of available covers; there was considerable delay in issuing policies and other documents; there

was lack of competition due to tariffs and 'market agreements' in respect of non-tariff areas; there was little regulation of insurance industry since nationalisation; an effective and autonomous regulatory body was needed urgently and would in any case be inescapable in a liberalised scenario; management of GIC and its subsidiary companies lacked proper information support; there was little R & D effort; TAC was virtually an in-house wing of GIC and did not enjoy autonomy commensurate with its statutory status; TAC's interaction with the users of insurance was inadequate and its data base was deficient; its responses to rating issues were painfully slow; insurance executives felt inhibited in exercising discretion and taking timely and fair decisions because of apprehensions with regard to ex-post judgements of external agencies like the Central Vigilance Commission (CVC) and Comptroller and Auditor General (C & AG); there was a high level of dissatisfaction in the area of claims settlement, particularly relating to motor accidents and third party liability, and with the role of surveyors; and lags in computerisation had seriously affected operational efficiency and customer service.

2.23 The perceptions of respondents in the MARG survey are at variance in some respects with those expressed by interest groups who appeared before the Committee, though there are similarities also on many issues. The variations could be due to the fact that groups of persons surveyed by MARG were different from those who appeared before the Committee. The levels of expectations regarding the standard of service could also vary greatly between and within these groups. Also, the scope of discussions with the Committee was much wider than the issues covered in the MARG survey. Since there is a large variety of opinion not only among those who have responded to the questions posed in the MARG survey, but also among those who appeared before the Committee or responded to its questionnaire, it is difficult to reconcile these variations which have come to the Committee's notice. In any case, it would be futile to reconcile differing perceptions which are informed by strongly held positions.

2.24 However, the important issues arising out of various observations referred to above have been dealt with in the following chapters.

Chapter III

Insurance Intermediaries

3.1 Insurance marketing has some unique features. It has to identify uncertainties in the operations of an economic system and create general awareness to cover these uncertainties by selling insurance products. Credit institutions require insurance protection for the economic activities supported by them. Individuals and families need covers to sustain their standard of living upon death or disablement of the breadwinner. They may also require insurance linked savings with reasonable returns for their consumer needs, rainy days, and old age. Social regulations in many societies require employers to secure lives of their employees by obtaining for them (group) life insurance covers. Yet in a majority of cases in both life and non-life areas, ambiguity prevails over the necessity of obtaining insurance covers. Left to themselves, economic agents- whether individuals or groups- would rather carry their risks than buy insurance. The intangibility of the insurance product and the contingent nature of its delivery further accentuate the problem. Life insurance products are less intangible inasmuch as they generally have savings components and as death is also an ever present possibility. Yet life insurance needs more aggressive selling on account of competition from other instruments of savings and investment. It is said, therefore, that world over insurance is always sold rather than bought. Insurance intermediaries - agents, brokers, etc. - have probably a more onerous marketing job than their counterparts in many other trades and services.

Part I: Life Insurance

3.2 LIC has a three-tier marketing set-up, with the agent at the base, recruited, trained and supervised, normally by a development officer. Agents are common to all life insurance markets and work on commission basis. A development officer is a paid employee who also gets incentives relating to procurement of business. An assistant branch manager (sales) {ABM(S)} normally supervises development officers and looks after the sales section at a branch office.

3.3 At the time of nationalisation, there were three categories of agents designated as 'Chief Agents', 'Special Agents' and 'Agents', all of whom worked on commission basis. With the promulgation of LIC Act, 1956, all the contracts subsisting between insurers and their chief or special agents and between chief agents and special agents were terminated in accordance with the provisions of section 36 of the Act. Over 12,000 agents came over to LIC as direct agents and functioned under the supervision

of ABM(S) or branch manager (BM) in direct agent branches. The number of direct agents gradually increased to about 54,000 by March, 1993 (Appendix XIII). This increase was due to the fact that agents who worked under development officers became direct agents upon promotion, retirement, termination, etc. of development officers .

3.4 To recognise and encourage good agents, a system of club membership was started in 1971 at four levels of branch manager, divisional manager, zonal manager and chairman. Club membership allows agents facilities such as telephone, office allowance and loans to buy vehicles. It also gives an added status to these agents as they are allowed to attest certain documents.

3.5 LIC also started a programme for recruitment and training of urban career agents (in 1972) and rural career agents (in 1979). Urban career agents who were expected to work whole time for LIC on commission basis, were given stipend and intensive training and placed directly under BMs / ABMs in exclusive branches for career agents. Rural career agents who work on part time basis, under development officers, are also paid stipends. The move to raise a separate highly trained professionalised stream of young career agents started off well. Later, it lost its momentum because of inadequate encouragement within LIC, deterioration in standards of training, and lack of appropriate leadership at the branch level in career agent branches.

3.6 The vast majority of agents, numbering over four lakh are attached to development officers. By all accounts, the selection of these agents and their training leave much to be desired. Almost anyone who is perceived as a source of procuring a few proposals within his circle of influence is sponsored by the development officer for appointment which is routinely approved by the branch. The existing systems of training, tests and confirmation of agents are loosely administered and a high proportion continues as mere spotters without adequate knowledge or professional competence. There is a high turnover of these agents. In 1992-93, numbers of agents appointed and terminated were 1,50,402 and 1,09,190, respectively (Appendix XIV). Need based selling and post-sales service to policy-holders are inadequate even among many of the apparently successful agents. While the average performance of an agent has been moving up and stood during 1992-93 at 20 policies and Rs 7.25 lakh sum assured (Appendix XV), the weaknesses mentioned above are a cause for serious concern. These need to be tackled for ensuring the vigour and long term effectiveness of the marketing organisation.

3.7 Prior to nationalisation, the supervisors of agents were variously designated as superintendent of agencies, supervisors and inspectors. They were paid employees of the companies. Their work was supervised by the branch officers. On nationalisation, all field officials were appointed as inspectors. Their terms and conditions of service were set out in an order issued by the Central Government in 1957 under section 11(2) of LIC Act, which is called a 'blue order'. Subsequently, inspectors were re-designated as development officers. The duties of a development officer as enumerated in the blue order are reproduced below:

> *"To develop and increase the production of new life insurance business in a planned way in the area allotted to him or in which he is allowed to work.*
>
> *"To guide, supervise and direct the activities of all the agents working with him.*
>
> *"To recruit and train new agents and develop a suitable agency force.*
>
> *"To act generally in such a way as to activise the existing agents and motivate new agents.*
>
> *"To render service to policy-holders.*
>
> *"To work in the area allotted to him as a representative of the Corporation and perform such other duties as the Corporation calls upon him to do."*

3.8 Almost from inception, LIC has had one scheme or another of incentives / disincentives for development officers. Normal grade increments which were subject to satisfactory performance, were made automatic in 1965. Thereafter, there was a steady trend of increasing cost ratios of development officers with a significant proportion operating at high ratios, even exceeding 100%. In 1976 Government issued an order modifying the terms and conditions of the blue order. In effect, it called for adherence to a cost ratio of 20% and provided for automatic adjustment of salary and allowances where cost ratios exceeded that figure. This order was replaced by regulations approved by Government in 1979 which provided for a graded scheme of disincentives, from cut in conveyance allowance to termination of service, depending upon the extent and persistence of violation of prescribed norms of cost ratios.

3.9 In 1972 LIC suspended recruitment of development officers, but resumed it in 1981. The number of development officers increased from 7900 in 1971-72 to 17903 in 1992-93 (Appendix XVI). Development officers are recruited from amongst agents, LIC staff and open market candidates on the basis of written tests and interviews, and are given training for nine months. Besides salary, they receive incentives largely based on first year premium. They are ordinarily not transferred, and though eligible for promotion as ABM (S), they generally avoid promotion because this entails loss of incentives. Since 1979-80, LIC has, by and large, kept the total cost of development officers to about 20% of the first year premium. Over this period, incentive-based remuneration has become the major part of their emoluments.

3.10 The average performance of a development officer in 1992-93 was 484 policies for sum assured of Rs 170.2 lakh as compared with 201 policies with sum assured of Rs 7.7 lakh in 1960 (Appendix XVI). There is a common perception that life insurance marketing suffers from many a weakness and deficiency. These include: neglect of business conservation, high agent turn-over, deficient training of agents, poor after-sales service to customers, non-amenability of development officers to control and discipline of ABMs / BMs and concentration on earning incentives instead of guiding agents to sell need based insurance. About 38% of the year's business in 1992-93 came in March, the last month of the financial year. While there could be valid reasons for high sales in March, the very low proportion of business in the early part of the year seems to indicate a low level of sales effort, especially in rural areas where the *rabi* crop money comes into the hands of the agriculturists during that period. More than 25 per cent of life insurance policies lapse within the first three years of their issue without acquiring paid up value.

3.11 While development officers advocated *status quo* in regard to the marketing set-up, many agents were critical of the present system which does not permit their growth and professionalisation and ties them down permanently to the development officers who recruit them. It was suggested to the Committee that a reorientation of incentives to give more weightage to business conservation and improvement in training, quality and stability of the agency force should be considered and also that development officers should be effectively brought under ABM/BM.

3.12 The Committee considered the responses to the questionnaire, the views expressed in personal hearings, the information furnished by LIC, and the management's appreciation of the problems and it was observed that:

(a) Development officers have substantially contributed to the development of the Corporation's new business over the years. When the recruitment of development officers was discontinued by LIC, the growth rate of new business became quite low and after the recruitment was resumed in 1981, the business registered an increase.

(b) With the deployment of the newly recruited development officers in rural areas, rural business has registered growth. About 45% of new business, in terms of number of policies, is now from the rural areas.

(c) The agency organisation has also registered growth and the number of active agents has increased from 1,23,221 to 4,95,745 between 1983 and 1993, an increase of about 300% (Appendix XV). During 1973 - 1983, the number of active agents actually decreased by about 31,000, i.e. by about 20%.

(d) Against these positive aspects, it is necessary to also mention some of the negative perceptions:

i) Requisite attention and importance is not given to the training and professional development of agents. Consequently, a very large number of agents are recruited and terminated every year in a routine manner.

ii) Development officers are interested only in first year's premium and the corresponding incentive bonus and do not give adequate attention to quality and conservation of business, customer service and development of a good agency organisation.

iii) MARG survey shows that agents and development officers are not showing much interest in after-sales service.

iv) Though the *per capita* achievement of urban career agents is much higher than the performance of an average agent, LIC has not adequately developed this agency force and its efforts in this regard appear to be no more than a token. The development of direct agency force, whether through career agents or otherwise, could contribute substantially to reduction in the procuration cost of new business.

3.13 Taking into account the above, the Committee recommends as follows:-

i) LIC should stop indiscriminate recruitment of agents and concentrate on identifying potentially good material to be groomed and trained as successful agents. There should be pre-recruitment training followed by a test and interview. Agents' training needs to be considerably strengthened.

ii) The Insurance Institute of India[6] should evolve a course suitable for the agency profession, leading to a diploma in life insurance salesmanship. This qualification should be prescribed as an eligibility condition for an agent to become a member of chairman's club and for his promotion as development officer.

iii) Institutional channels such as co-operative societies and non-governmental organisations should, on a highly selective basis, be utilised as agents to cover specified market segments.

iv) The urban career agency force should be strengthened and the scheme implemented with greater commitment. Many more career agents' branches should be opened in areas with good potential. Dynamic and enthusiastic BMs and ABMs should be posted in these branches. The stipend for career agents should be suitably raised. After watching their performance for a period of, say, seven years, some of them could be appointed to the cadre of ABM(S) on selection basis.

v) Direct agents as a class deserve more encouragement by way of recognition depending upon their level of performance and standing. Selected direct agents may be allowed to collect premium by cheque and issue receipts and also provide loan and surrender value quotations to policy-holders.

vi) A system of 'supervisory agents'(SA) should be introduced which, besides providing an avenue of growth for senior agents, would strengthen the marketing organisation. SAs, carefully selected from amongst senior agents, could be authorised to select, train and supervise agents. While he would continue his own agency, he would automatically be detached from his development officer. SA may be given an overriding commission on the

6 This institute, previously known as Federation of Insurance Institute, was set-up in Bombay in 1955 for the purpose of spreading insurance education and for conducting examinations in insurance subjects.

premium income brought in by his agents. This tier of intermediaries (SA) could be a good supplement to the existing marketing organisation in the cities. This recommendation would require a specific provision in the Agents Rules, 1972.

vii) The minimum business to be secured by an agent was prescribed in the Agents Rules, 1972 and needs a major upward revision to keep pace with present value of the rupee and the size of average policy. The minimum level of business should be raised to sum assured of Rs 5 lakh in urban areas and to Rs 4 lakh in rural areas.

The rules also stipulate a minimum number of 12 lives. It has been mentioned to the Committee that the requirement of number of lives has led to undesirable practices as agents put in bogus policies with small instalments of premium to make up the quota of lives. LIC incurs considerable cost on such policies which lapse after the first instalment. A two-fold corrective is suggested. Agents who bring in large sized policies may be allowed to set off the shortfall in lives by corresponding increase in the sum assured. Secondly, the quota of lives should be applied to the number of lives assured in the agency year minus the shortfall in the number of lives assured sold in the previous year after taking into consideration policies under which the second year premium is not paid. LIC may prescribe lower quotas of lives and sum assured for the first and second years of a new agent.

viii) The present lapsation rate of LIC is high. Conservation of business is as important as procurement of new business. The bonus commission which is now payable to agents on 1st year premium income, should be paid on the basis of the average of first year, second year and third year premium income.

ix) According to the Agents Rules 1972, an agent is entitled to renewal commission even after termination of the agency, if it takes place after ten years or even after five years if he has to his credit an in-force business with a sum assured of Rs 2 lakh. Considering the increase in the average size of a policy, renewal commission should be payable to an agent in the event of termination of agency after five years if he had an in-force sum assured business of Rs 10 lakh. The existing system of hereditary commission should be replaced by payment of an appropriate lump sum.

x) The ABM's responsibility with regard to the stability of the agency organisation should be specifically spelt out. He should exercise the requisite discretion in the appointment of agents. The annual appraisal of an ABM 's performance should specifically include the assessment of the quality of agents recruited during the year and of his effectiveness in the supervision of the work of development officers.

xi) Incentive bonus and additional conveyance allowance schemes pertaining to development officers should be modified as follows:

(a) The floor level for eligibility for incentive bonus should be increased from five times the cost to six times.

(b) Incentive bonus and additional conveyance should be linked to the average of the first year's premium income and the second and third year's renewal premium income received during the relevant appraisal year.

(c) The quantum of incentive bonus should be increased or decreased based on an assessment of the qualitative performance of the development officer as distinct from the volume of new premium income.

An assessment of such performance should include the quality and stability of his agency organisation, the spread of business in his territory and the early claims experience.

(d) LIC should introduce a system of annual appraisal of the work of development officers, particularly the qualitative aspects of their performance, by ABM(S) to be reviewed by BMs.

xii) The training needs of a development officer should be properly assessed and evaluated. LIC should strengthen the infrastructure for training at sales training centres and, in particular, ensure the suitability and calibre of those selected for faculty positions. This should be managed by re deployment of existing manpower within LIC.

xiii) LIC should discontinue its present approach of almost automatic annual addition to the number of development officers for the sake of new business growth. Besides framing appropriate criteria for new recruitment, based on the need for optimum combination of increase in productivity of existing development officers and need for additions in geographical/market segments, LIC should strengthen the marketing organisation in cities mainly by opening new career agent branches and introducing the system of supervisory agents described earlier.

xiv) LIC should consider induction of a few MBAs with specialisation in marketing every year in the cadre of ABM(S). The present system of recruitment of officers by competitive examination should reduce its present orientation towards office and administrative work. In a marketing organisation like LIC, recruits should have good exposure to marketing at the grassroots level. A proportion of those coming out of the training centres should have an initial posting as ABM(S) in a rural branch, followed by a spell in an urban branch. Such experience would enable them to function in higher managerial positions with adequate appreciation of marketing and consumer issues.

Part II: **General Insurance**

3.14 The four subsidiaries of GIC market their products through a three-tier marketing force consisting of agents, development officers and officers in charge of sales at the branch/divisional offices. The agent who works on a commission linked to the quantum of premium and nature of business, is generally recruited and trained by a development officer and works with him either on full-time or part-time basis. There are a few agents who work direct for the insurer. Development officers are full-time paid employees of the companies and they receive a variety of incentives in cash or kind, related to their business performance. However, as agency commission is not payable on the business of a large number of clients, the tiers in most cases get reduced to two. Besides, it has been the practice of company offices to deal directly with large sized corporate clients and all public sector business.

3.15 The Insurance Act permitted appointment of 'principal agents' who received commission at the rate of 15% in case of marine and 20% for other business, including commission to their agents. The system of principal agency was discontinued from 1957. The Insurance Act prescribed 15% of premium as the maximum commission payable to agents which was reduced, in the case of marine insurance business to 10% by an amendment to the Act in 1950. Rates of commission were further reduced in 1968, on the introduction of social control on insurance business, to 5% for fire and marine business, and to 10% for miscellaneous business. After nationalisation, the agency commission structure was reviewed by the general insurance industry in 1977. Thereafter, commission was not payable in respect of business from corporate clients whose paid up capital was Rs 10 lakh or more, co-operative societies with capital of Rs 5 lakh or more, business under the control of banks where bank advances exceeded Rs 25,000, hire-purchased vehicles, and income tax exempted charitable trusts. In such cases the client was allowed a discount on the premium in lieu of the agency commission. Later in 1980, the rate of commission was reduced from 10% to 5% in the case of engineering insurance business and also for motor business in 1986. There are certain classes of insurance business like aviation hull and liability, marine hull (ocean going vessels), and credit insurance, on which it has been the practice not to pay commission. Commission on several classes of business relating to rural areas, the economically deprived sections of the society and on many personal lines of business (where the premium on individual policies is low) was increased from 10% to 15% to induce agents to market these classes of business.

3.16 Prior to nationalisation, insurers had a category of employees variously designated as 'superintendent of agencies', 'agency supervisor', 'inspectors', and 'field

officers' who were in charge of field operations, development of business, and recruitment and training of agents. They also received incentives related to business performance. When the principal agency system was terminated in 1957, many of them or their nominees were employed by the insurers. With the introduction of social control in 1968 and the consequent reduction in commission to agents, insurers had to depend more and more on field officials for development of business. The field officers' number increased substantially. In some companies, they also performed some administrative functions related to marketing.

3.17 At the time of nationalisation of general insurance business there were 4270 field officers who were designated as Inspectors. A composite scheme relating to remuneration, incentives and other benefits to Inspectors - later redesignated as development officers - has been in force since 1976. The scheme provided for premium - related incentives and benefits, as also disincentives including possible termination of service for persistent non-performance. This scheme was revised in 1987 and in 1990, progressively raising remuneration and benefits and diluting the disincentives of development officers. Over the years, the number of development officers has increased substantially, to 13205 as on 31.3.1993.

3.18 Responses to the Committee's questionnaire and views expressed by opinion leaders and interest groups indicated a rather unsatisfactory performance of agents and development officers. Some former chief executives of insurance companies were of the view that the general insurance industry would perform equally well without development officers. It was pointed out that though there was hardly any recruitment of development officers during the last three years, this did not make any significant difference to the growth of business of general insurance. It is widely believed that there is a large number of *benami* agents, showing up deficiencies in the process of appointment of agents.

3.19 The Committee observed that the institution of agents on the general insurance side has weakened considerably, essentially due to the progressive lowering of the rates of commission payable to them and exclusion of business of certain categories of clients for payment of agency commission. The existing structure of agency commission provides little scope for the emergence of professionals, much less for their becoming full time agents. A change in the agency commission structure is, therefore, called for. Section 42(1) of the Insurance Act provides for issue of licence to individuals of at least 18 years of age to act as an insurance agent. The licence is issued on a declaration by the applicant in a prescribed form. There is no method of screening the genuineness of the applicant before the issue of licence nor any follow-

up action to weed out those who are not serious in pursuing the profession. It is, therefore, necessary that applications for agency should be carefully scrutinised by the insurer. It is of vital importance to ensure that *benami* agents are eradicated.

3.20 The institution of brokers which is well established in most insurance markets does not exist in India, except in the area of reinsurance. Brokers are professionals who bring together the insured and insurers, carry out work preparatory to insurance contracts and, where necessary, assist in the administration and performance of such contracts, in particular when claims arise. Brokers have a relatively more important role to play in free markets than in markets regulated partly or fully by tariffs. They are increasingly becoming professional risk managers. Professional standards of brokers are subject to both their self regulatory bodies and requirements of registration with designated authorities. Unlike agents who are retained on behalf of insurers, the primary responsibility of brokers is towards the insured. They put across requirements of their clients before insurers and obtain from them appropriate insurance products. Whenever standard products are not adequate, they prepare a 'manuscript policy' and negotiate with the insurer to optimise satisfaction of their clients. As brokers negotiate with many insurance companies, they also act as catalysts of competition in the insurance market. It would be, therefore, advantageous if suitable provisions are made in the Insurance Act permitting the institution of brokers and regulating their operations.

3.21 The outgo by way of salary, allowances and incentives of development officers has been increasing steadily. There are three different incentive schemes with easily achievable norms. The norms have not been revised upwards even to keep in line with inflation. There is no meaningful linkage between the need to encourage the spread of low-premium insurance covers in personal lines and rural and social insurance, and incentives to development officers. The Committee was advised that GIC is taking up a review of the incentive structure of development officers (Appendix XVII).

3.22 To sum up, the Committee recommends as follows:

i) The marketing apparatus consisting of agents, development officers, and insurance officials should be thoroughly reviewed.

ii) There is a need to promote and sustain professionalism among agents. To that end, there is an urgent need to upgrade the training and skills of the agency force. The commission structure for agents should be improved to attract and retain talent in the profession and to make it an effective instrument for procuring business and spreading specially, rural, personal and non-obligatory lines of business.

iii) It should be one of the primary functions of development officers to identify potentially good agents and to recruit, train and motivate them for procuration of general insurance business.

iv) Direct agents should be encouraged. Selected branches in cities should function as 'direct agents' branches, with emphasis on canvassing personal lines of insurance.

v) Recruitment of new agents should be done with utmost care and the existing ones should be screened to weed out *benami* agents.

vi) In keeping with contemporary trends in insurance marketing, the system of brokers should be introduced by legislation for better professionalisation, improved customer service and competition.

vii) Public sector business and tied business (i.e. business secured without the intervention of development officers) should continue to be handled by insurance officials through a special branch / divisional office. The insurer should also ensure that when a development officer ceases to be in the employment of the company, the servicing of his big clients is taken over for direct handling. Large business, if any, procured through the intervention of the branch officials should be serviced directly by that branch.

viii) It is necessary to periodically review the service terms, conditions and benefits of development officers, especially in view of inflation and growth in the economy which lead to increase in business volumes without any extra effort on their part. The following measures are suggested:

(a) The cost ratio norms laid down for the different cities need to be scaled down by at least 1% to begin with.

(b) A development officer's normal annual increment should be subject to, besides cost norms, 15% growth in business over that in the previous year.

(c) There should be only one incentive scheme. This should encompass the following:

c(i) a balanced portfolio of business to be laid down by each branch;

c(ii) growth of business over the previous year of an order of 20% or Rs 300,000, whichever is lower;

c(iii) quality of business should be judged from the operating surplus. At present, in arriving at the operating surplus any claim in excess of Rs one lakh arising from any single claim under one policy involving one event and one insured only, is limited to Rs one lakh. This limit was fixed years back. It should now be raised to Rs 5 lakh;

c(iv) the amount of incentive should be reasonable and related to the operating surplus, and the development officer's cost, inclusive of the incentive, should remain within the prescribed norms.

(d) Management ought to specify the development of prescribed lines of business (e.g. personal, non-traditional) which they consider desirable. They should also prescribe the premium quota of such business, and failure to achieve this should invoke penalties.

(e) Properly selected and trained development officers at *mofussil* centres other than branch headquarters should be encouraged to take up marketing-related functions, such as collection of premiums, issue of receipts, cover notes, and also simple type of policies. The possibility of extending this to other centres should be considered in due course.

(f) Disincentives for non-performance and introducing business of bad quality, as seen from operating surplus, should invoke strong penalties, including termination of service.

(g) Considering the fact that a large proportion of business is being handled directly by company offices and the recommendation contained in sub para (ix) below, the present strength of development officers should not be increased for the present.

(ix) Marketing of general insurance both traditional and non-traditional in rural areas suffers from special problems of its own which have been discussed in detail in chapter VII on rural insurance. The Committee recommends that a system of 'supervisory agents' may be developed, at first selectively and later on widely, for development of rural business. The supervisory agents should be rooted in the villages and should not be salaried employees. They would recruit and train 'rural agents'. They would be entitled to an over-riding commission besides facilities of transport on a reasonable scale, linked to their own performance and to the performance of their 'rural agents.'

(x) For insurance plans targeted at the economically backward sections, appointment of institutional agents such as voluntary agencies with proven track record of social service, and co-operative societies as agents should be considered.

Chapter IV

Insurance Surveyors

4.1 Surveyors and loss assessors play a crucial role in the process of settlement of claims arising under general insurance policies. They are independent individuals or firms possessing qualifications laid down in section 64 UM of the Insurance Act read with rule 56A of the Insurance Rules. The Controller of Insurance is empowered to issue licence to surveyors and loss assessors for a period of five years, renewable every five years. Claims for Rs 20,000 and more must be examined by licensed surveyors before they are entertained by the insurers. Although the Act and Rules do not lay down the functions and responsibilities of surveyors in detail, it would be fair to say that their role is to measure, assess and report to the insurer the financial loss or damage suffered by the insured as a result of materialisation of one or many of the insured perils. There was no requirement of licensing of surveyors till the 1968 amendment to the Act when it was introduced as one of the measures of social control of insurance, presumably to check malpractice. At present, there are over 38,000 licensed surveyors of whom only about 7,000 are reportedly active. There is an Institute of Insurance Surveyors & Adjusters, a registered body, whose fellowship, associate ship, and licenciate ship are recognised in Insurance Rules as technical qualifications, amongst many others, for licensing of surveyors. With a membership of only about 2,500 this is, however, not a representative body of the profession.

4.2 As technologies advance, the process of loss measurement and assessment becomes more complicated, requiring greater degree and variety of expertise which may not be necessarily ensured by the qualifications prescribed in law. Besides, though surveyors are engaged and paid for by the insurance companies, they are expected to provide sustenance to the article of faith and trust, vital to the business of insurance, between the insurer and the insured. Apart from technical qualifications, skill, and experience, the surveyors are expected to display a high degree of professional integrity and independence in the discharge of their functions. Many surveyors do indeed have considerable expertise, experience and credibility, and their services are also being utilised by overseas insurers for major insurance claims.

4.3 Responses to the Committee's questionnaire and views expressed at meetings with the Committee revealed that the present system of licensed surveyors has several deficiencies. There were complaints that many surveyors did not possess adequate professional skills and experience, that frequently there were delays in execution of survey work and that the independence and integrity of many surveyors was not

beyond doubt. The predominant view was that licensing and renewal which had become automatic because of the interpretation of law, and the system of rotational allocation of assignments to empanelled surveyors by the insurance companies, left the latter with little discretion in the choice of surveyors. Monitoring and control over the activities of surveyors were ineffective. On the one hand, it was alleged that insurance officials, surveyors and the insured sometimes collude in manipulating claims settlements. On the other hand, it was suggested that quite often insurance officials did not exercise the requisite discretion in considering survey reports for claims settlement for fear of audit and vigilance, thereby giving, in effect, unintended power of decision to surveyors. Indeed, as a matter of practice, surveyors are required not only to assess a loss and opine whether the relevant conditions and warranties of insurance policy are met, but also to record their view as to whether or not a claim is payable. It was suggested that surveyors need to be appropriately classified depending on the nature and level of their qualifications, expertise, competence, and experience. It was also suggested that surveyors need to be organised as a professional body on lines similar to those of chartered accountants.

4.4 The Committee recognises the importance of the profession of surveyors and is aware that many of them have both competence and high standards of professionalism. It feels, however, that working in a monopoly market situation, the profession and system of survey have suffered in many respects: licensing without effective control, erosion in standards of integrity, lags in professional expertise, frequent delays in execution of survey assignments, and inadequate sensitivity towards the consumer. The insurance companies follow a system of rotation of empanelled surveyors, ostensibly to avoid allegations of favouritism. Surveyors are engaged even to investigate claims below Rs 20,000 apparently as a measure of abundant caution but leading to increased costs and delays.

4.5 Against this background, the Committee recommends as follows:

i) The system of licensing of surveyors by the Controller of Insurance should be given up as it has not served any useful purpose. Insurance companies should be free to empanel, in their discretion, surveyors possessing the qualifications laid down in law, and to assign the right surveyor to the right job.

ii) It is necessary to set-up an institution of professional surveyors, loss assessors and adjusters with wide participation from survey professionals. The institution should be financed primarily by the fees it would collect from its members. However, since the cost of establishment of the institution could be substantial and would require other inputs, the insurance industry may, on request, provide financial and other promotional support. It would be useful if the insurance industry is represented on the governing body of the institution during its formative period, say, for the initial 5 to 7 years. The institution should have the responsibility to create, nurture and sustain high levels of skills

among survey professionals, to evolve a code of conduct for them, and to take such action as necessary against unprofessional conduct of its members, including permanent disqualification from its membership. It should be mandatory for a prospective surveyor to pass an examination to be conducted by the institution and to work thereafter as an apprentice for two years under a senior surveyor of standing, before obtaining a certificate from the institution to practice the profession of surveyor. The institution's development on desirable lines would be of interest to the insurance regulatory authority, especially insofar as the evolution of a code of conduct and disciplinary matters are concerned. The regulatory authority should develop a promotional association with the institution taking care that this does not diminish the latter's autonomy. For this purpose, a representative of the regulatory authority should be nominated to the governing board of the institution. After the proposed institution has acquired a good standing and reputation, the government should consider granting it an appropriate charter to reinforce its position in the industry.

iii) Insurance companies should encourage surveyors who are already on their panels to acquire, where necessary, further qualifications, especially regarding the subject of insurance.

iv) The minimum limit of Rs 20,000, upward of which every claim is required to be subject to survey by professional surveyors was prescribed 25 years ago. This limit should be raised to Rs one lakh by amending the law suitably so that future modifications in the limit can be made by issue of notifications.

v) The vast manpower already available at various levels within their existing establishments should be utilised by insurance companies for elementary survey work up to the financial limit of Rs one lakh so that such claims are settled expeditiously.

vi) Subject to fulfilment of the requirement of production of requisite information and records by the insured, survey should be made a time bound assignment. Cancellation of a survey assignment and its transfer to another surveyor should be effected by insurance companies if a surveyor unduly delays his report. Cases of criminal misconduct, fraud and collusion by surveyors, the insured and insurance personnel must be dealt with severely and criminal prosecution launched, where appropriate.

vii) There is no justification for any insurance official to abdicate his professional discretion, judgement and responsibility for a fair, just and prompt settlement of insurance claims. As settlement of claims requires ability to appraise survey and loss reports, it is essential for insurance officials to be sufficiently trained in this area. In assessing the performance of claims settling officers, the quality of application of their mind in claims settlement should be an important factor.

viii) Undue delay in claims settlement can seriously disrupt the insured's business, particularly if the loss is substantial. This can negate the very purpose of taking out an insurance cover. To avoid such eventualities and in the interest of fairness, insurance companies should adopt the following approach:

(a) Where a loss is clearly covered by an insurance policy and is likely to cause undue disruption of business or personal hardship, a suitable 'on account' payment should be promptly made, pending final settlement, so that additional loss due to closure or diminution of business, or undue personal hardship is averted. It is understood that in

respect of losses in some classes of business, such a procedure is already prescribed.

(b) In any case, where a settlement has been unduly delayed for no fault of the insured, he should be paid by the insurer interest (say at 2% above the minimum lending rate of commercial banks) beyond a specified time or stage of the claims settlement process.

(c) Insurers should specify a time schedule for handling claims settlement covering various stages such as time for appointment of a surveyor, the period within which the survey report should be submitted, time for payment of claim or for its repudiation after the receipt of the survey report. Where payment is due, interest thereon should start running, say, 30 days after the receipt of the survey report.

ix) Suitable provisions should be made in the Insurance Rules empowering the insurance regulatory authority to secure adherence by the insurers to the time schedules for claims settlement, to periodically publish cases of undue delay in settlement of claims and to intervene wherever it considers necessary to protect the insurer and the insured against fraud and collusion.

Chapter V

Insurance Product Pricing

Part I: **Life Insurance**

5.1 The three main factors used for determining the premium rates under a life insurance plan are mortality, expenses and 'interest'.[7] Significant changes in actual experience in respect of any of these factors should normally entail revision of premium rates.

5.2 On the nationalisation of life insurance in 1956, the premium rates of Oriental Government Security Life Assurance Company were adopted by LIC with a reduction of 5% of the 'tabular premium'[8] or Re 1 per thousand sum assured, whichever was less. This reduction was made in the expectation that merger of different insurers into one corporation would bring about economies of scale. In 1970, after nearly 15 years, LIC reduced its 'without profit'[9] premium rates, the reduction under the main plans ranging from 2% to 7%. Following the recommendations of the Committee of Actuaries set-up by LIC in 1978, another downward revision was effected in 1980. The premium rates under 'without profit' plans were reduced substantially by about 11% to 17%. There was also a marginal downward adjustment upto 5% in 'with profit' rates. In 1986, premium rates were further reduced under 'without profit' plans, by upto 17%. Besides these revisions, LIC has also reduced extra premiums being charged in respect of 'sub-standard'[10] lives and substantially reduced the number of occupations which were classified as hazardous.[11] The additional premium being charged for granting accident benefit was reduced from Rs 2 to Re 1 per thousand sum assured. The charging of extra premium in respect of policies on female lives has also been discontinued.

5.3 The earliest **mortality** table[12] of assured lives constructed in India related to the period 1905-25. This mortality table was based on the experience of Oriental Government Security Life Assurance Company. The next investigation was conducted on the basis of the experience of the same company during the period 1925-35 and a new mortality table was published in 1938. Premium rates of most of the insurance companies in India were based on this mortality table. In 1954, after about a decade

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7 'Interest' here means the percentage yield obtained on the life fund.

8 Tabular premium: premium per thousand sum assured before application of any rebates (such as for mode of payment, higher sum assured etc.) or extra for disability, hazardous occupation etc.

9 'Without profit' policies are those which are not eligible to participate in distribution of bonus

10 'Sub-standard' life in life insurance parlance means persons having health or physical disability.

11 Hazardous occupations: are those where there is higher probability of accident or those which may lead to disability of health and in respect of which extra premium is charged.

12 Mortality table: gives age-wise rates of mortality.

and a half, on the basis of experience during the intervening period, some downward adjustments were made in this table. The revised table was known as the Modified Oriental Mortality Table (1925-35). In 1955, many companies revised their premium rates on the basis of this table. Three mortality tables were published after nationalisation of life insurance in 1956, based on the experience during the periods 1961-64, 1970-73, 1975-79. 'Without profit' premia rates currently in use are based on the latest mortality table relating to the experience during the period 1975-79, whereas the 'with profit' premia rates are based on the earlier mortality table relating to the 1970-73 experience.

5.4 Quite a few persons including, notably, representatives of consumer groups have told the Committee that LIC premia rates had remained unrevised for a long period and were unjustifiably high in spite of the fact that trends in mortality rates all over the country are continuously showing improvement. The Committee, however, understands that due to rapid expansion into rural areas and relaxation of many underwriting restrictions, the mortality experience of LIC has not shown any improvement since the publication of the last mortality table. The fact that it has slightly deteriorated underscores the need for vigilance regarding the quality of underwriting and more stringent checks against possible anti-selection, especially at the grassroots level.

5.5 The **expense** levels affect the premium rates as well as returns to policy-holders in the form of bonus. The 'overall expense ratio'[13] of the Corporation which was about 29% in 1958 has fallen to about 25% in 1992-93. This ratio has been arrived at after excluding the premium income and expenses in respect of group policies which were practically non-existent in 1958, so that the ratios for the two years are comparable. The overall expense ratio is a weighted average of new business and renewal expense ratios. Since new business expenses are substantially higher than renewal expenses, any increase in new business leads to an increase in overall expense ratio of the year. Hence, instead of studying the trend in overall expense ratio, it is better to study the trends in new business and renewal expense ratios separately.

5.6 The 1950 amendment to the Insurance Act, 1938 placed a ceiling of 15% on renewal expense ratio of a life insurance company. According to the method of calculation prescribed under the Insurance Rules, the renewal expense ratio of LIC for the year 1992-93 is only 5.4%. The method of calculation given in the Act is, however, no longer relevant and cannot be used as a measure for comparison. According to the rules for calculating renewal expense ratio, approximately 87.5% of

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13 Overall expense ratio is the ratio of expenses (of management) to premium income. It is a weighted average of the new business and renewal expense ratio, the weights being the first and renewal premium incomes.

the total first year premium income has to be deducted from the total expenses, to arrive at the renewal expenses. The first year expense ratio of the Corporation is about 65% at present. Subtracting 87.5% of the first year premium from the total expenses to arrive at an estimate of renewal expenses reduces the estimated renewal expenses artificially and, consequently, the renewal expense ratio. For the purpose of any comparison or measurement, therefore, one has to bifurcate the total expenses into first year expenses and renewal expenses and then arrive at the renewal expense ratio, by dividing the renewal expenses by the renewal premium income. The data in this regard is available from the year 1971-72 and this ratio which has been in use in LIC is known as Renewal Cost Ratio, to distinguish it from the Renewal Expense Ratio as defined under the Insurance Rules. A study of this cost ratio indicates that it was equal to 13.0% in 1971-72 and stands at 13.7% in 1992-93, showing little improvement over the two decades. If, however, one deducts the expenses towards commission (which are directly related to premium income) from the renewal expenses and divides the balance by the number of policies in force, the per policy cost arrived at would show a definite trend of increase from Rs 18 per policy in 1971-72 to Rs 96 per policy in 1992-93, increasing at the annual rate of 8.3% compound. The increase in average premium per policy is also of the same order indicating that costs with reference to premium per policy have not declined. At the same time the new business cost ratio has declined substantially from about 82% in 1971-72 to 65% in 1992-93, mainly due to reduction in procuration costs.

5.7 It is important that LIC reduce significantly the renewal cost ratio by raising productivity of staff and going in for comprehensive computerisation. At the same time, the minimum sum assured needs to be adjusted in the light of inflation.

5.8 The most important factor in the determination of premium rates is the assumed rate of **interest** which is generally related to the yield on life fund. In 1970-71 the gross yield earned by LIC on its life fund was 6.25% and by 1992-93 the yield had risen to 11.56% (Appendix XVIII). The present level of pre-emption of investment of life fund in government securities and directed sectors to the extent of 75% takes away much of manoeuvrability from LIC in exploiting the capital market to the optimum. At the same time, the Committee noted that dynamic operations in the market in respect of its large equity portfolio would have enabled LIC to realise substantial capital appreciation. LIC's actual performance in this regard should have been much better. The matter has been dealt with separately in Chapter VI on Investment Issues of Insurance Industry. Suffice it to say here that a more practical and dynamic approach in regard to its capital market activities should enable LIC to improve bonus to the policy-holders.

5.9 The Committee of Actuaries set-up in 1978 by LIC to examine the premium rates had observed in its report submitted in 1979 that 'without profit' premium rates should be constantly reviewed as and when significant changes took place in any of the three factors underlying the premium rates. This committee observed that for a 'with profit' policy the return to policy-holder was not determined by the level of premium rates alone inasmuch as the policy-holder stood to benefit from accrued bonus, as and when the policy resulted in a claim either by maturity or death. It further stated that for ensuring a better return to the policy-holders what was necessary was to see that the actual experience of the insurer in respect of the three determinants of pricing, *viz.* mortality, interest, and expenses of management were as favourable as possible and that an appropriate valuation method and bonus system was adopted to ensure that no surplus was retained by LIC when a 'with profit' policy matured or resulted in a claim by death.

5.10 The benefit of the increase in yield on life fund and other improvements in experience is being passed on to 'with profit' policy-holders in the form of increased bonus. The bonus rates of LIC rose from Rs 14 per thousand in 1957 to Rs 67 per thousand in 1993 under 'with profit' endowment policies. In addition, the Corporation is also declaring, under 'with profit' policies, a final additional bonus payable at the time of maturity or earlier death claim. This final additional bonus, in respect of policies with duration of not less than 15 years, ranges from Rs 49 per thousand to Rs 355 per thousand sum assured.

5.11 One factor that is to be taken into consideration while examining the desirability of revision in premium rates of 'with profit' policies is the practical problems that are likely to be encountered. Any such revision will lead to inequity between different generations of policy-holders which can be set right only by adopting a 'differential bonus system' i.e., the rates of bonus to be declared in respect of policies taken before revision of premium have to be different from the rates declared in respect of policies taken after the revision. Any revision would, therefore, create many administrative problems including possible large-scale rewriting of business, and might also be an impediment in marketing. It is for these reasons that insurers generally desist from revisions of 'with profit' premium rates and prefer to pass on to policy-holders the benefits of any improvements in experience in the form of additional bonus. In respect of 'without profit' plans, there is no such difficulty in revising the premium rates as and when there is a significant departure of experience from past assumptions and it is necessary to revise these rates as frequently as needed.

5.12 The recommendations of the Committee are as follows:

i) LIC should, as early as possible, publish a revised mortality table based on recent experience. Thereafter, further revisions should be made every ten years.

ii) Greater vigilance should be exercised over the quality of underwriting to bring about improvement in mortality experience. For this purpose, intensive training should be provided to the underwriting staff and the sales force.

iii) LIC should immediately review its system of medical examination of proponents so as to improve its reliability.

iv) The first year and renewal cost ratios should be brought down to 60% and 11%, respectively. For this purpose, LIC must take steps to appreciably improve the productivity of its employees and streamline its systems and procedures. Computerisation of its entire range of operations is crucial for controlling costs, reducing policy lapsation and improving customer service. Needless to say that existing computer facilities in LIC should be optimally utilised.

v) The minimum sum assured on a life policy was fixed at Rs 1000 in 1956. It has been raised to Rs 5000 under 'endowment'[14] and '*jan raksha*' plans and Rs 10,000 for 'money back'[15] and other plans. Considering the cumulative inflation since 1956 and the present average sum assured per policy of Rs 36,000, the Committee recommends that the minimum sum assured should be Rs 15,000 under endowment and whole-life type of plans, and Rs 25,000 for 'money back' type of plans which are usually preferred by the relatively better off proponents.

vi) LIC should adopt a more dynamic approach in regard to its equity portfolio management.

vii) LIC should review 'without profit' premium rates periodically, at least once in three years, taking into account the improvements in investment yields, mortality experience and expenses. If as a result of such reviews any reduction in premium rates takes place, the benefit should also be extended to the existing 'without profit' policy-holders to the extent it is fair and feasible.

viii) LIC declares reversionary bonus at a rate uniform for 'endowment' and 'money back' type of policies (where periodic payments are received by the policy-holders) though the final additional bonus varies between these two plans. It is understood that compared to the other plans, the contribution of the 'money back' type of plans and short-term endowment plans towards the valuation surplus is somewhat lower. There might be a justification for differential rates of reversionary bonus for these classes. Further, LIC has introduced a system of final additional bonus. That system, however, does not take into account unrealised appreciation on its equity portfolio and real estate investments. These two issues should be examined in depth by an expert committee of actuaries.

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14 'Endowment plans' : under this plan the sum assured is payable either at the end of the pre-determined period or death whichever is earlier

15 'Money back' : in this life insurance plan the sum assured is payable in instalments on survival at specified intervals. In addition full sum assured becomes payable on death during the policy term.

Part II: **General Insurance**

5.13 Inasmuch as general insurance sells intangible products whose delivery is only contingent in nature, its product pricing has some unique features. The uniqueness arises from the fact that the actual claims cost, the major element of cost, becomes known only later unlike any other product pricing where the main cost elements are generally known in advance. Insurers make estimates of the claims cost, based on past experience, while fixing the premium rates which have to be reviewed from time to time. The ingredients of general insurance product pricing are: (a) claims cost, (b) business acquisition cost, (c) management expenses, (d) margin for fluctuations in claims experience and reasonable profit.

5.14 Product pricing requires external regulation for ensuring equity to the insured, solidity of the insurers so that they deliver the promised service when eventualities arise, and stability of the insurance market.

5.15 Price regulation also extends to the terms and conditions of insurance contracts. In many countries, actual price regulation takes the form of premium schedules drawn up by trade associations, rating bureaux or associations of insurers, based on estimates of average of all losses across all insurance companies, average administrative costs, and average expected profit. The rate calculated on this basis becomes the minimum price for each insurer and often the maximum price as well. When all the insurance companies operating in a market follow this practice of pricing, the market is considered as a tariffed market. Tariffs may be feasible for certain class or classes of business or certain product or products. Some companies in the market may observe the tariffs while others may opt to remain as non-tariff insurers, if such an option is available under the insurance law of the land. Another variant in pricing insurance products is a firm-specific 'cost-plus' pricing scheme in which a particular firm's cost, plus an allowance for profit, is used as the basis of price in a non-tariff market. Price regulation is frequently used to bring about equity and fairness as between different risk categories and classes of insured.

5.16 The price of an insurance product is linked to the scope of the cover. In some markets, as in India, it is common to find specific legal provisions governing insurance policy wording, and terms and conditions on which the scope of cover depends. Standardisation of insurance covers makes their price a clearly identifiable variable and can greatly facilitate comparison of insurance products by consumers. It could be argued that such standardisation inhibits innovation and restricts the choice of customers in need of non-typical insurance products. Yet, the alternative

arrangements may provide unwelcome opportunities and loopholes to competing insurance companies to offer basically the same contract with only cosmetic changes and to charge inequitably different rates of premia. In many markets, prior approval of insurance products (rates and conditions) by the regulatory authority is mandatory. Even in more mature and developed markets a system of 'file and use' is followed.

5.17 In Germany, deviation from approved tariff is not allowed. Premium includes risk premium (average of industry's loss experience for five years), projected administrative costs, commission to agents (at defined percentages), safety margin and a small profit margin. In Japan, the rating association formed under law sets rates for the industry for fire, personal accident, and motor insurance, which constitute 92% of non-life market in Japan. Based on statistics, rates are reviewed periodically. This system has provided stability to the Japanese insurance market over a long period of time.

5.18 The nature and extent of price regulation reflect the philosophy and attitude of a State towards insurance operations in its territory. The tariff mechanism provides floor rates for various insurance products and prevents uneconomic competition by containing predatory rate wars which could lead to chaos, bankruptcy and loss of credibility of the market, especially in a developing country. The tariff mechanism facilitates classification of risks according to their special characteristics.

5.19 The main argument against tariff is that it greatly reduces the scope for competition. Some retired senior executives of the general insurance industry, in their deposition before the Committee, attributed lack of specialisation and technical skills in the industry to the progressive preference given to tariffs and 'market agreements',[16] especially after nationalisation. The Committee was also told that tariffs introduce rigidity in the market and, once framed, are, in practice, seldom appropriately revised in response to changes in the market.

5.20 In India the first collective measures to regulate rates, terms and conditions were initiated in July, 1896 with the formation of the Bombay Association of Fire Insurance agents, with the Indian agency firms representing the foreign insurers as members. This Association worked under close supervision of the Fire Offices Committee (FOC) in UK. In 1905, this Association was dissolved at the instance of FOC and replaced by the Fire Insurance Association with offices at Bombay, Calcutta, Delhi and Madras. The rates and tariffs then in existence were adopted and the secretariat of the association undertook functions such as inspection of risks and

[16] 'Market agreements' : this term denotes voluntary agreements among insurers in a particular market as regards rates, terms and conditions of insurance covers.

fixation of special rates. By the year 1950, the system of regulation of rates came to be widely accepted though it had no legal backing. This was provided by the 1950 amendment to the Insurance Act. The Insurance Association of India, with membership of all insurers operating in India, was constituted with a General Insurance Council under it. The council operated through an executive committee consisting of nominated as well as elected members under the chairmanship of a government nominee. It was made obligatory for all insurers to abide by rates, terms and conditions determined by a Tariff Committee under the control of the General Insurance Council. The Tariff Committee had four regional committees at Bombay, Calcutta, Delhi and Madras and each regional committee had sub-committees for fire, marine and miscellaneous business. Exemption from tariff rates was given sparingly to some insurers, presumably to provide an element of competition in premium rates and to test an independent source of reference regarding rates. The business written by the non-tariff insurers formed a very small proportion of the total business.

5.21 The 1968 amendment to the Insurance Act, which introduced social control on general insurance, provided for a Tariff Advisory Committee (TAC) replacing the Tariff Committee of the General Insurance Council and its regional councils at four metropolises. The primary objective was to make rate setting more scientific and base it on proper analysis of statistical data. TAC became a statutory body with the Controller of Insurance as its Chairman, a senior officer from the Controller's office as Vice-Chairman and another officer as Secretary. Section 64UC(2) of the Act states:

> *"In fixing, amending or modifying any rates, advantages, terms or conditions, relating to any risk, the Advisory Committee shall try to ensure, as far as possible, that there is no unfair discrimination between risks of essentially the same hazard, and also that consideration is given to past and prospective loss experience: provided that the Advisory Committee may, at its discretion, make suitable allowances for the degree of credibility to be assigned to the past experience including allowances for random fluctuations and may also, at its discretion, make suitable allowances for future hazards of conflagration or catastrophe or both."*

5.22 On nationalisation of general insurance business, the Chairman of GIC (or a member of TAC nominated by him) became the Chairman of TAC. All the members of TAC are nominated by GIC with prior approval of the Central Government to represent GIC, the subsidiary companies, the State insurance funds, the Ministry of Finance, and the Bureau of Industrial Costs and Prices. The Secretary of TAC is also nominated by GIC Chairman from amongst the officers of GIC and subsidiary companies.

5.23 TAC approves the policy wording of the terms and conditions of all policies relating to the tariffed business. Details of the insurance covers within and outside tariff are given in Appendix XIX. Some insurance covers, as given in Appendix XX, are governed by 'Market Agreements' among the subsidiary companies.

5.24 The present composition, powers and functioning of TAC came under heavy criticism by many opinion leaders and interest groups who deposed before the Committee, especially the Chambers of Commerce & Industry and some prominent industrial houses. It was alleged that: TAC was insensitive, dilatory, unresponsive, and non-transparent; its decisions were based on inadequate and out-dated statistical data; premium rates were not revised for those lines of business which had persistent high claim ratios; tariff rates in India were higher than rates for similar risks in other parts of the world; being a *de facto* in-house unit of the insurance industry, it did not inspire confidence among the insured. It was suggested that TAC should be abolished and its functions taken over by the insurance regulatory authority. Another suggestion was that TAC should be brought under the control of the regulatory authority and that its composition should be expanded by including members from outside the industry.

5.25 The Committee examined the relevant aspects of the functioning of TAC. It was observed that after nationalisation, GIC and its subsidiary companies had not given due attention and importance to submission of the requisite statistical information to TAC. The data supplied was often incomplete and outdated and, over the years, the system has almost broken down. This is a serious weakness.

5.26 Fire rates had been reduced twice after nationalisation, in 1979 and in 1987. In motor insurance, however, the rates were revised upwards once in 1982 and then in 1990 as the high cost of repairs coupled with high third party claims had adversely affected the incurred loss ratio. Motor claims ratio has also deteriorated because of the amendments in 1982 and 1988 to the Motor Vehicles Act, 1939, which among other things, had made third party liability unlimited. It would appear that strong pressures from the user groups, mainly transporters, had come in the way of appropriate increases in motor premia commensurate with the cost of claims. With an average claims ratio of over 100%, the motor business has been a drain on underwriting profits. Some transporters opined that gradual revision of rates at reasonable intervals would be preferable to steep increases after long periods.

5.27 Underwriting experience of Indian direct business of the industry for the last three years was as under:-

	Ratio of Claims cost to earned premium* (%)	Ratio of Expenses of management to gross direct premium (%)	Ratio of Commission to gross direct premium (%)
1990-91	77.9	20.8	2.1
1991-92	67.9	20.9	2.0
1992-93	66.8	19.8	2.0

* Earned premium has been taken at 25% of cargo insurance premium income and 50% of premium income of other classes of the preceding year plus 75% of cargo insurance premium income and 50% of premium income of other classes of the current year.

5.28 The claims cost of all classes of business taken together is high, essentially due to the claims experience of motor business. Since claims cost is the major element in pricing the insurance product and as losses are ultimately a national waste, insurance companies, in co-operation with their customers, should make concerted efforts for risk improvement, loss prevention and claims minimisation. This could help bring down premium rates. Though some steps have been taken by the insurers such as opening loss minimisation cells at the head offices of the companies and promoting the Loss Prevention Association, these efforts need to be intensified.

5.29 The Committee is of the view that there is now a case for a further upward revision of premium rates for motor insurance business. There is no case for non-motor business to cross subsidise the motor sector. In fact, it is necessary to examine whether in the light of claims experience there is scope for rate reduction in any other classes of business.

5.30 It would also be necessary to examine what measures can be taken to reduce third party liability claims in motor insurance business. Prompt response by insurers after motor accidents could be one way of avoiding such claims being taken to courts which is a costly and time consuming process. It would help if guidelines for settling such claims are laid down in law. This would enable insurance companies to make reasonable offers of settlement and provide relief to affected parties more speedily than at present.

5.31 Despite a substantial increase in the volume of business over the last two decades, the management expense ratio of general insurance industry has stayed high. Management costs need to be reduced substantially. That there is scope for reduction is clear from the fact that the expense ratio is much greater in two companies than in others.

5.32 The Committee recommends as follows:

i) In view of the current state of the Indian insurance market, its likely evolution in the near future, and the prevalence of tariffs in many advanced markets, it would be inadvisable to abolish the tariff regime at this stage. However, the area under tariffs should be progressively reduced with the objective of limiting it to only a few classes such as marine hull, aviation hull, loss of profit insurance, fire and engineering insurance of complex industrial risks, catastrophic risks, and professional indemnity. This is expected to promote competition and improve underwriting skills. Personal lines of covers should be taken out of the tariff regime at the earliest.

ii) Market agreements which have the effect of informal tariffs should be discontinued forthwith.

iii) TAC should be de-linked from GIC and should function as a separate statutory body under such supervision of the insurance regulatory authority as may be necessary without becoming a part thereof.

iv) TAC needs immediate restructuring. It should be chaired by the head of the insurance regulatory authority or by another officer of that authority. Its membership should be broad based and besides representatives of insurance industry, it should have professionals such as economists, accountants, actuaries and engineers.

v) There is an existing provision which requires rates regarding non-tariff business to be submitted to the regulatory authority. Annual statements in this behalf should be prescribed and the regulatory authority should have the power to advise the insurers to modify rates, where necessary.

vi) There should be more purposeful and regular interaction of TAC with the users of insurance. The reconstituted TAC and the insurance regulatory authority should urgently consider how the committee's style of functioning can be directed towards greater rationality, transparency, and promptitude.

vii) A meaningful computerisation to collect, collate, analyse the vast data requirement of TAC and to provide to it necessary decision support systems for its operations should be undertaken without any further delay.

viii) The following steps should be taken immediately for more equitable product pricing:-

(a) Claims costs should be controlled by improved application of loss control and risk management techniques.

(b) Concerted efforts should be made to comprehensively review and reduce management expense ratios.

(c) Motor premium rates should be raised in light of persistently growing adverse motor claims experience. At the same time, structured compensation should be provided in law to facilitate quicker settlement of claims and reduction of cases under litigation. Insurance companies should step up their efforts to provide quick and equitable settlement of claims so as to create a perception among people that their interests are better served by companies than by litigation.

(d) More frequent reviews of rates in all classes of business are called for in light of changing claims experience in various classes of risks. For this purpose, it would be advisable for the companies to set-up R&D cells and upgrade statistical information and technology support to their present product pricing mechanisms.

Chapter VI

Investment Issues of Insurance Sector

6.1 Investment operations are incidental yet crucial to the business of Insurance. Insurers are required to generate reserves for claims that might arise and over a period a large corpus of funds is built up. It is essential that insurance companies invest these funds judiciously with the combined objectives of liquidity, maximisation of yield and safety. Returns on investments from life insurance funds influence to a large extent premium rates and bonuses. It has to be ensured that the insurers must at all times maintain a prescribed minimum level of solvency as a protection to the policyholders' legitimate interests. In this view of public interest, investment of insurance funds is regulated in some countries. Many countries do not have regulations to guide such investments, but they do have provisions setting out 'admissible' securities/ assets for the purpose of determining solvency levels of insurance companies.

6.2 Prior to 1950, life insurance companies were required to hold 55% of their assets in government or other approved securities. Investment of the remaining 45% was at the discretion of insurers. In the 1940s, many life insurance companies were acquired and controlled by large financiers who used life insurance funds to serve other enterprises in which they were interested or for speculative purposes. There were also cases of inter-locking of funds between banks and insurance companies. A committee headed by Sir Cowasji Jehangir went into various aspects of funds management by insurers and, based on its recommendations, the Insurance Act was amended in 1950. As a result of these amendments it was required of life insurers to have 25% of their assets in government securities, 25% in government or other approved securities, and 35% in 'approved investments' which included, apart from government and 'approved securities', shares and debentures of public limited companies satisfying certain criteria. Life insurers could invest not exceeding 15% of their assets otherwise than in 'approved investments' with the approval of their Boards of Directors. The amendments also put quantitative restrictions on investments in any single company making a distinction between banking and investment companies on the one hand and other public limited companies, on the other.

6.3 In 1958, in exercise of powers under section 43(2) of LIC Act 1956, section 27A of the Insurance Act was made applicable to LIC with minor modifications. In 1975, the application of section 27A to LIC was further modified requiring the

Corporation to invest each year and at all times keep invested 75% out of the accretion to the 'controlled fund'[17] in accordance with the following:-

(a)	In Central Government marketable securities being not less than	20%
(b)	In loans to National Housing Bank [18] including (a) above being not less than	25%
(c)	In State Government Secturities including government guaranteed marketable securities, inclusive of (b) above being not less than	50%
(d)	In socially oriented sectors including public sector, co-operative sector, house building by policy-holders, Own Your Home schemes, inclusive of (c) above being not less than	75%

6.4 The remaining 25% of accretion may be used by LIC for purposes such as investment in the private corporate sector, loans to policy-holders and construction and acquisition of immovable property under the guidance of its investment committee.

6.5 In 1988 Government accepted LIC's proposal to exclude the profits arising out of sale of equities from the ambit of accretion to the controlled fund for the purpose of section 27A of the Insurance Act with the objective of improving returns to policy-holders.

6.6 Sub-sections 3 and 4 of section 27A of the Insurance Act stipulate that an insurer shall not invest or keep invested, out of its controlled fund as follows:

(a) In the shares of any one banking company or investment company more than:

i) two and a quarter per cent of the sum[19] referred to in sub-section (1) of section 27; or,

ii) two per cent of the subscribed share capital and debentures of the banking company or investment company concerned;

whichever is less.

(b) In any one company other than in a banking company or investment company, the stipulated ceilings are two and a quarter percent of the sum referred to in sub-section (1) of section 27 or ten percent of the subscribed share capital and debentures of the investee company, whichever is less. The modified section 27A

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17 Controlled fund' means all funds appertaining to life insurance business of an insurer.

18 In June 1990, Government communicated to LIC its decision that out of the accretions, LIC may grant loans to National Housing Bank to the extent of 5% and investment in category (i) may be correspondingly less.

19 Broadly, this 'sum' is the amount of liabilities to holders of life insurance policies, less premiums due but not paid and amounts due in respect of loans granted to policy holders within the surrender values of policies.

made applicable to LIC, however, provides that LIC shall not invest or keep invested out of the controlled fund in the equity shares of any one company more than thirty percent of the subscribed equity share capital of the company except with the prior permission of the Central Government. For general insurers, the Insurance Act restricts investment in any one banking or investment company to ten per cent of the insurer's assets or two per cent of such company's subscribed share capital and debentures, whichever is less. In respect of other companies, the restriction is 10% of the insurer's assets or 10% of the company's subscribed share capital and debentures, whichever is less. The aforesaid provisions for life insurance and general insurance have been on the statute book since 1950 and 1968, respectively. However, over the years, the number of corporate entities has increased greatly and many new financial instruments have evolved. This indicates the need for a fresh look at these ceilings, particularly in the background of past problems of interlocking of insurance funds with companies in which insurers were directly or indirectly interested. It is also necessary for as wide a dispersal of investments as possible in order to prevent risk concentration and speculation. Further, the debt instruments floated by the corporate sector are now being rated by reputed rating agencies. With regard to debt instruments rated in the highest grade, it may no longer be necessary to stipulate ceilings for investment though the investing insurance company would have to make its own decisions with regard to its total exposure to any one company. The problem of interlocking of funds will be resolved by a recommendation made later in this chapter that no insurer should invest in its affiliates whether incorporated or not. Therefore, it does not appear necessary any longer to provide for lower ceilings in respect of banks than in other companies. However, it is advisable to continue the present restriction on investment in investment companies as defined in section 2 (10 A) of the Insurance Act.

6.7 By virtue of section 27B of the Insurance Act, which was introduced in 1968, 75% of the assets of general insurance companies is required to be kept in 'approved securities' and other 'approved investments'; the latter are similar in nature to the investments required of life insurance companies under section 27A. Not more than 25% of a general insurer's assets may be kept invested otherwise than in 'approved investments'. After nationalisation of the general insurance industry, while provisions of section 27B of the Insurance Act continue to apply to GIC and its subsidiaries, the Central Government has been issuing guidelines since December 1976 for investment of fresh accretion of funds of general insurance companies from time to time .

The present guidelines are as follows:-

(a)	Central Government securities (including special deposits with Government of India to the extent of 12.5%)	25%
(b)	State Government securities and other approved securities, bonds, debentures of public sector undertakings:	10%
(c)	Loans to State Governments, HUDCO, DDA etc. for housing programmes, and for purchase of fire fighting equipment and special deposits with Government of India	35%

6.8 The remaining 30% may be invested in the market sector by way of equities, term loans, debentures, etc. The entire sale proceeds of equity shares, redemption/repayment proceeds of debentures, preference shares and loans have been permitted, with effect from April 1989, for investment in the market sector. Given the difference between the long term nature of business of LIC and the annual short term risk covers issued by general insurance companies, the latter were allowed comparatively more flexibility in the matter of investments.

6.9 The Committee would like to observe that LIC as well as general insurance companies have been far too conservative in managing their equity portfolios. Relative to their holdings of company shares, they tend to book rather small profits as will be seen from the following table:-

(Rs in crore)

	Life Insurance Corporation			**General Insurance Companies**		
	1990-91	**1991-92**	**1992-93**	**1990-91**	**1991-92**	**1992-93**
Book Value of equity shares at the end of the year	724	994	1461	650	734	1062
Market value of equity shares at the end of the year	3718	12611	6953	3570	13053	6889
Capital gains realised	51	49	46	55	80	12

6.10 Clearly, a more dynamic approach to management of equities is called for in the interest of the insuring public. It is common knowledge that the share prices in the stock markets fluctuate and that, consistent with the need for prudence, it is possible to improve profits through efficient and timely market operations, something which has not been adequately done so far despite large investment departments in LIC and general insurance companies. A major change of attitude towards market operations, with requisite information support and application of techniques of security analysis could improve returns.

6.11 It has been contended before the Committee that though the objectives of safety of investments and mobilisation of resources for the public sector are important, the extent of directed investments of insurance funds, mostly at below market rates of interest, is excessive, limits the scope for exploiting more lucrative investment opportunities and reduces benefits to the insured either by keeping premium on the high side or by depressing bonus on 'with profit' life policies.

6.12 The Committee finds considerable force in the plea for reducing the extent of directed investments for the following reasons:

(a) Even though interest rates on government securities have been moving up, the returns on mandated investments of insurance companies are distinctly lower than those on their non-mandated investments.

(b) Because of the growth of more attractive investment instruments over the recent years, the appeal of life insurance as a savings medium has declined. This is partly due to the low overall return on LIC life fund and partly because the tax concessions which were at one time applicable only to long-term contractual savings, are now available for short and medium term savings also. It is therefore necessary to improve the return on the life fund.

(c) As a matter of policy, the Government is in the process of reducing its fiscal deficit, implying lower borrowing from the market. Accordingly, the statutory liquidity ratio for banks is being gradually reduced from the peak level of 38.5% to 25% over the next few years. Also, budgetary support to public sector enterprises is being reduced and they are directly accessing the financial market.

(d) It has been the official policy to gradually raise coupon rates on government and approved securities to market clearing levels and good progress has been made in this direction. With such coupon rates at market levels, it would not be necessary to maintain a high level of directed investments, as the insurance companies may, in their discretion, find government paper quite attractive.

6.13 The Committee is fully aware that reduction in mandated investments should in no way lead to imprudent investment of the non-mandated part. Provisions exist in law to ensure that this does not happen. These requirements are of a prudential nature and will have to continue.

6.14 The Committee's recommendations are as follows:-

i) The investments of LIC should conform to the broad pattern laid down in section 27 of the Insurance Act, subject to the modifications indicated below:-

(a) In Central Government securities being not less than	**20%**
(b) In State Government securities and government guaranteed securities, inclusive of (a) above, being not less than	**40%**
(c) In socially oriented sectors as may be prescribed by Government from time to time inclusive of (b) above, being not less than	**50%**

(The suggestion at (c) is intended to avoid any possible disruption of flow of funds from LIC to socially oriented sectors)

ii) To reach this goal it will be necessary, in the first instance, to reduce the mandated investment of fresh accretions from the present level of 75% to 40% in two annual stages and continue till the investments of LIC substantially conform to section 27 of the Insurance Act. Once such conformity is achieved the

concept of investing a portion of fresh accretions in a manner prescribed by Government guidelines will become unnecessary. To give effect to this recommendation, the notification issued by Government in April 1975 on this matter should be suitably modified; and section 27 of the Insurance Act amended as indicated above.

iii) The present provision in law that investment otherwise than in 'approved investment' shall not exceed 15% of the sum referred to in sub-section (1) of section 27 of the Insurance Act, should remain unchanged. The remainder will be in 'approved investments'.

iv) In order to enable LIC to reach the level of 50% as recommended in (i) above, the dispensation granted to it in 1988 for investment of profits arising out of sale of equity stock held by it, may be continued for a period upto four years.

v) For general insurers, the prescription for investment should continue to be different. Their assets should be invested and kept invested as follows:-

(a) in Central Government securities, being not less than	20%
(b) in State Government securities and government guaranteed securities, inclusive of (a) above, being not less than	35%
(c) in 'approved investments' inclusive of (b) above, being not less than	75%

vi) To reach these levels it will be necessary to reduce, in the first instance, the mandated investments of the general insurance companies in appropriate stages till their investments conform to the aforesaid recommendation. When the general insurance companies' investments reach the level outlined above, the government guidelines for investment of fresh accretions in a prescribed manner will become unnecessary.

vii) The present provision in law that investment in assets otherwise than in 'approved investments' shall not exceed 25% of the insurers assets, should remain unchanged.

viii) Sections 27A and 27B of the Insurance Act contain many provisions setting out the eligibility of various types of investments as 'approved investment'. These are in the nature of prudential norms which may be taken out of the Act. The insurance regulatory authority may reformulate them and modify them from time to time as may be necessary, in the light of the evolving financial markets. The revised prudential norms may be notified as regulations. It is important in this context to mention that for the sake of safety of investments of insurance companies, debt instruments should preferably be rated by credit rating agencies of standing, and term loans should be to companies of investment grade.

ix) As a measure to guard against inter-locking of insurance funds with the funds of other companies and over-exposure to the latter by way of investment in their equity, debt instruments or term loans, it is necessary to prescribe that no insurer:

(a) shall invest or keep invested in the equity shares, debentures or other debt instruments of any one company more than 10 per cent of the subscribed share capital, debentures, and other debt instruments of the company; provided, however, that an insurer's investment in equity shares shall not exceed at any time 5% of the subscribed equity share capital of the company; and provided further that this stipulation shall not apply to debt instruments having the highest rating received from a reputed rating agency of standing.

(b) shall invest or keep invested any funds in any manner in its (insurer's) affiliate whether incorporated or not.

x) At present, LIC and the general insurance companies hold in some companies shares which constitute more than 5% of the equity capital of each of those companies. LIC and the general insurance companies should reach the aforesaid level of 5% over a reasonable number of years. This will facilitate realisation of capital gains which could help raise bonus on 'with profit' life policies, and possibly reduce premium rates in general insurance.

xi) The investment pattern for funds of pension, including annuity and group business, may be as follows:

(a) In Central Government securities being not less than	20%
(b) In State Government securities and government guaranteed securities, inclusive of (a) above, being not less than	40%
(c) Balance of funds to be invested in approved investments	60%

xii) Special deposits with the government should continue to be considered as investment in central government securities.

Chapter VII

Rural Insurance

7.1 Rural India is the mainstay of our nation. Nearly 74% of the country's population live in villages and rural income contributes about one-third of the GDP.

Part I: **Life Insurance**

7.2 In the pre-nationalisation era, the rural sector was neglected in the matter of insurance coverage. Moving the Life Insurance Bill, 1956 in the Lok Sabha on 29.2.1956, the then finance minister stated as follows:-

> *"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."*

7.3 The Indian rural male population was 32.13 crore according to the 1991 census of which about 16.63 crore (51.8%) are estimated to be main workers.[20] Out of this main work force, 8.58 crore (51.6%) are cultivators, 4.32 crore (26.0%) agricultural labourers and the remaining 3.73 crore (22.4%) are in other occupations such as livestock, forestry, fishing, plantations, mining, manufacturing, commerce and trade, construction and transport. While landless agricultural labourers can be clearly classified as the weakest segment of the society, it is difficult to divide other workers according to their premium paying capacity. Not all the cultivators will be in a position to bear the cost of individual insurance policies. In cases where land holdings are small and uneconomical, incomes seldom exceed subsistence level. In other occupations too, while a part of rural population may be doing well and could easily afford the cost of an individual insurance policy, others may not be able to do so. LIC has tackled rural insurance in three ways: (a) by selling individual insurance policies to the well-off section among the rural population; (b) by selling group insurance policies to the not so well-off sections, and (c) by popularising government subsidised group insurance policies to the weaker segment.

7.4 LIC's rural business during the last decade has grown well relative to its total business. The rural new business of LIC relative to its total new business has grown from 32.7% in terms of number of policies and 26.6 % in terms of sum assured in 1981-82 to 44.6 % in terms of policies issued and 39.2% in terms of sum assured in 1992-93 (Appendix XXI).

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20 Main workers' are those who had worked for the major part of the year (183 days or more) preceding the census.

7.5 In order to promote rural insurance, LIC introduced a rural career agency scheme in 1979. During 1992-93, 9242 career agents procured a total business of Rs 538 crore on 2.07 lakh lives. From 1983, about 50% of newly recruited development officers are posted to rural areas (Appendix XXII).

7.6 Uncertainty of income of large sections of rural population was earlier considered to be an unattractive feature of the life insurance market. Recent strides made by LIC in rural insurance are, therefore, a matter of satisfaction. The '*Jan Raksha* policy', catering especially to the village workers without fixed incomes, has a special provision that the full death cover continues to be available for a period of three years even without premium payment, provided at least two years' premiums have been paid.

7.7 LIC's efforts to cover economically and socially backward sections by group insurance schemes in association with co-operatives and voluntary agencies have been sporadic and inadequate. In 1971, LIC formulated group insurance schemes, with normal premia, to cover weavers and milk producers. Andhra Pradesh Handloom Weavers Co-operative Society (12114 members) and Hyderabad Handloom Weavers Central Co-operative Society (6839 members) were covered in 1971. Some other important co-operatives, namely Dudh Sagar Dairy Milk Producers Union (61223 members), Tamil Nadu Handloom Weavers (43785 members) and Gujarat District Co-operative Milk Producers Union (1567214 members) and T.B.K. District Co-operative Milk Producers Union (20117 members) were also brought under this scheme. So far, in all only 17 lakh persons have been extended insurance protection through these group insurance schemes.

7.8 In 1987-88, a group insurance scheme was launched by the government for landless agricultural labourers, the administration of which was entrusted to LIC. The Landless Agricultural Labourers Group Insurance scheme (LALGI) has been financed directly or indirectly by the government. Heads of families, in the age group of 18 to 60 years, whose names do not appear as land holders in the revenue records and who are engaged as labourers in agricultural occupations, are covered under the scheme. In case of death, a sum assured of Rs 2000 (originally Rs 1000) is payable to the family. In all, 1,98,100 death claims (amounting to Rs 24.31 crore) had been paid by 31.3.93.

7.9 In April 1988, the Government formulated a group insurance scheme for beneficiaries under the Integrated Rural Development Programme. A separate Fund was set-up on 50:50 per cent basis by Central and State Governments to finance this scheme. The scheme covers the IRDP borrowers to the extent of Rs 3000 in the event

of normal death and Rs 6000 in the event of accidental death. Death claims in 23,946 cases (amounting to Rs 7.52 crore) had been paid by 31.3.1993.

7.10 In 1988-89, the Government of India issued a directive to LIC to set-up a separate fund called 'Social Security Fund' of Rs 100 crore to subsidise, to the extent of 50%, group insurance schemes for the benefit of weaker and vulnerable sections of the population. Twenty three groups, *viz. beedi* workers, brick-kiln workers, carpenters, cobblers, fishermen, *hammals,* handicraft artisans, handloom weavers, handloom & khadi weavers, lady tailors, leather workers, *papad* workers, physically handicapped self employed, primary milk producers, *ri[illegible]w* pullers, *safai karamcharies*, salt workers, *tendu* leaf collectors, urban poor, forest workers, sericulture, toddy tapers, powerloom workers, have so for been identified for this purpose. The scheme provides for payment of Rs 5000 to the legal heir or nominee of the insured in the event of death other than accidental and Rs 10,000 in the event of accidental death. By the end of 1992-93, about 34 lakh persons under these groups were covered. In all, 11307 claims (amounting to Rs 5.79 crore) had been settled by 31.3.1993 under these schemes.

7.11 The National Commission for Women, the Social Work and Research Group, Tilonia, District Ajmer, and the Self Employed Women's Association, Ahmedabad, (SEWA), brought to the notice of the Committee the lack of systematic efforts to cover women workers, especially in the unorganised sector. It was suggested that special life covers should be designed for working women who have income of their own, and marketed more effectively. For this purpose, association of selected voluntary agencies including *mahila mandals* should be sought.

7.12 Senior officers of the Department of Posts appeared before the Committee and expressed their interest in the Postal Life Insurance (PLI) organisation undertaking life insurance business for the general public in rural areas (PLI at present covers only employees of Government and semi-Government organisations). They pointed out that PLI operated through a vast and well established network of post offices all over the country and was in a position to spread life insurance in rural areas substantially with marginal addition to their costs.

7.13 While LIC has been successful in raising the proportion of rural lives insured in total new business, its performance in extending group insurance for the poorer sections of rural society needs considerable improvement. Against this background and the vast area that remains to be tackled, the Committee has also considered various alternatives suggested for supplementing the efforts of LIC in expanding life coverage in the rural areas. One possibility is to set-up a new corporation or company

for exclusive rural insurance business, with emphasis on weaker sections of the population. While this would improve the focus on rural business, it would require the establishment of a very large new organisation. This may be problematic because of high costs and relatively low sum assured per policy. It could also result in some dilution of interest on the part of LIC in rural life business, especially at the lower end. An alternative is to encourage selected state level co-operative organisations to set-up separate establishments to transact life insurance business within specified geographical areas. These may have the potential to grow in areas where the co-operative movement is strong, especially where production and marketing are co-operativised. It will be useful if enabling provisions are made in the insurance law to permit licensing of such co-operative insurance establishments with a lower than normal capital requirement. The co-operative insurance establishments would be subject to the supervision of the insurance regulatory authority like all other insurers.

7.14 The Committee noted that the cost of PLI per unit of business handled is substantially lower than that of LIC. The lapsation of PLI policies is also insignificant, partly due to the nature of their clientele. The settlement of policy claims is reportedly efficient. PLI charges lower premia (by about 5%) and it is also able to give somewhat higher bonus than LIC. Further, PLI has computerised its operations in Circle Offices of the Postal Department. There are at present 1,50,000 post offices, about 89% of which are reported to be located in rural areas. The Committee considered whether the extensive network of departmental and extra-departmental post offices could be utilised for expanding life insurance business in rural areas. The Committee understands that rural branch post masters who enjoy a position of trust in the community have the capacity to canvass life insurance business within their respective areas. In the Committee's view, if PLI is permitted to write life insurance for the general rural public, it can secure a substantial volume of business. To that end, it would have to provide suitable incentives to the branch post masters. A measure of reorganisation within the Department of Posts would also be necessary. For instance, the PLI functions, including the computerisation programmes, which are now being handled at Circle Offices may have to be brought down to the level of Head Post Offices. It is understood that at present the PLI staff is treated as secretariat staff and PLI's identity as an operational division has not yet been established. A redefinition of its role would be useful. There was a view that PLI could perhaps become a separate corporation. In that event, however, its present advantage which flows from its being an integral part of the Department of Posts would be lost and the costs could rise. There is, therefore, advantage in maintaining PLI as part of the Department of Posts with appropriate changes so as to enable it to handle a much higher volume of life business.

7.15 There is a view that LIC should be run purely on commercial lines and that its administrative capacity should not be strained in operating schemes which are in the nature of relief operations and do not require issue of individual or group policies.

7.16 The Committee understands that individual life insurance and unsubsidised group life insurance business written in the rural areas is commercially viable business even though it may not be as profitable as life business in urban areas. This is mainly because the average sum assured under rural policies is lower than that in urban areas. Such a mix of business is a normal phenomenon and it is in the commercial interest of LIC to intensify its efforts in the growing rural market. It should also take up those socially oriented schemes which have an element of life insurance business, whether or not subsidised by the Government.

7.17 There is, however, no advantage in LIC handling LALGI and IRDP beneficiaries' schemes because it makes no professional contribution and only disburses payments from funds provided by government on the recommendation of governmental authorities. These are purely welfare schemes meant to provide relief to the affected persons and should, therefore, be handled by the concerned government authorities without using insurance agencies.

7.18 The Committee recommends as follows:-

i) Though the percentage of new rural lives covered has risen to respectable levels, the marketing of life insurance to the relatively weaker sections of society, including working women who earn income of their own, has to be tackled more effectively than has been done so far. For this purpose, it is essential that covers should be imaginatively designed and vigorously marketed. Term insurance[21] covers without any saving element are quite cheap and should be popularised.

ii) Inter mediation and assistance of institutions such as *panchayats*, selected voluntary organisations, *mahila mandals* and co-operatives, should be systematically sought for the spread of rural life insurance for which there is a vast untapped potential.

iii) PLI should be permitted to transact life insurance business in the rural areas among the general public and should be suitably strengthened for this purpose.

iv) There should be an enabling provision for state level co-operatives to set-up co-operative societies for transacting life insurance business in the states. While such societies - not more than one in a state - will be subject to regulation by the insurance regulatory authority, a lower than normal capital requirement may be laid down for them.

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21 'Term insurance' means life insurance cover under which the sum assured is payable only on the death of the assured during the term of the policy.

v) If new entrants come into the life insurance business they should be required to write a specified proportion of their business in rural areas and to ensure that they do not avoid writing small policies. In case such stipulations are not complied with, they may be subjected to a penal assessment by the insurance regulatory authority.

vi) LALGI and IRDP beneficiaries' schemes which are relief oriented welfare schemes and do not involve any element of insurance should be transferred from LIC to the concerned government authorities.

Part II: **General Insurance**

7.19 After nationalisation, premium income from 'rural non-traditional insurance business' (RNTB)[22] increased from Rs 25 lakh in 1974 to Rs 111.24 crore in 1992-93 (Appendix XXIII). It constitutes about 2.5 % of total domestic general insurance premium. A good part of this business (86%) comes from insurance of livestock. A major portion (60%) of this livestock cover relates to Integrated Rural Development Programme (IRDP), with bank credit linkages, where insurance is mandatory and two-thirds of the premium is paid by governmental agencies. Insurance is also compulsory for non-IRDP related livestock procured with bank finance and this constitutes about 30% of livestock premium income; the remaining 10% comes from other livestock, mainly in the co-operative sector. The premium classified under 'rural non-traditional business' also includes premium income from 'agricultural pump sets' (7%), *Janata / Gramin* Personal Accident (5%), commercial poultry farms (3%), and over 40 other rural insurance products (5%), including covers for pisciculture and sericulture. The growth in such non-traditional business has been mainly stimulated by credit associated requirements. Rural general insurance also covers the usual 'traditional business' whose volume is substantial.

7.20 In 1976, to stimulate marketing of RNTB, the agents' commission was raised from 10% to 15% of premium and 'double credit' granted to inspectors for rural business in computing their incentives. Separate departments for rural insurance were set-up in GIC, its subsidiary companies' head offices, regional offices, and divisional offices. In 1978, veterinary officers (VOs) were recruited mainly for livestock insurance. This specialist cadre was steadily built up to 538 in the four companies by 1990. However, over time the scheme appears to have suffered a set back. Less than 50% of these VOs are at present deployed in their field of specialisation. In 1983, a scheme of special agents called 'Rural Representatives' (RRs) was launched. Over a period of three years, about 1700 RRs were recruited. This scheme was also unsuccessful and indeed ran into rough weather as some RRs went to court claiming salaried employment as a matter of right. Some others did find salaried employment within the industry. Only about 250 RRs now remain as agents. Isolated attempts were also made to associate institutional intermediaries such as co-operatives (e.g., FISHCOFED in 1983). Managerial efforts to create appropriate infrastructure for spread of RNTB did not succeed much partly due to difficult ground realities, but also because of inadequate performance of the rural marketing force.

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22 RNTB: denotes such general insurance business in rural areas which is not carried on ordinarily by insurers. It does not include the usual commercial business of insurance taking place in the rural areas.

7.21 Rural markets present a difficult milieu especially for non-traditional business. Insurance business, for one, requires that insurance education is spread in an intelligible idiom, its products simplified, and contract conditions made easy to understand. High-cost, low-premium nature of rural business calls for innovative product designing, marketing and delivery at affordable cost through a slim, sensitive, and efficient delivery system. Linkages with many governmental, financial, co-operative, and voluntary agencies in the rural sector are also necessary to secure information and assistance wherever necessary.

7.22 Insurance is a commercial operation. It is therefore imperative that its products are suitably designed and viably priced in the light of rural conditions and other relevant data. Even where socio-political objectives of society require subsidisation, it is essential to determine the commercial price of each product and the element of subsidisation required to make it saleable.

7.23 For the purpose of insurance marketing, rural economy could be conceived of as comprising three broad segments: (i) subsistence sector; (ii) semi-commercial rural sector; (iii) commercial rural sector. The first segment would consist of marginal and small farmers, landless labour, and rural craftspersons who are generally below the threshold of insurability because of their low premium paying capacity. This segment is targeted by various rural development schemes of government and some voluntary organisations. Insurance coverage is given to this group on concessional premium for the livestock procured through IRDP schemes. In August 1985 and May 1988 respectively, Personal Accident Insurance Social Security Scheme (PASS) and Hut (rural) Insurance Scheme were introduced for this sector. Premium for both these schemes is paid in full by the Central Government. However, from the low number of claims paid under PASS (76220 from its inception till 31.12.1992), it would appear that general awareness about this scheme is poor. The latter two schemes do not involve issue of insurance policies and are in the nature of the welfare measures which should be handled by the concerned government authorities.

7.24 The Committee visited the Social Work & Research Centre, Tilonia, District Ajmer, Rajasthan (SWRC) and interacted with its Director, some social activists and a cross section of farmers, nomadic tribes, and other villagers. It transpired that insurance awareness among the subsistence rural sector was very poor. Social activists were of the view that there were inherent constraints in spreading fully subsidised insurance covers among the rural poor as it involves distribution of largesse with concomitant possibilities of malpractice at delivery points. It was suggested that a reasonable and affordable price should be fixed for welfare oriented insurance

products which could be cross subsidised to the extent necessary. It was also suggested that insurance education should be spread in traditional rural idiom by making imaginative use of the media of puppetry, story telling, folk songs, street plays, etc. through voluntary agencies which have developed such media for propagation of their own activities. Their (voluntary agencies') association should be sought not only for education and communication but also for marketing and delivery of insurance services as a package. They also suggested that insurance covers should be specially designed for rural women who constitute an important part of the rural work force and contribute to social development. The Chairperson and some members of the National Commission for Women who met the Committee, pointed out that there was inadequate response to the insurance needs exclusive to women, especially in the unorganised sector. They opined that *mahila-mandals* in the villages could act as focal points for mobilising insurance sales and services. The Committee also met representatives of Self Employed Women's Association (SEWA) of Ahmedabad who too underscored the need for special group insurance schemes for women workers.

7.25 The semi commercial rural sector comprises, in the main, small and medium scale farmers who are in transition from subsistence farming to production for the market. It also includes village craftpersons and artisans, many of them women, who are emerging as producers of handicrafts for domestic and export markets. They are acquiring access to better technology, inputs, extension services and other infrastructure facilities for improving farming, upgrading livestock breeds, pisciculture, sericulture, and the like. Sometimes they have links with processing units such as milk co-operatives. The extension of insurance to this category should be easier, particularly because of their growing linkages with credit and marketing agencies which could serve as contact points for the insurance industry. This sector is expanding fast and has good potential for insurance business.

7.26 There was a general view that the marketing of several general insurance schemes which are of interest to the semi commercial sector, was inadequate. For instance, the president of a large association of tea garden labourers met the Committee at Guwahati and mentioned that over 6.5 lakh tea garden labourers in Assam alone, who had the capacity to afford personal accident and life covers, had not been effectively approached by the insurers.

7.27 The commercial rural sector comprises of medium and large farmers and also entrepreneurs in the small rural industrial sector. Even though this sector uses institutional finance and is often required to take insurance cover on their assets, there is a tendency to limit covers to levels required for purposes of securing credit, leading

to under-insurance of assets. It would also appear that the potential in this area has not been adequately tapped.

7.28 The Committee received responses to its questionnaire and heard representatives from the commercial rural sector such as the Indian Tea Association, Coffee Board, Central Silk Board, National Co-operative Union, fish, prawn and poultry farmers, and horse breeders. The respondents generally felt that several insurance products were often not tailored to their specific needs and were not equitably priced. There were complaints about inadequate servicing too.

7.29 The Committee was informed that GIC had prepared and submitted to the Government a feasibility report on the formation of a Rural Insurance Corporation in October 1979. The matter reportedly did not make much headway because it was felt that the proposed corporation would not be financially viable. It was apparently decided that GIC and its subsidiaries were the best placed to expand its activities into new areas of rural business economically.

7.30 Some non-users of rural insurance such as chambers of commerce and industry, academicians, and other opinion leaders also expressed their views as regards social and rural insurance. One view was that general insurance companies whose business was essentially commercial should not be saddled with responsibilities regarding non-traditional and socially oriented insurance business in the rural areas. It was argued that a separate company for non-traditional rural business would adopt more economical ways of handling rural insurance, and better suited to the requirements of the countryside. As in the case of a similar suggestion on the life insurance side, the Committee is unable to endorse this proposal. Prima facie, an all India company of this nature may not be financially viable. Besides, existing insurance companies already have a large presence in the rural areas and have developed considerable experience in handling traditional and non-traditional rural business. The market dynamics is increasingly towards integration of rural and urban sectors and to assume that the existing dichotomy between these sectors will continue indefinitely is not justified.

7.31 If, however, any State level co-operative society or private sector company wishes to take up business predominantly in the rural sector, it may be allowed to do so provided it meets the prudential norms laid down by law and the insurance regulatory authority.

7.32 A representative of the National Co-operative Union met the Committee and urged that the union should be allowed to set-up an insurance outfit at the national

level to undertake general insurance business. The Committee appreciates that some co-operative societies of standing at national and state levels may be able to exploit the largely untapped potential of rural insurance, specially RNTB. Such co-operative insurers would, however, be subject to the usual capital, solvency, prudential and other requirements.

7.33 The Committee recommends as follows:

> **i) There is need for more intensive work in rural areas for spreading non-traditional insurance business. For this purpose, wherever possible, association, assistance and even inter mediation of *panchayats*, co-operatives and carefully selected voluntary agencies should be actively enlisted, particularly in the areas of insurance education and communication. Special attention should be paid to devising covers particularly suited for self-employed women.**
>
> **ii) In case new entrants come to the general insurance field there is a likelihood that they would concentrate their efforts on the lucrative urban business and may not like to extend their activities to the less profitable rural business, specially non-traditional rural business. This may give rise to a complaint that existing companies who would continue to operate in the rural sector would be placed at a disadvantage *vis-a-vis* such new entrants. The new entrants may, therefore, be required to undertake a specified proportion of their business as rural non-traditional business. Those who fail to achieve the prescribed requirement in this regard may be subjected to a penal assessment by the insurance regulatory authority.**
>
> **iii) Requests from the co-operative institutions at the national and state levels, to transact general insurance business may be considered favourably subject to their satisfying the prescribed norms.**
>
> **iv) Welfare oriented schemes of general insurance such as PASS and Hut insurance do not involve any element of insurance. As in the case of similar schemes administered by LIC, these schemes should be transferred to the government authorities concerned.**

Chapter VIII

Reinsurance Operations

8.1 Reinsurance is primarily an insurance of risks assumed by an insurer and provides a partial substitute for incremental risk capital.[23] An insurer arranges reinsurance for:

a) improving service to the insured by increasing capacity to handle large risks;

b) spreading the risk with as many insurers as possible; and

c) stabilising operating results by levelling out peak risks/losses.

8.2 Reinsurance evolved as a natural corollary to insurance. It operates on the same principle as direct insurance, which is to spread sharing of risks as wide as possible. Professional companies handling reinsurance business exclusively started functioning over a century ago.

8.3 'Retention' is the maximum amount an insurer is prepared to pay on his own account on any loss in regard to a policy, a risk, or group of risks. The factors that influence retention, *inter alia*, are: (a) a company's assets including capital and free reserves, and investment income, (b) portfolio of the risks, (c) premium levels, (d) inflation, and (e) reinsurance market conditions. Reinsurance can be placed 'facultatively' or by means of 'treaties'.[24] Reinsurance can be transacted on 'proportional basis', i.e. the reinsurer assumes the risk, receives premium, and pays claims on a predetermined ratio, or on 'non-proportional basis' where reinsurers assume only losses that exceed a fixed amount, in return for a premium on a non-prorata basis. Loss experience of reinsurance business can fluctuate widely from year to year. Since it is global in range, reinsurers' fortunes are affected by natural calamities and economic, social and political changes occurring all over the world.

8.4 Reinsurance matters relating to life insurance business are relatively less complex as compared to general insurance business. When LIC took over the business of two hundred and forty five insurers in 1956, it might have required reinsurance support since it was not sure of the underwriting standards and types of risks being covered by those companies. But now, it does not require any such arrangements by virtue of its financial strength and capacity to absorb risks fully. LIC has availed itself of reinsurance outside India in a limited way, primarily to keep in touch with the

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23 Risk capital: paid up capital and free reserves of an insurance company.

24 Facultative is a term used to denote reinsurance arrangement which is optional for both the ceding and accepting reinsurer, and is placed on risk by risk basis; 'treaty' denotes an automatic reinsurance arrangement covering several polcies in a category of risks.

world market. The number of policies reinsured as well as the total sum at risk reinsured is quite insignificant. The reinsurance premium ceded in 1992-93 was only Rs 167 lakh. The amount of reinsurance accepted by LIC is also negligible, bringing in a premium income of only Rs 48 lakh. As one of the largest life insurers in the Afro-Asian region, it should play a more dynamic role in this regard.

8.5 In India, the post-independence period, especially from 1951 onwards, was marked by rapid developments in the Indian general insurance industry due to acceleration in the pace of development and large scale industrialisation. This increase in business, including especially assumption of ever larger and more complex risks, enhanced the need for reinsurance protection which, at the time, could only be bought from foreign markets. In order to increase retention, India Reinsurance Corporation was formed in 1956 by the insurers operating in India. In 1961, the Government, by an amendment to the Insurance Act, named India Reinsurance Corporation and the Indian Guarantee and General Insurance Company as statutory reinsurers. Each of these reinsurance companies received about 10% 'statutory cession'[25] from every insurer in India. Following nationalisation, GIC became the Indian reinsurer.

8.6 After nationalisation of general insurance, the outward reinsurance arrangements of the Indian insurance companies were rearranged. The main objectives were: to maximise aggregate domestic retention, to use the large premium base of the domestic market to secure the best terms consistent with the quality of the business ceded out of the country, and to minimise the drain of foreign exchange. These objectives have continued to govern the reinsurance programme of the Indian market during the last 20 years. As a result of several measures such as obligatory non-reciprocal cession by the subsidiaries of GIC, market pools for fire and marine hull business, and inter-company cessions, the percentage of net retained premium within the country in 1992-93 was as high as 86.6% (Appendix XII).

8.7 GIC also accepts overseas reinsurance business. In view of the present difficult international reinsurance scenario, it has proceeded with caution on inward reinsurance business. In order to aggregate the capacity of the Indian market, acceptances are centralised at GIC. This has enabled the industry to offer a substantial capacity of upto US $ 3 million per treaty / programme.

8.8 Outward and inward reinsurance operations of the industry for the period 1976 to 1991-92 produced a surplus of Rs 169.74 crore in spite of net loss of Rs 70.25 crore in 1991-92 (Appendix XXIV). Thus, over the years, the two-way reinsurance

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25 Statutory cessions: a proportion of premium on each risk fixed by law which an insurer must cede to designated reinsurer(s).

operations have yielded an overall surplus, besides providing additional capacity to the Indian insurance market. High losses in respect of inward business in 1991-92 are attributed to natural calamities occurring in many countries, affecting reinsurers world-wide.

8.9 Nationalised general insurance industry of India is viewed as having a good financial standing in the international market. GIC and its subsidiary companies satisfy six to seven out of eight norms laid down by a reputed firm engaged in evaluating and assessing solvency and financial standing of insurance companies world-wide (Appendix XXV).

8.10 The Indian general insurance industry considers that it can become a leader in reinsurance among developing countries owing to its financial strength, its ability to offer better terms due to lower costs, skilled manpower, and relative lack of interest by reinsurers of developed markets in the low volumes of the third world business.

8.11 There is no system of statutory or obligatory cessions to a national reinsurer in developed markets. In many European countries, the local insurance companies formed 'pools'[26] with a view to creating éasily available capacity within each country, but with no obligation on any insurer to make cessions to the pool. Such pools do not seem to have made much headway because of their inability to provide sufficiently large capacity (compared to established reinsurers) as also because of the voluntary nature of their association. The largest direct insurance market, *viz*. the USA has an indirect method of encouraging internal cessions. For the purpose of technical reserves, State Insurance Commissioners allow credit for reinsurance placed with a reinsurer licensed to operate in the state (only premiums and claims net of reinsurance are considered; i.e., lesser the reinsurance with the locally licensed reinsurer, higher is the reserve required to be maintained). A reinsurer has to satisfy the criteria laid down for insurers before being licensed. The purpose apparently is to avoid a situation where financial health of insurers operating within a State is jeopardised by failed reinsurers.

8.12 A system of statutory or obligatory cessions exists in many developing countries. These compulsory cessions increase market retention and conserve foreign exchange. Besides, loss reserves and technical reserves are available for investment within the country. Policy-holders' interests are well protected provided reinsurers are reliable and financially strong. Some of the countries where systems similar to

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26 Pool: a system of several insurers agreeing to cede a portion of their insurance risks to a reinsurer or any organisation set up for the purpose which retrocedes the pooled risks to the cedents in agreed proportions.

obligatory cessions are in operation are Malaysia, Thailand, Sri Lanka, Bangladesh, Kenya, Zimbabwe, Nigeria, Brazil, and Argentina. Insurers in Singapore voluntarily cede 2.5% to 5% to Singapore Re.

8.13 Section 101A of the Insurance Act provided for statutory cessions by insurers to India Reinsurance Corporation and Indian Guarantee and General Insurance Company both of which later merged with two of the subsidiary companies of GIC. By a notification of December, 1972 under the General Insurance Business (Nationalisation) Act, GIC was notified as the Indian reinsurer under section 101A of the Insurance Act. However, section 101A was made inapplicable to the four subsidiaries of GIC by a notification of June, 1974 issued under the General Insurance Business (Nationalisation) Act. The present arrangement, therefore, under which GIC receives 20% cessions from its subsidiary companies is, in strict law, a voluntary arrangement.

8.14 If insurance business is liberalised, the existing provisions regarding statutory cessions in favour of the designated Indian reinsurer should apply to all insurers, including the present four subsidiary companies of GIC. Retention of business can be further augmented through market pools and inter-company cessions. It would be in the national interest that all such modalities should be utilised for maximising retention of reinsurance within the domestic market.

8.15 Essentially, regulations applicable to a reinsurer are the same as for direct insurer in the matters of registration, accounts, investments, solvency margin, etc. Information collected through various periodical returns by regulatory authorities (e.g. in UK, Singapore, and Malaysia) enables them to review the performance of reinsurance business, accepted and ceded. Under the Indian Insurance Act, the Controller of Insurance has powers to call for and examine reinsurance treaties and contracts entered into by an insurer (section 101C). Under section 34F of the Act, the Controller of Insurance has powers to order an insurer to discontinue or amend the terms of a reinsurance treaty/contract if he is of the opinion that it is not favourable to the insurer or is detrimental to the public interest. The Insurance Rules provide for information and accounts to be maintained by the insurers regarding reinsurance contracts. Prior to nationalisation, the Controller of Insurance used to call for information annually regarding reinsurances ceded to and accepted from foreign insurers in order to estimate the foreign exchange gain or drain. It is desirable that the

regulatory authority should call for detailed returns periodically as a standing arrangement.

8.16 In light of the foregoing observations, the Committee recommends as follows:

i) **It has been recommended elsewhere in the report that GIC should cease to be the holding company for its present subsidiaries in India and that it should not write any direct insurance business. In that event, the exclusive function of GIC would be that of a reinsurer. It would need to reorganise itself in light of its redefined role. For greater efficiency and economy, GIC's operations should be technology driven and its information management should be comparable with the systems of world leaders in reinsurance business.**

ii) **GIC is already the notified Indian reinsurer. Under voluntary arrangements between GIC and its subsidiaries, 20% of their insurance business written in India is ceded to GIC. In view of the expertise, reputation and goodwill which GIC has built as a reinsurer, and its financial strength, it should remain as the Indian reinsurer. There should be statutory cessions of 20% of all direct insurance business written in India, in favour of the notified Indian reinsurer subject to any prescribed exemptions or reductions in respect of specified class or classes of business.**

iii) **At present, GIC manages fire and marine hull business domestic pools, promotes inter-company cessions, negotiates excess loss treaties, places facultative cessions in respect of very large risks abroad, and accepts inward reinsurance business on account of itself and its subsidiaries. These arrangements have proved beneficial. It would be desirable to continue such arrangements even in a liberalised environment, subject to any changes that may become necessary.**

iv) **The regulatory authority should get information from insurers as regards reinsurance accepted and ceded to enable it to take necessary corrective action as and when required.**

v) **As one of the largest life insurers in the Afro-Asian region, LIC should play a more dynamic role as a reinsurer than is the case at present.**

Chapter IX

Pension Funds

9.1 Life insurance is generally a long term business. This business serves a dual purpose - cover against risk of death and accumulation of savings. Under section 2(11) of the Insurance Act, 1938, pension contracts are deemed to be a part of life insurance business. A comprehensive pension scheme is a long term savings instrument that provides cover both against risk of death and 'risk of longevity'.

9.2 Pension schemes have become large business abroad but have not developed sufficiently in India partly because of the availability of other long term savings instruments. Some of these instruments are described below.

Employees Provident Fund Scheme.

9.3 This scheme is being operated under the Employees' Provident Funds and Miscellaneous Provisions (EPFMP) Act, 1952. The objective was to institute contributory provident fund for the benefit of employees in factories and other establishments, to which both the employers and the employees would contribute. The contributions are invested according to the pattern prescribed by the Central Government from time to time. The accumulations to the credit of an employee are payable to him at the time of retirement or earlier on resignation, and to the family in case of death of the employee while in service.

9.4 In the event of premature death of an employee, the accumulations in the provident fund may be insufficient to provide adequate support to the family. So, by an amendment to the Act, the Employees' Family Pension Scheme was introduced with effect from 1st March 1971. The family pension scheme is financed by diverting from the employee's share of contribution to the provident fund an amount equal to 1 - $^1/_6$% of the pay with an equal amount from the employer's share. The Central Government provides a matching contribution of 1-$^1/_6$% of the pay of the members. The funds are kept in deposit in Public Account. The benefits available under the scheme are :

i) Payment of a lump-sum amount and a family pension in the event of death of an employee while in service, or

ii) payment of a lump-sum amount in the event of retirement or resignation.

9.5 From 1st August 1976, Employees' Deposit Linked Insurance (EDLI) was introduced to provide to a member an insurance cover linked to the amount to his

credit in the provident fund. The maximum cover available is Rs 25,000/-. To provide this cover, the employer contributes 0.5% and the Central Government 0.25% of the pay of the employees. No contribution is required from the employees.

9.6 The above schemes presently cover about 120.8 lakh subscribers under provident fund and 136.7 lakh under family pension fund. As on 31st March 1992, the amounts standing to the credit of Employees' Provident Fund, Employees' Family Pension Scheme and Employees' Deposit Linked Insurance Scheme were Rs 15,089.4 crore, Rs 5,039.5 crore and Rs 869.0 crore, respectively. LIC also offers EDLI scheme to establishments exempted under section 17 of the EPFMP Act and has so far covered 36 lakh employees.

9.7 There is now a proposal to convert employers' share of contributions to provident fund into a pension scheme.

9.8 A number of establishments falling within the purview of EPFMP Act have been exempted under section 17 of the Act. These establishments maintain trust funds to which the employer and employees make contributions. The benefits to members are not less favourable than those available under the EPFMP Act. The number of employees covered by such exempted funds and the amount of fund as on 31.3.1992 were 45.4 lakh and Rs 16506.3 crore, respectively. The pattern of investment of such funds is prescribed under rule 67 of Income-tax Rules, 1962.

Coal Mines Provident Fund Scheme

9.9 This scheme is being operated under the Coal Mines Provident Fund and Miscellaneous Provisions Act, 1948. The provisions are similar to those under the Employees Provident Fund Scheme. The Family Pension Scheme, and EDLI scheme are also available to the members of the Coal Mines Provident Fund.

9.10 As on 31st December 1992, the number of members under the Coal Mines Provident Fund and Coal Mines Family Pension Schemes were 8.54 lakh and 7.46 lakh, respectively. The corresponding funds were Rs 5237.1 crore and Rs 703.6 crore.

Central Government Employees' Group Insurance Scheme.

9.11 Under this scheme which was introduced in 1980, an insurance cover equivalent to one thousand times the monthly subscription is payable on death of an employee while in service. Thirty per cent of the subscriptions is appropriated towards a 'risk fund' for providing the risk cover and the balance 70% is accumulated at a

specified rate of interest. The maximum risk cover available to a person under this scheme varies from Rs. 15,000 to Rs. 1,20,000 depending upon his category. The estimated number of employees covered under the scheme is about 40 lakh.

9.12 Some of the State Governments - Uttar Pradesh, Maharashtra, Punjab, West Bengal, Karnataka, Tripura, Himachal Pradesh and Haryana - obtained exemption under section 44(f) of the Life Insurance Corporation Act, 1956 to run similar savings linked group insurance schemes for their employees. The estimated number of employees covered under the schemes run by these State Governments is about 20 lakh.

9.13 LIC has also covered about 31 lakh persons in both public and private sectors under a similar scheme.

Public Provident Fund Scheme

9.14 This scheme of the Central Government framed under the provisions of the Public Provident Fund Act is operating since 1968. Under this scheme an account can be opened by any individual with a subscription of not less than Rs. 100/- and not more than Rs. 60,000/- per year. The deposits form part of the Public Account of the Government of India.

9.15 The annual deposits (net) under this fund show an increasing trend, from Rs. 135 crore in 1986-87 to Rs. 850 crore in 1991-92. It is estimated that the deposits during 1992-93 would touch Rs. 1,000 crore. However, the annual increase in deposits has been modest, at around Rs. 100 to Rs. 200 crore per year. The cumulative balance at the end of March 1992 (after 24 years since inception of the scheme) was only Rs. 3,770 crore. The rate of growth has been modest even though contributions to public provident fund qualify for income tax relief under section 88 of Income Tax Act, the interest credited to the individual subscriber's account is fully exempt from Income-tax and the amount to the credit of the subscriber is also fully exempt from wealth tax. The modest growth may perhaps be due to liberal withdrawals allowed under the scheme.

Gratuity

9.16 Another benefit being enjoyed by employees is related to the payment of gratuity on retirement, death or resignation. The benefits are payable according to provisions of the Payment of Gratuity Act, 1972 which is applicable to all establishments having 10 or more employees. The benefit is paid at the rate of fifteen days' wages for each year of service or part thereof in excess of six months subject to

a maximum of Rs 50,000.[27] The cost is entirely borne by the employer. The Act covers all employees drawing Rs 3,500[28] per month or less. The gratuity benefit is paid on cash basis or funded by the employer during the service period of an employee. The investment of the funds is administered by a trust, or contributions are paid to LIC under its Group Gratuity Scheme. The investment of trust money has to be in accordance with rule 67 of the Income Tax Rules, 1962. The number of gratuity schemes being administered by LIC as on 31.3.1993 was 19,836 covering about 45 lakh lives and the total fund under these schemes was Rs 2098 crore. There are many privately funded gratuity schemes whose number is not known.

Pension Funds

9.17 While pension funds have registered remarkable growth in developed countries the volume of such funds in India is insignificant. An important reason for this is that lump-sum benefits in the form of gratuity and provident fund either on death or on retirement looked a better alternative till recently.

9.18 As of March 1993, LIC had 3040 pension schemes covering over 2.7 lakh lives with an accumulated amount of Rs 1000 crore. LIC also maintains a separate pension fund which amounted to Rs 450 crore as on 31.3.1993, out of which pensions are being paid to about 67000 pensioners. Besides, many organisations run their own pension funds and buy pension from LIC when an employee retires.

9.19 The value of a pension scheme is enhanced if the quantum of pension is linked to cost of living index. The benefit of such index-linked, comprehensive pension schemes were available till recently only to Central Government, State Government and State Bank of India employees. Now similar schemes have been extended to employees of Reserve Bank of India and the nationalised banks. With the Government and many of the banks providing comprehensive pension benefits to their employees, the question of providing similar benefits to those in other public sector units, industries in private sector and self-employed persons may arise.

9.20 In terms of section 30 of LIC Act, 1956, only LIC is authorised to transact pension business. The institutions that have arrangements for payment of pension to their employees have either of the two options:

a) Set-up an internal fund and make periodic contributions into it. As and when an employee retires, purchase an appropriate life annuity from LIC.

b) Purchase a group pension policy from LIC and pay appropriate contribution.

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[27] This amount is expected to be raised to Rs 1,00,000.
[28] This limit is expected to be removed.

In the first case, during the service period of an employee, the funds pertaining to his pension are administered by a trust set-up by the employer. In the second case, the funds pertaining to the scheme are fully under the control of LIC.

9.21 Most of the schemes in operation are 'contribution defined', that is, a stipulated percentage of the pay is paid as a contribution to the scheme by the employer. In such cases the final pension payable may not bear any relation to the salary received by an employee at the time of retirement. In contrast to the defined contribution schemes, there are also 'defined benefits' schemes. In such cases, the quantum of pension is defined in terms of final (average) salary and duration of service. The rate of contribution has to be determined periodically by means of an actuarial valuation. Such schemes provide better protection against inflation during the service period.

9.22 The Committee would like to emphasise that a sizeable portion of the population which is not covered by the schemes discussed earlier, namely the self employed including professionals, traders, agriculturists and the vast labour force in the unorganised sector, represent a massive potential market for pension schemes. It is necessary to encourage pension schemes to serve the needs of this large segment of the population. The growth of pension funds has the potential to transform the financial market.

9.23 An important reason for the popularity of pension plans in developed countries is that insurance companies are able to make full use of available investment opportunities and thus maintain their competitive edge *vis-a-vis* other savings instruments. Further, unit linked pension plans marketed in these countries are able to provide particularly good yields during the accumulations period. An equally important factor is that governments concerned appreciate the value of the pension system to social stability and encourage pension contributions and funds by way of substantial tax relief.

9.24 The Tax relief available in UK are:

i) An employer's contribution to an approved pension fund, providing pension benefit within the maximum benefit level permitted under the rules, qualifies fully for tax relief. These tax concessions are only available in respect of contributions and benefits that relate to relevant earnings not exceeding pound sterling 60,000 per year.

ii) If the pension benefit provided by the employer falls short of the maximum permissible limit, the employee can make additional voluntary contribution (AVC) to make up the balance. This AVC too qualifies for full tax relief to the maximum extent of 15% of the relevant earnings.

iii) Any individual who is either self-employed or employed in a non-pensionable job or employed in a pensionable job but does not want to join his employer's scheme can avail of personal pension schemes (PPS) marketed by life insurance companies. Contribution (or premiums) to these schemes qualify for tax relief upto $17^1/_2$ % of the relevant earnings, with higher percentages applying to those aged 36 and over. There is a cap of pound sterling 60,000 on the relevant earnings (per annum) for this purpose.

iv) An insurance company granting pension has to pay tax only on profits distributed to share-holders.

It can be seen that there are large tax incentives in UK, both for individuals and employers, for contributions to pension schemes. Similar substantial tax benefits are available in many other countries, including Canada and USA.

9.25 The corresponding position in India is:

i) All contributions paid by an individual whether to a pension scheme or for purchase of an individual annuity qualify for tax relief only upto 20% of the contributions. These contributions together with many other forms of savings, totalling upto Rs 60,000 in a year qualify for this tax relief.

ii) In the case of employer's contribution to an approved superannuation fund, there is a ceiling of 25% of the salary of the employee for the purpose of employer's admissible expenses. The ceiling is inclusive of the employer's contribution to provident fund.

iii) When the annuities/pensions are secured through LIC's Group Superannuation Scheme, the contributions received by LIC form part of LIC's life fund. At the annual valuations whatever surplus emerges on such part of the Fund attracts tax, i.e. the entire profit is taxed and not just the profit distributed to share-holders. Private superannuation funds accumulate, without tax on investment income, moneys upto the member's superannuation age. But, at that stage, they have to compulsorily purchase an annuity from LIC through payment of a single premium. The investment yield on this single premium payment gets taxed indirectly through taxation of the valuation surplus.

9.26 The major differences in the UK and Indian systems and their implications are analysed below:

i) Tax relief on contributions by an individual to a pension fund/annuity is much less in India than in UK.

ii) In UK, the ceiling is placed on the maximum superannuation benefits that can be allowed and not on the maximum contributions. Any contribution required to secure the maximum allowable benefits is eligible for tax relief. If the benefits are not pre-defined, then a contribution of upto prescribed percentages of pay can get the benefit of tax relief.

iii) A pension fund is virtually free from all taxes in UK. It is not so in the case of pension funds of LIC.

iv) By taxing the surplus emerging from pension funds, LIC is inhibited from issuing a 'with profit' pension plan. If these funds are allowed to accumulate gross of tax, pension plans can be made more attractive by periodical cash bonuses.

9.27 The investment pattern allowed in respect of LIC's Group Superannuation Funds during the period of accumulation is:

Central Government Securities	-	15%
State Government Securities	-	15%
Special Deposits	-	20%
Public Sector Bonds	-	50%

The investment pattern allowed in respect of funds pertaining to annuities/pensions in payment (i.e. after vesting of pension) is:

Public Sector Bonds	-	50%
Private Sector Debentures	-	50%

These patterns of investment do not permit full use of available opportunities, including investment in equities. The Committee has dealt with this issue in the chapter on Investment Issues of Insurance Sector.

9.28 Linking pension with cost of living index (index linked pension) is not generally possible, without provision for proper funding. Only governments may be able to adopt the 'pay-as-you-go' method. Since it is too difficult to predict long term movements of inflation, if an index linked pension fund is set-up and, due to sudden spurt in inflation the fund proves to be insufficient, the insurance company will find it difficult, especially in the case of retired employees, to persuade the employer to make good the deficiency. The employer may not be willing or able to make good the shortfall. In the worst situation, the employer may not exist at all. Index linked pension does not, therefore, appear to be feasible.

9.29 A workable alternative will be to allow more freedom of investment to pension funds and also exempt them from tax. This will enable an insurance company to obtain better yields on investment, introduce 'with profit pension' plans and periodically pay cash bonus to pensioners.

9.30 The Committee recommends as follows:

i) Whereas employees in the organised sector may look to their employer or the Employees Provident Fund for a pension, the vast majority who are self employed professionals or traders or are employed in the unorganised sector have to look only to insurance companies for providing suitable pension plans. While an employer's contribution to a pension fund gets substantial tax relief, the relief available in respect of an individual's contribution to his pension policy is quite meagre and does not provide sufficient incentive. In order to popularise the schemes under individual pension plans, contributions to such schemes, upto prescribed limit, should be fully exempted from tax. It is essential that such long term savings should be given a special treatment for tax relief distinct from the benefits allowed to relatively short term savings.

ii) Private pension funds set-up by employers for the benefit of their employees should be allowed to pay pension to their members after their retirement subject, however, to the following provisions:

> **(a) Such funds should get specific authorisation from insurance regulatory authority for this purpose. The trust administrating such funds should have, besides representatives of the employer and employees, a few independent trustees.**
>
> **(b) The employees should have the option, at the time of their retirement, to purchase pension from an insurance company of their choice.**
>
> **(c) Liabilities under such funds should be determined by annual actuarial valuation and the trust should satisfy the insurance regulatory authority about the sufficiency of solvency margin. The valuation report should be published.**

iii) The investment income of a pension fund managed by employers is at present fully exempted from tax. The funds managed by life insurance companies should be given similar exemption.

iv) An insurance company should have separate accounts and funds for its pension business, distinct from those relating to other life business. Such pension related accounts and funds should be sub-divided into two groups - for the accumulation period and for pensions in payment.

v) The pattern of investment of pension funds should be as recommended in Chapter VI.

vi) Unit-linked pension plans have become very popular in developed countries. The introduction of such plans by insurance companies in India should greatly enhance the attractiveness of pension plans and should be encouraged.

Chapter X

Regulation of Insurance Business

10.1* Insurers are repositories of public trust. They sell promises to indemnify the insured upon happening of specified events. Insurers draw up policy contracts, which are necessarily quite complex, and they are better informed than the insureds about the insurance product they offer. Insurance is a business of large numbers and generates large volume of funds over time. These funds are required to be invested prudently with the triple objectives of maximisation of yield, safety and liquidity. It is also necessary that entities intending to take up the business of insurance have adequate professional capability and financial solvency. Insurers everywhere are, therefore, subject to regulation by the state in some form or the other with the objective that the business: is run fairly, is conducted by competent persons, does not result in undue losses to the insurers themselves resulting in their insolvency, and, last but not the least, protects the legitimate interests of the insuring public. There is, however, no globally accepted model of regulation. Each country has its own laws and regulatory arrangements depending upon its experience, administrative capabilities and socio-economic and political preferences. These vary from tight regulations controlling virtually every aspect of insurance business to liberal off-site supervision. All regulatory arrangements try to create systems whereby alarm signals are triggered in good time in respect of insurance institutions drifting towards mismanagement and insolvency so that timely correctives can be applied.

10.2 Regulation of insurance in India was introduced with the promulgation of the Indian Life Assurance Companies Act in 1912. Comprehensive arrangements were, however, brought into effect only with the enactment of the Insurance Act, 1938. Efforts in this direction continued progressively till 1956 for life insurance business and till 1968 for general insurance. During this period, an office of the Controller of Insurance evolved, through its various phases, as an attached office firstly of the Ministry of Commerce and then of the Ministry of Finance of the Government of India. The Controller is a statutory functionary whose duties, powers, and responsibilities as regards supervision and regulation of insurance business are defined in the Insurance Act. On the nationalisation of life insurance business and creation of LIC in 1956, followed by the nationalisation of general insurance business and formation of GIC and its subsidiaries in 1973, application of the Insurance Act, 1938 was greatly modified by the nationalising enactments and government notifications issues thereunder. Most of the regulatory functions were taken away from the Controller and vested in LIC and GIC themselves.

10.3 In law, the Controller of Insurance is still the supervisory and regulatory authority for the insurance industry. The 1968 amendment to the Insurance Act sought to enlarge his role to curb the ills of the general insurance industry such as malpractice in claims settlement, unhealthy rate cutting and misuse of insurance funds for speculative and other purposes. The nationalisation of the general insurance industry in 1972, however, seems to have changed the position. The Controller's office moved from Shimla to Delhi and started shrinking in all respects. The Controller and an Assistant Controller are now a part of the Insurance Division of the Ministry of Finance and perform a few residual functions under law which, in practice, are not of much importance. These developments have also created some functional anomalies. The Joint Secretary in the Insurance Division of the Ministry and *ex-officio* Controller of Insurance is on the Board of two of the four general insurance companies. From his earlier position of the chairman, he has been relegated to the position of a member of TAC which is now headed by the Chairman of GIC.

10.4 The Insurance Act did seek to create a strong and powerful supervisory and regulatory authority in the Controller of Insurance. His role and responsibilities are set out in several sections of the Act. It empowers him to direct, advise, caution, prohibit, investigate, inspect, prosecute, search, seize, fine, amalgamate, authorise, register, and liquidate insurance companies. As already stated, the powers and position of the Controller of Insurance have undergone drastic curtailment after nationalisation of the industry. This presumably happened in the belief that the nationalised industry did not require any supervision and that its accountability to government through the Insurance Division of the Finance Ministry would be adequate. There are however operations which require professional regulation even in the nationalised insurance sector, particularly in areas relating to expenses, customer service, claim settlements, resolution of disputes, reasonableness of tariffs, and prevention of restrictive trade practices. This need would be all the greater if the insurance sector were to be liberalised and the private sector allowed entry into the business. Special dispensations given to LIC and GIC and its subsidiary companies by government notifications would have to be withdrawn to create a level playing field for all insurers. Acts of Parliament which nationalised life and general insurance industries, would require substantial amendments. The suggestions received by the Committee are overwhelmingly in favour of having a strong regulatory authority.

10.5 Having regard to both the present and future scenarios, the Committee is of the view that the office of the Controller of Insurance should be restored its full statutory powers and segregated from the Ministry of Finance as a matter of high priority. In due course, the insurance regulatory authority (IRA) should be set-up as a multi-

member statutory body, similar to the Securities and Exchange Board of India (SEBI). IRA should have a full time chairperson, two full time and some part time members. The chairperson and members should be persons of ability, integrity and standing having knowledge of and experience in insurance, finance, administration, law, or other relevant disciplines. One member should have a strong general insurance background and another experience in life insurance, preferably with actuarial qualifications.

10.6 The provisions in regard to the relationship of IRA with the Government, its reporting responsibilities, etc. may, to begin with, be similar to what has been prescribed for SEBI. IRA should have full functional autonomy and operational flexibility to discharge its functions in a free and fair manner.

10.7 Some of the principal functions of IRA would be as follows:

(a) subject to provision of law, to set capital adequacy, solvency margins and other prudential norms for entities that transact insurance business;

(b) to examine, in the light of the prescribed criteria, applications for grant of registration for transacting insurance business, and to grant such registration where appropriate;

(c) in the interest of consumer protection, to set standards for insurance products. There should be a system of 'file and use' for insurance products subject to the power of IRA to modify the rates, terms and conditions thereof within a prescribed time limit;

(d) to ensure compliance with prescribed ceilings for management expenses of insurers and agency commissions;

(e) to monitor the performance and quality of reinsurance ceded and accepted;

(f) to ensure maintenance of adequate technical reserves by the insurers;

(g) to review insurers' asset distribution and management and particularly to monitor compliance with prescribed prudential norms and patterns of investment;

(h) to ensure high standards of accounting and transparency of balance sheets of insurance companies and to scrutinise and accept annual accounts, valuation reports and solvency margin statements;

(i) to detect badly managed, unhealthy, or failing insurers and to take suitable corrective action, including appointment of administrators to temporarily manage such companies and, where warranted, cancellation of registration;

(j) where necessary, to act as a 'dispute resolution forum' for consumer grievances;

(k) to prepare and publish an annual report on the state of the insurance industry.

Many of these functions are already provided for in law, and are being mentioned here to highlight their importance. In due course, IRA may find it necessary to shoulder more responsibilities due to the changing character of the market.

10.8 It is important that IRA should develop into a highly professional but a compact and economical organisation duly supported by effective information technology. Such regulatory authorities in several other countries are quite slim in terms of staff of all categories.

10.9 In the interest of the autonomy of IRA, it should have an independent source of financing its establishment and activities. This can be best achieved by a small levy, say 0.05% of yearly premium income of insurance companies. Care should be taken that this does not lead to excessive expenditure.

10.10 While the role of regulation in the financial sector in general and the insurance sector in particular cannot be over-emphasised, the Committee would like to state that regulation is a means - an important one at that - and not an end unto itself. The ultimate aim of regulation should be to facilitate development of a healthy insurance market and to protect the genuine interests of consumers. Even at the risk of stating the obvious, the Committee would like to record that these two objectives are not mutually exclusive and both should receive due consideration.

10.11 To sum up, the Committee recommends as follows:-

i) There is an urgent need to activate the insurance regulatory apparatus even in the present set-up of nationalised insurance sector. For this purpose and as an interim measure, the office of Controller of Insurance should be restored its full functions under the Insurance Act and it should be set-up as a separate office as a matter of high priority.

ii) Legislation and government notifications through which LIC and general insurance companies were exempted from several provisions of the Insurance Act in derogation of the functions of the Controller, should be withdrawn.

iii) Meanwhile, steps should be initiated for the establishment of a strong and effective insurance regulatory authority in the form of a statutory autonomous board on the lines of SEBI.

iv) The insurance regulatory authority should be a highly professional and compact organisation with adequate information technology support.

v) The insurance regulatory authority should have an independent source for financing its establishment and activities. For this purpose, it should be permitted to levy a charge of say 0.05% of the yearly Indian premium income of the insurance industry.

Chapter XI

Information Technology and Insurance Business

11.1 The Committee has thought it appropriate to devote an exclusive chapter to issues regarding the significance of information technology to insurance industry as it believes that a wider and fuller appreciation of these issues is important. If used imaginatively and prudently, information technology could be a valuable aid for efficient customer service, effective management and meaningful regulation. On the other hand, a perfunctory pursuit may only lead to waste, aggravate mis-perceptions, and complicate organisational problems.

11.2 As has been mentioned in earlier chapters, insurers sell insurance policies which are promises to perform, the performance being contingent upon happening of certain insured event(s), at an unknown time in future. The product sold by the insurers is intangible in nature. However, the subject matters of the insurance policies are real people and property, existing in a world of continuously changing circumstances. The insurer must, therefore, collect, compile, collate, and analyse information about all the policies sold by it, gather such other relevant demographic, industrial, economic, and statistical intelligence as necessary, and use appropriately processed information to run the business. Price of insurance products is dependent upon, inter alia, the insurance industry's claims experience, which would be available from the database of premia and incurred claims regarding all policies issued. Categorised statistical information is also required by company management to discharge a variety of other functions, e.g. to monitor and evaluate companies' performance; to review and, if necessary, recast business plans; to measure customer satisfaction; to process claims; and for purposes of market research as well as finance and accounts. Furthermore, statistics are needed by the company owners, customers, tax authorities, TAC, insurance regulatory authority, trade and consumer associations, and company law authorities.

11.3 Even in the technologically and industrially developed markets, insurance statistics were compiled manually till a few decades ago, and this entailed delays and information gaps. This was perceived as a serious handicap when the mass and flow of information grew. The increasing need for data processing coincided with the advent of computers. Computer applications were initially developed for routine tasks like book keeping, billing, policy printing, statistical recording and reporting. The early computers were expensive to install, and could be used only with the help of specialists such as machine and card punch operators and programmers. Mechanised

information processing was therefore a centralised operation handling codified 'policy-data' received from sales and marketing outlets, after finalisation of policy contracts. Similarly, distribution of processed data to users was also centralised in computer departments. Such over-centralisation brought, in its wake, problems of delayed availability of processed data as also of its purity. In brief, computers essentially 'computed' or performed relatively limited functions of data processing, even as their operation and maintenance needed exclusive technical and mechanical know-how. Over time, centralised computing departments have been replaced by 'networks' consisting of small and low priced computers and 'terminals' located at service and process outlets (e.g., branches or sales points), and linked through telecommunication channels. Developments in software technology have elevated data processing to systems analysis. It would appear from the following paragraphs that the Indian insurance industry has not kept pace with these advances elsewhere in the world.

11.4 At the time of nationalisation of life insurance, punched card machines were in use. Computerisation efforts began in 1965 with the introduction of a mainframe computer at Bombay. A mainframe could not be installed in Calcutta, partly due to resistance by trade unions. In 1980, LIC implemented a plan of reorganisation involving decentralisation of policy servicing functions to the branch level and simultaneously decided to install micro-processors in larger branches. Smaller branches were covered either by the divisional offices or, by attaching a cluster of small branches to a selected bigger branch. This phase of computerisation was undertaken with the co-operation of staff unions, with whom there was an understanding that the new computer installations, by and large, would do the work earlier done by punch card machines. Even in areas where use of electronic cash registers was introduced, the link-up between the cash registers and computers was not established resulting in unnecessary duplication of work. While this state of affairs has continued in a large number of branches and divisions, a few additional functions have been covered in some offices owing to local initiatives. Because of LIC's relatively early exposure to mechanisation and computers, it has developed considerable in-house expertise. This expertise has, however, been harnessed mainly to implement incremental computerisation functions where local conditions so permitted. Although better hardware and software facilities have been created (at considerable cost no doubt), the functions performed therewith are little different from those being handled years ago. Computers are still being used for limited data processing - important though that is and indeed needs further extension - and not as instruments for developing decision support systems.

11.5 Computerisation in the Indian general insurance industry has not made much progress. Well after a decade of nationalisation, GIC initiated the process of computerisation in 1986. A plan was drawn up for introduction of microprocessors at the divisional offices in a phased manner. Now, in approximately 85% of divisional offices, microprocessors have been installed. A memorandum of understanding (MOU) was signed with the employees' unions which spelt out the operations that would be computerised. Computer professionals (programmers, systems analysts, and hardware engineers) were recruited. Three main groups of software programmes relating to accounting, underwriting, and claims were developed. These modules are designed to perform the functions outlined in the MOU. The implementation of the modules has been slow. The problems are attributed in varying degrees, to limitations of the MOU, technical manpower shortage, inadequacy of hardware, frequent changes made in the software, and lack of maintenance support from hardware vendors. Computerisation in general insurance companies still remains a 'back office' operation. Several important areas e.g. research and development, statistics for rating, and strategic business planning, largely remain outside the ambit of computerisation. It is, therefore, not surprising that integrated management information systems have not developed. Also, computers have not been utilised for improving customer service. It is, however, noted that GIC has of late initiated a management study with the objective of correcting this situation.

11.6 The Committee recommends as follows:

i) As insurance is an information intensive business, LIC and the general insurance companies should improve their technical proficiency by upgrading their information support and by developing strong R & D departments in their respective organisations. The growth in trade, commerce, industry, and other segments of the economy is throwing up an increasing volume of data. The insurance industry can usefully handle the large mass of data needed by it only if its information management is supported by information technology. This would require a measure of futuristic planning with the help of in-house as well as outside professionals, going well beyond the present limited applications of computers. It is also essential that utilisation of existing machines should be expeditiously improved.

ii) Managements of LIC and GIC should accept meaningful computerisation as a total managerial responsibility and adopt appropriate strategies for its implementation. To that end, they must strive for a proper appreciation at all levels of the necessity of application of information management and information technology to achieve desired levels of customer's service and qualitative decision making. The spread of a computer culture within an organisation depends on the number of personnel who are computer

literate. This would call for large-scale training inputs. Computer handling should not become a closed preserve of a few specialised officials.

iii) The competitiveness and prosperity of the insurance industry, and the progress of its employees, are intimately linked to the rapid adoption of effective information technology. The resultant improvement in customer service would raise the public image of the industry and its staff. Besides, computerisation should improve the work environment and job satisfaction within the industry. The Committee was given to understand that the staff unions have a constructive approach to this crucial issue. This is, therefore, the right time for the managements and employee representatives to co-operate for achieving a rapid breakthrough in this area.

iv) Computerisation is capital intensive where obsolescence of technology is rapid. The need for careful long-term planning in this regard with due consideration to costs and benefits cannot be overstated.

Chapter XII

Restructuring of the Insurance Industry

12.1 Some of the specific issues relating to the business and present organisation of life and general insurance have been discussed in preceding chapters. Most of the recommendations made therein relate to operational matters. In this chapter the Committee seeks to examine issues relating to restructuring of the insurance companies.

Part I: **Life Insurance**

12.2 There has been rapid growth in the volume of LIC's business (Appendix XXVI). The number of new policies issued every year is now of the order of one crore and the number of policies in force is 5.7 crore. There is a vast scope for further growth of business. In this context, the Committee examined the adequacy of the present structure of LIC to meet the future challenges. It would appear that handling of this business at the branch level is already confronting some difficulties. Even though delegation of policy servicing responsibilities to the branch level has been of considerable help, there is still substantial customer dissatisfaction. Delegation of authority to zonal and divisional offices and the system of supervision and control are inadequate. Lines of communication within the organisation have lengthened greatly. Due to hierarchical functioning at the central office and the zonal offices, decision taking has slowed down, and responsiveness to customer needs and market situations leaves much to be desired. In this context, there is a strong view that the present structure of LIC and the way it is functioning does not provide sufficient assurance that the organisation can handle efficiently the vast potential growth of business. It has been suggested that quite a few of its problems flow from its gigantic size and, therefore, breaking up LIC into smaller organisations would help as these would be more efficient and effective in addressing changing conditions. It is also acknowledged, however, that breaking up LIC would involve some complex technical and other problems. These include issues relating to bonus on existing 'with profit' policies, which now constitute over 90% of the total portfolio, distribution of assets and liabilities, and allocation of personnel. While these problems are not insurmountable, they can prove to be particularly difficult if the insurance sector were to be opened up to competition. It has, on the other hand, been argued that the large size and spread of LIC is not a weakness but a strength which can be exploited fully by an appropriate internal restructuring of the organisation. The key to such restructuring would be to make the zonal offices into *de facto* head offices for all

operational purposes and limiting the functions of the central office to policy formulation, review and evaluation; product development, pricing and actuarial valuation; investments; personnel policies; systems development and accounts of the corporation. The other inescapable element of reform would be to go in for comprehensive computerisation for handling business at all levels and for developing effective management information systems. The divisional offices have to effectively discharge their primary function of supervising branch offices. At present, they exercise this function mainly through on-site inspections. This needs to be upgraded and supplemented by development of better structured and more informative reporting systems. The divisional offices should improve their role in guiding officials at the branch level. At the same time, to enable branches to handle future growth of business, these should be suitably strengthened. Another crucial area to be addressed is the elimination of restrictive practices with a view to improving productivity and work culture.

12.3 The Committee recommends as follows:

i) Central office should basically concentrate on: (a) policy formulation, review and evaluation, (b) product development, pricing and actuarial valuation, (c) investments, (d) personnel policies, (e) systems development and (f) accounts of the corporation. Reflecting the nature of its functions, the central office should be a compact and highly professionalised establishment. The central office is at present highly over-staffed and should shed its surplus.

ii) Subject to the above, the zonal offices should, for all intents and purposes, be the head offices for insurance business and related matters in their jurisdiction. To this end, delegation of financial, administrative and operational authority to the zonal offices should be effected immediately.

iii) The process of reorganisation of the central office and zonal offices should be completed within a period of six months.

iv) At present, there are zonal advisory boards which should be substituted by duly empowered zonal boards headed by the zonal managers.

v) To reflect their new position and role, zonal managers should be made members of LIC Board.

vi) Zonal offices are also heavily over-staffed. Devolution of functions from central office to zonal offices as recommended above should not be construed as providing justification for retention of excess staff. In fact, there would still be scope for substantial reduction. Excess staff should be suitably re deployed, preferably to the branches where the impact of growth of business is immediately felt.

vii) At present, on the average, a divisional office supervises about 20 branches. The span of control of divisional offices could be considerably larger, say 30 branches. However, the span of control could be suitably reduced where branches are spread over a large area.

viii) The present number of zones and divisions are more than sufficient for the near future. Zonal and divisional offices are cost centres and their augmentation is not warranted.

ix) The divisional offices have to effectively discharge their primary function of supervising branch offices. At present they exercise this function mainly through on-site inspections. This needs to be upgraded and supplemented by development of better structured and more informative reporting systems. The divisional offices should improve their role for guiding officials at the branch level.

x) The image of the organisation depends primarily on the quality and efficiency of service rendered at the point of delivery. It is important to strengthen the role of branches further as the single point of service and contact for customers. For very large branches the appointment of senior officers as branch managers should be considered.

xi) Over the years, while staff unions have performed a role in improving the terms and conditions of service of their members, a number of restrictive practices have grown which constrain efficient and economical functioning of the organisation at various levels. As a result, there has been some deterioration in the organisation's productivity and work culture. It is essential to work towards elimination of restrictive practices.

xii) The Committee is of the firm view that comprehensive computerisation in LIC for handling business at all levels and the development of an effective management information system, are inescapable and should be undertaken and completed within 12 to 18 months. The Committee's recommendation that LIC continue as a single entity is on the assumption that its work would be reorganised as indicated above and its operations would be comprehensively computerised. If these conditions are not met, LIC would be unable to handle growth of business or to face the challenge of competition.

xiii) As a wholly state-owned organisation LIC's operational flexibility and its ability to respond to changing conditions is constrained. Some of these constraints are related to the fact that it falls under the definition of 'State'. It is the considered view of the Committee that LIC's ownership pattern should be so changed as to take it out of the definition of 'State'. This would be possible if the share holding of government is reduced to 50%. The Committee notes that there is already a decision to reduce government's equity in selected public sector undertakings by 49%. If a similar prescription is applied to LIC, it may help, to some extent, by broad-basing its share-holding and the composition of its board, but the substantive problems which inhibit its commercial functioning would remain. The recommendation made above in this paragraph is intended to overcome these genuine problems and to make LIC a board-run undertaking while maintaining government's dominant share-holding. To give effect to this recommendation, it will be necessary to convert LIC into a company which will be registered under the Companies Act and would carry on the business of LIC. For this purpose, the government may take such necessary legislative and other measures as may be considered appropriate, including possible repeal of LIC Act.

xiv) At present, LIC has a capital of Rs 5 crore, contributed entirely by the Central Government. This amount is not adequate for a life insurer of the size of LIC. The present capital of Rs 5 crore may, therefore, be raised to Rs 200 crore, with the government holding 50% thereof and the remainder being held by the public at large, including company employees for whom a suitable proportion may be reserved. As has been suggested elsewhere, no share-holder other than the promoters should hold more than 1% of the share capital. It is noticed that at present LIC has no free reserves outside its Life Fund. It is important for LIC to build its net worth by annually appropriating to free reserves a suitable portion of the valuation surplus allocated to its share-holders.

xv) All provisions of the Insurance Act, 1938 should apply to LIC and special dispensations in its favour regarding the non-applicability or modified application of several provisions of the Insurance Act should cease.

Part II: **General Insurance**

12.4 The set-up adopted by Government at the time of nationalisation of general insurance business was that of a holding company and four subsidiaries. At that time, there were 107 companies of varying sizes with widely different levels of professionalism, business ethics and work cultures. It was, therefore, considered necessary to have a holding company which would aid, assist, advise and direct the subsidiary companies in their formative years and to set-up standards of conduct of business and sound practices. At the same time, GIC was to keep in view the objective of encouraging competition among the subsidiaries. Over the last two decades, general insurance industry has come a long way. The subsidiary companies have acquired considerable experience, expertise and financial strength and have also established reasonable standards of conduct of business. However, the expectation that the subsidiary companies would provide effective competition to each other has been largely belied. This is partly because of tariffs, market agreements on some non-tariff business and arrangements for market sharing of business. The other important reasons appear to be GIC's preoccupation with establishing uniformity in most of the operational areas and far too detailed guidance and control by it. Functioning under the shadow of GIC the subsidiaries have been inhibited from developing themselves into effective competitive companies and from building strong identities of their own.

12.5 The Committee considers it important that the subsidiaries should now stand on their own and begin functioning as independent companies. Without this it would not be possible for them to provide genuine competition to each other, or to acquire a new dynamism which would be called for in a more competitive environment.

12.6 It follows that GIC should cease to be a holding company. It should, however, continue to function exclusively as a reinsurance company and as the Indian reinsurer under section 101A of the Insurance Act. It should also shed its limited direct insurance business which it undertakes at present.

12.7 Since the total share capital of GIC and its subsidiaries is directly or indirectly held by the Government of India they come within the definition of 'State'. While government ownership has provided monopoly status and financial strength to these companies, the fact that they are regarded as 'State' has also entailed several drawbacks which handicap their functioning as service-oriented commercial institutions. In the Committee's view while the removal of such handicaps is needed even under the present set-up, this would be essential if these companies have to operate in a more competitive environment. Measures would, therefore, have to be

taken by way of broad-basing their share-holding so that they are enabled to function as board-run companies. This would require that the share-holding of government should not exceed 50% of the total. The proposed course of action would greatly enhance their autonomy as well as their capacity to respond to changing market conditions.

12.8 The Committee has noticed that the four subsidiary companies are over-staffed, particularly in their head offices, regional offices and even divisional offices. While many metropolitan and urban branches tend to be over-staffed, rural and semi-urban branches are often under-manned. It is necessary to rationalise the staff structures and hierarchies in various offices and go in for greater delegation of powers. The excess staff at the higher echelons in the companies should as far as possible be utilised for strengthening the branches with the objective of ensuring that most of the business is transacted at this crucial point of service. It is understood that there are numerous restrictive practices which need to be eliminated in order to improve productivity and work culture.

12.9 Though general insurance requires a host of statistics for efficient rate-setting and supervision of business, such information and its processing is at present insufficient. Integrated and adequate management information systems are not in place.

12.10 In the light of the foregoing, the Committee makes the following recommendations:

> **i) GIC should cease to be the holding company of the four subsidiary companies and these should thereafter function as independent companies on their own. GIC should, in future, function exclusively as a reinsurance company and as the Indian reinsurer under the Insurance Act.**
>
> **ii) Though GIC's net worth is sufficiently large its share capital at present stands only at Rs 107.5 crore. This should be raised to Rs 200 crore, 50% of which should be held by Government, the remainder being held by the public at large including employees of GIC for whom a suitable proportion may be reserved. This should have the effect of making GIC a board-run company.**
>
> **iii) At present GIC holds 100% of the capital of the subsidiary companies with each company having a share capital of Rs 40 crore. To fully de-link the subsidiary companies from GIC, Government should acquire the latter's total holding in each of them. The capital of each such company should be raised to Rs 100 crore, with government holding 50% thereof the remainder being held by the public at large including employees of the respective companies.**
>
> **iv) The organisation of the head offices of the four companies and that of their regional offices needs to be reviewed in order to reduce excessive staff and the number of levels within their hierarchies.**

v) The four subsidiary companies are over-staffed and need to reorganise their work in order to use the available manpower in an optimal manner. In a competitive environment, economy in costs would be crucial to their success. There are at present 1124 divisional offices in the four subsidiaries, which supervise 3151 branches, that is, there is one divisional office for about three branches on the average. Divisional offices, apart from their supervisory functions, also underwrite certain classes of business, process claims and look after other technical aspects. The span of control of divisional offices should be considerably expanded thus substantially reducing their number.

vi) The extra staff which would become available as a result of the suggested rationalisation of the head offices, regional offices and divisional offices, should be posted to branch offices with a view to strengthen branches where most of the business is transacted. For this purpose, officers of senior rank should head large branches with substantial workloads and should be provided appropriate technical personnel back-up. Simultaneously, the financial authority of various branches should be reviewed in the light of the functions assigned to them.

vii) Certain lines of business have not been adequately addressed by the general insurance industry. The companies should examine how branch offices can develop such neglected lines of business.

viii) Computerisation is all the more important for general insurance companies because of the large data which they must generate and handle for product development and pricing, apart from the need for prompt and effective customer service. All the four companies must go in for comprehensive computerisation for handling their business at all levels and for developing effective management information systems. This brooks no delay and should be undertaken and completed within the next 12 to 18 months.

ix) Restrictive practices have proliferated in these companies and it is important for their managements to eliminate the same as soon as possible with a view to improving productivity and work culture.

x) The above recommendations for making the present general insurance companies board-run enterprises would call for legislative measures, including the possible repeal of the General Insurance Business (Nationalisation) Act.

xi) The provisions of the Insurance Act, 1938 should apply to GIC and the four companies, and special dispensations with regard to the non-applicability or modified application of several provisions of the Insurance Act should be withdrawn.

Chapter XIII

Liberalisation of the Insurance Industry

13.1 The Committee has given careful thought to the question whether the insurance sector, which has for long been a State monopoly, should be opened up to competition and has concluded that this would be desirable for the following reasons:

a) While nationalised insurance companies have done a commendable job in extending their presence and services throughout the country and are handling large volumes of business, the choice available to the insuring public is inadequate in terms of service, products and prices. Introduction of competition should result in better customer service and help improve the variety and price of insurance products.

b) The employees' unions and representatives of agents have expressed opposition to the idea of introducing competition. There is, however, a strong view among corporate respondents covered by the MARG survey as well as among many of those who appeared before the Committee that the private sector should be allowed to enter general insurance business. As for life insurance, individual policyholders covered by the MARG survey were equally divided on the issue. Almost half of such respondents were opposed to the idea on the ground that their savings may not be safe with private companies. At the same time, when asked to indicate what they thought would be the advantages of a reputed private organisation offering life insurance, identified these as better service, prompt settlement of claims and better return on their policies. A large majority of respondents who are corporate clients of LIC favoured the entry of the private sector in life insurance business.

c) Even though the nationalised insurance industry has, over the decades, built up extensive business, there is still a vast untapped potential and many lines of business have remained under-developed. Arrival of new players should speed up the spread of both life and general insurance.

d) The nationalised insurance companies are financially strong and have built up a large infrastructure in terms of professional talent, and marketing and servicing networks. They are in a position to face competition.

e) There is growing competition within the banking sector which already includes nationalised banks, co-operative banks and private banks, both Indian and foreign. The private sector has also been allowed to float mutual funds and is quite active in merchant banking, leasing and non-banking financial areas. There is little reason for keeping insurance as a monopoly. The private sector should therefore be allowed to enter insurance business.

13.2 The Committee has noted the apprehensions expressed in some quarters regarding the safety of their money in case private insurance companies are allowed to operate. The measures needed to safeguard the interest of the insuring public are outlined in the following paragraphs.

a) Mushrooming of small private sector companies must be avoided. Any party intending to take up insurance business should have a minimum capital of Rs 100 crore and must satisfy the insurance regulatory authority about its credentials. No insurer should be allowed to transact both life and general insurance business.

b) Regulation of the insurance industry must be greatly strengthened. The Committee has already made recommendations in this regard. It would be for the insurance regulatory authority to ensure, inter alia, that insurance companies maintain adequate solvency at all times, invest their funds prudently and in conformity with the law, do not invest in any affiliate of the promoters, appoint 'fit and proper' persons as managers, and maintain high standards of transparency in company accounts.

c) Insurance company auditors should have an obligation to report to the insurance regulatory authority serious irregularities that might come to their notice in the course of audit.

d) The new entrants in general insurance would have to observe the tariff regulations in force.

13.3 It is important that while the share holding in a private insurance company should be widely dispersed, the promoters should also have sufficient stake in the business. A 40% stake for the promoters would appear to be reasonable. This should at no point of time be less than 26% of the paid-up capital so that promoters have an effective say when special resolutions are considered by share-holders. To disperse the public share-holding widely, no share-holder other than the promoters should be allowed to hold more than 1% of the company's equity.

13.4 There should be level playing fields for all insurance companies. There is a view that new entrants to the insurance field would, on profit considerations, concentrate on more lucrative business to the neglect of the small man and the rural sector. It is, therefore, necessary that new entrants into the life insurance field should write a specified proportion of their business in rural areas. It should be ensured that such insurers do not avoid writing small policies. The general insurance companies should maintain balanced portfolios and should not, in particular, avoid writing motor insurance and rural non-traditional business.

13.5 Though the nationalised insurance companies are capable of meeting the challenge of competition, they will have to quickly adjust themselves to face a competitive environment. This would require rapid introduction of comprehensive computerisation including the development of effective and integrated management information systems. The Committee has made several recommendations regarding the changes necessary for making the internal organisation of nationalised insurance companies more efficient and effective. It has also suggested changes in the composition of the share holding of these companies so that they become board-run institutions.

13.6 Competition should be introduced with considerable care. The first step should be to set-up an insurance regulatory authority. Pending its formation, the office of the Controller of Insurance should be separated from the Ministry of Finance and should

quickly start exercising its regulatory powers under the Insurance Act. Simultaneously, the conditions necessary for ensuring level playing fields among insurers should be firmed up so that intending entrants into the business are aware of the stipulations which they would have to comply with. It would also be necessary to control the number of new entrants.

13.7 With reference to its recommendation for the entry of the private sector in insurance business, the Committee is of the view that allowing some foreign insurance companies could be useful in the context of India's objective of integrating with the global economy. If and when their entry is permitted, they should be required to float an Indian Company for the purpose, which preferably should be a joint venture with an Indian partner. The Committee does not favour foreign companies operating in India through branches.

13.8 In view of the foregoing observations, the Committee recommends as follows:

i) The private sector should be allowed to enter insurance business. No single company should be allowed to transact both life and general insurance business. The number of new entrants should be controlled.

ii) The minimum paid-up capital for a new entrant should be Rs 100 crore. However, a lower capital requirement can be prescribed for state level co-operative institutions taking up life insurance business.

iii) The promoters' holding in a private insurance company should not exceed 40% of the total. However, if the promoters wish to start with a higher holding, they should be permitted to do so provided their holding is brought down to 40% within a specified period of time through public offering. No person other than the promoters should be allowed to hold more than 1% of the equity. Promoters should at no time hold less than 26% of the paid-up capital.

iv) If and when entry of foreign insurance companies is permitted, it should be done on selective basis. They should be required to float an Indian company for the purpose, preferably in joint venture with Indian partner.

v) Before the private sector is allowed to enter the insurance field, the Controller of Insurance should start functioning effectively.

vi) Regulatory and prudential norms as well as conditions for ensuring level playing fields among insurers should be finalised early so that intending entrants into the insurance business would be aware of the stipulations they would have to comply with. These conditions should aim to ensure that life insurers do not neglect the small man or the rural business and that the general insurers have balanced portfolios.

vii) Though nationalised insurance companies are in a position to face competition, it is essential that they quickly upgrade their technology, reorganise themselves on more efficient lines and are enabled to operate as board-run enterprises.

Chapter XIV

Miscellaneous Issues Relating to Insurance

14.1 A large number of issues relating to several other aspects of insurance were raised before the Committee. Important ones among them have been taken up for inclusion in this chapter.

Term Assurance

14.2 There is persistent demand from a section of the public for the introduction of term assurance plans and unit linked assurance. LIC is marketing in a limited way, under individual assurances, some term assurance plans, but the maximum term available is restricted to seven years. However, term assurance is being marketed in a big way under group schemes where the premium is paid by employers. The Committee feels that LIC should take immediate steps to introduce regular term assurance plans.

Unit-linked Life Insurance Plans

14.3 The Unit Trust of India and LIC Mutual Fund have been permitted to float unit linked plans in collaboration with LIC. The maximum saving and cover under these two plans are limited to Rs 1,20,000. The tenure of the plans is ten or fifteen years and the cover decreases uniformly over the period of the plan. LIC should develop and market such plans for longer terms and for providing uniform risk cover.

Committees for review of repudiated life insurance claims

14.4 With the growth in LIC's business, the number of maturity and death claims has more than tripled in the last ten years. LIC has taken effective steps to handle such claims expeditiously. There are, at present, review committees at the zonal level for considering representations regarding repudiated claims. There is also a review committee at the central office which handles cases beyond the powers of the zonal committees and also considers references arising out of zonal committee decisions. Since the Committee has recommended elsewhere in this report that zonal offices should, for all intents and purposes, function as head offices, the zonal review committees should be fully empowered to finally decide all references regarding claims. The composition of the zonal committee can be improved by including an outsider having experience, good reputation and standing.

14.5 Having looked at the position with regard to claims settlement, it is not considered necessary to have an ombudsman for the life insurance industry.

Assignment of life insurance policies in favour of wife of the assured

14.6 The National Commission for Women brought to the notice of the Committee difficulties faced by widows in getting the policy proceeds on the death of their husbands, in spite of being nominees. This happens in cases where there are rival claimants and LIC receives a stay order from a court. In such cases, LIC should make appropriate representations before the court emphasising its responsibility to make payment of death claims in accordance with the nomination. Such intervention can expedite court decisions. The Committee understands that if there is a conditional assignment in favour of the wife, such litigation can be avoided. LIC should, therefore, make efforts that as far as possible such conditional assignment is made in favour of the wife at the proposal stage itselff or as early as possible after the issue of policy. LIC should also examine what legislative changes are necessary to facilitate such conditional assignment at the proposal stage.

Payment of interest on delayed settlement of life insurance claims

14.7 It has been urged that LIC should pay interest in all cases of delay in claims payment, whether the delay is due to the fault of claimant or otherwise, after a specified period (say, 30 days) from the date of maturity or date of intimation of death. It was also represented that the rate of interest, which is at present 9%, paid by LIC in respect of certain delayed payments is on the low side and should be around the average interest earned by LIC on its investments. The Committee finds considerable force in these arguments.

Comprehensive Crop Insurance Scheme

14.8 Government of India started a comprehensive crop insurance scheme (CCIS) in 1985 covering wheat, paddy, millets, oil-seeds and pulses. The premium rate is 2% or 1% depending on the crop. The sum insured is equal to the crop loan taken by the farmer subject to a maximum of Rs 10,000. Indemnity claims are shared by the Central and State Governments in the ratio of 2:1.

14.9 CCIS has been implemented in 19 states and 4 union territories in one or more seasons. Since its introduction till the *kharif* season 1992, 3,57,90,230 farmers were provided insurance cover for Rs 8232.25 crore. The total insurance premium over the same period amounted to Rs 138 crore whereas the claims amounted to Rs 985 crore.

The claims ratio is highly adverse. Some of the major constraints in implementing CCIS are indicated below:

i) States like Punjab and Haryana, having low risk factors, did not participate in the scheme.

ii) Rain-fed crops like oil-seeds, millets and pulses feature predominantly in the crops covered.

iii) The scheme is limited in its application to only such farmers who take crop loans.

iv) Indemnification is based on crop loss in an area rather than on the loss of an individual farmer.

v) The machinery for supervision and monitoring of CCIS is not quite effective and there are deficiencies in crop cutting samples.

14.10 GIC is implementing CCIS on behalf of the Government of India. It provides technical and management inputs for the scheme. The expenses of administering it are shared equally by the Central Government and GIC.

14.11 The issue of crop insurance has not been considered by the Committee in detail because CCIS is under operation on an experimental basis and there is a proposal to introduce a pilot crop insurance scheme based on actuarially determined rate of premia.

Delay and disputes in settlement of general insurance claims

14.12 In general insurance business, policy contracts are mostly contracts of indemnity. The terms and conditions of policies are quite complex, and, therefore, differences of opinion about admissibility and amount of claims arise in a large number of cases.

14.13 Though the general insurance companies have taken several steps to improve settlement of claims, a measure of customer dissatisfaction persists. In many countries insurance companies have voluntarily institutionalised arrangements to deal with disputes with the insured in a fair, expeditious and inexpensive manner. For example, in the UK, the Insurance Ombudsman Bureau has been established by major insurance companies for resolving disputes between members and customers in an independent, efficient, user-friendly and fair way. An Insurance Mediation Bureau has been established in Malaysia also with a similar objective. The role envisaged for the mediator was to act as independent counsellor, conciliator, adjudicator and arbitrator in cases brought before him. Before approaching the ombudsman in the UK, a

complainant should first refer his case to the senior management of the concerned insurance company. If the dispute is not resolved, he can approach the ombudsman within six months of receiving the decision of the senior management. The dispute should relate to the customer personally on a policy issued to him. The ombudsman cannot investigate a complaint if the insurance contract is in the name of a company, a partnership or a club. No disputes relating to commercial risks or rate of premium or refund of premium are entertained. The ombudsman cannot investigate a complaint if the dispute is already the subject matter of legal proceedings or arbitration. The complainant has to show that, *prima facie*, there are sufficient grounds for the complaint. Any dispute about material facts is determined on a 'balance of probabilities' i.e. civil standard of proof and not criminal standard is applied. The customer is not charged any fees for the ombudsman's services, or for the services of any expert the ombudsman consults. The customer need not engage a lawyer or any other professional to present his case to the ombudsman. If the decision of ombudsman is not acceptable to the insured, he may pursue further legal action. However, an award against a member company is binding upto a certain limit.

14.14 Considering the level of dissatisfaction among customers of the general insurance industry and in order to discourage litigation, the Committee recommends that the institution of ombudsman for general insurance should be set-up early. It should be financially supported by the general insurance industry. There may be one ombudsman for the entire country with deputy ombudsmen located at the four metropolitan cities. The appointments would have to be made with great care so as to inspire confidence in the minds of the insurer and the insured. Disputes in personal lines of general insurance involving amounts not exceeding Rs 5 lakh in each case, may be considered at this forum. Lawyers or other representatives should not be allowed to present cases before the ombudsman/deputy ombudsman.

Solvency margin of insurers

14.15 Sections 64V and 64VA of the Insurance Act prescribe the minimum solvency margin to be maintained by insurers transacting general insurance business and the method of valuation of assets and liabilities for this purpose. The minimum margin is fixed in relation to the total net premium income of the insurer. With progressive liberalisation of tariffs in the future and different insurers adopting different underwriting standards, the risk profile may vary from insurer to insurer. In countries like USA, UK and Singapore, the solvency margin is linked to a combination of premium income and claims experience. While the existing provisions could be retained for the time being, a new set of appropriate standards of solvency margin

need to be worked out. At present there is no provision in law for solvency margin for life insurers. The Committee recommends that a committee including actuaries may be appointed to make appropriate recommendations regarding these issues.

Insurance Association of India

14.16 Part IIA of the Insurance Act deals with the Insurance Association of India, having advisory functions. The Association became defunct after nationalisation of life and general insurance business. It is desirable that the association is constituted afresh, as it can play a useful role in bringing about sound practices in the industry.

Payment of premium in advance

14.17 Section 64VB of Insurance Act requires that no insurer shall assume risk before receiving premium, with certain exceptions as specified in Insurance Rules. It was represented before the Committee, especially by the chambers of commerce and industry, that 'strict' implementation of section 64VB subjected the insured to avoidable rigours of law, particularly at the time of settlement of claims. While the Committee is of the view that the provisions of section 64VB are rational and need to be retained, the insurance companies should ensure that in settling such claims, undeserved hardship is not caused to customers.

Mediclaim Insurance policy

14.18 It was represented that the mediclaim (hospitalisation and domiciliary hospitalisation) policies contain too many exclusions which lead to rejection of claims, that hospitals insist on substantial advance deposits as there is no system of issuing cards[29] to the insured, and that the experience with regard to overseas mediclaim policies is highly unsatisfactory as most hospitals abroad do not in practice accept them. There is also a feeling that branches of general insurance companies are reluctant to issue mediclaim (hospitalisation and domiciliary hospitalisation) policies. This is an unsatisfactory state of affairs considering the fact that for a large number of individuals no other health covers are available. There is a large potential for this business. A wholesale revamp of these policies is needed to make them work in practice and the insurance industry should urgently address the issue.

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29 These are plastic identity cards widely used in several developed countries; they contain basic information on the insured, the insurance company and the nature of the cover. They are invariably accepted by the hospitals without insisting on advance deposit.

Insurance covers required on holidays

14.19 Some exporters and importers represented that sometimes they were unable to get urgently needed insurance covers on holidays. The Committee feels that insurance being a service should be available at all times. GIC and the subsidiary companies should review their arrangements in this regard so that the needs of their clients are satisfactorily met on holidays also.

Insurance Agents - Licensing under the Insurance Act, 1938

14.20 In section 42 of the Insurance Act there is a provision for licensing of insurance agents by the Controller of Insurance. After nationalisation, the licensing function is being discharged by LIC and insurance companies on behalf of the Controller. The Committee has considered whether this function should revert to the Controller of Insurance. There are at present over 6 lakh agents in the insurance industry and their number is growing. If the Controller has to issue and renew such licences, it would entail tremendous amount of work of a routine character which could seriously detract from the ability of the Controller (or later IRA) to address important regulatory matters. The Committee, therefore, feels that insurers should continue to appoint agents and licensing of agents by the Controller should be discontinued. At the same time, it is necessary that an 'agent' should be defined in the Insurance Act. It would also be necessary to develop a code of conduct for agents.

Actuarial Profession

14.21 The actuary plays an essential role in life insurance business, particularly in product development, determination of premium rates, study of mortality experience and construction of mortality tables, laying down underwriting standards, valuation of liabilities and distribution of surplus. The actuary can also be useful in investment management. In general insurance actuaries are consulted in matters relating to rating and technical reserves.

14.22 At the time of nationalisation of life insurance, there were 67 actuaries (Fellows of the Institute of Actuaries, London) in the service of LIC. Their number has now come down to eleven. This is because of the high cost of pursuing actuarial courses of study, effort and time required to qualify as an actuary and absence of commensurate rewards. It is essential to ensure that adequate number of actuaries are available to the insurance industry.

14.23 The Committee was informed that the Actuarial Society of India has been conducting, since 1989, examinations for an Indian qualification in actuarial science.

The standards of these examinations are at par with those of the Institute of Actuaries, London. More than 300 student members are at present appearing in these examinations. During 1993, the Society opened three examination centres outside India, at Dhaka (Bangladesh), Colombo (Sri Lanka) and Port Louis (Mauritius). A person qualifying as a Fellow of the Actuarial Society of India through these examinations is now recognised as an actuary under Rule 3 of the Insurance Rules, 1939.

14.24 The Society needs financial support for its activities. Steps are also needed to attract talent to the profession by providing suitable employment opportunities.

Foreign Operations - LIC

14.25 LIC is transacting life insurance business in UK, Mauritius, and Fiji. In Bahrain a separate company has been set-up, with LIC being the dominant share-holder. Business experience in Mauritius, Fiji and Bahrain has been good. However, the operation in UK is rather small in terms of new business. Limited product range, weak marketing organisation and unattractive yields on investment constrain the growth and profitability of the UK business. These deficiencies need to be overcome by LIC as there is good business potential in that country.

Foreign Operations - General insurance industry

14.26 Indian general insurance companies established overseas operations over seventy years ago. Today the nationalised general insurance industry operates through branches or agencies in 18 countries, and through associate/subsidiary companies in another 14 countries. The general insurance industry's direct foreign operations for the ten year period ending 31.3.1992 produced a net profit of Rs 16 crore on a total premium of Rs 859 crore (Appendix XXVII). In addition, the general insurance industry also receives 5% of the gross direct premium income of the foreign branches as head office share of expenses of management. The performance of associates/subsidiaries ranges from satisfactory (e.g. Singapore and Kenya) to consistently dismal (Malaysia) (Appendix XXVIII).

14.27 There are some branches as well as associates/subsidiaries which have been sustaining losses and may not be viable. The Committee is of the view that the industry should subject its foreign operations to a rigorous scrutiny, close down non-viable operations and consider how the business of profitable branches/subsidiaries can be further improved.

Setting up of subsidiaries and affiliates whose character and objective are different from the main business of insurance.

14.28 Often the insurance companies set-up subsidiaries and affiliates whose character and objectives are different from the main business of insurance. While the insurance companies, in setting up these affiliates, have put in a financial stake, it is important to ensure that a conflict of interest between the insurance companies and their affiliates is avoided. For this purpose, it is necessary to devise guidelines, procedures and systems, whereby the parent insurance company maintains an arms-length relationship with the affiliate. In working out such arrangements, due note should be taken of the regulations which govern the operations of the affiliates. For instance, mutual funds are regulated by the SEBI. Any guidelines that may be developed would have to take SEBI prescriptions into account. The Committee would like to emphasise that the insurance companies' prime responsibility is to their policy-holders and stockholders which should not be diluted by concerns about the business of affiliates.

14.29 In light of the above observations, the Committee recommends:

i) **LIC should take steps to introduce regular term assurance plans.**

ii) **LIC should develop and market long term unit-linked life insurance plans with uniform risk cover.**

iii) **The zonal committee of LIC for review of repudiated claims should be strengthened by inducting an outsider having experience, reputation and standing, and empowered to finally decide all references regarding claims.**

iv) **LIC should examine allowing conditional assignment of life insurance policies at the time proposals are made.**

v) **LIC should pay interest for the period of delay exceeding say, 30 days from the date of maturity or intimation of death, in settlement of claims, irrespective of the cause of delay. The rate of interest should be around the average rate earned on the life insurance fund.**

vi) **To reduce litigation, the institution of ombudsman should be set-up by the general insurance industry. The ombudsman should consider insurance claims relating to personal lines of business upto a limit of Rs 5 lakh in each case.**

vii) **The Insurance Act, 1938 provides for minimum solvency margin required for insurers transacting general insurance business. An expert committee, including actuaries, should review the adequacy of the minimum margin prescribed at present and also suggest similar margin for insurers transacting life insurance business.**

viii) **The Insurance Association of India which was in existence before nationalisation of life and general insurance business should be revived.**

ix) The provisions of section 64VB of the Insurance Act, 1938 relating to payment of premium before commencement of risk are salutary and should be adhered to. However, in settling claims, the insurance companies should ensure that undeserved hardship is not caused to customers.

x) The terms, conditions and administration of medicalim policies should be comprehensively reviewed to make them work satisfactorily.

xi) The existing arrangements for providing insurance cover on holidays are deficient and should be improved.

xii) Licensing of insurance agents by Controller of Insurance should be discontinued. The term 'insurance agent' should be defined in the Insurance Act. A code of conduct for them should be developed.

xiii) The insurance industry should extend necessary financial assistance to the Actuarial Society of India. Government should consider granting a charter to the society at an appropriate time.

xiv) To attract talent to the actuarial profession, employment opportunities within the insurance industry need improvement. Among other things, this can be secured by identifying posts at appropriate levels for recruiting persons possessing actuarial qualifications.

xv) LIC and general insurance companies should subject their foreign operation to rigorous scrutiny. While non-viable operations should be closed down, it should be considered how the business of profitable branches/subsidiaries/ affiliates can be improved and expanded.

xvi) The primary responsibility of an insurance company to its policy-holders and stockholders should not be diluted by concerns about the business of its affiliates. Procedures and practices should be developed to ensure an arms-length relationship between a parent insurance company and its affiliates.

Chapter XV

Legislation

15.1 Some of the recommendations made by the Committee in this report will call for major legislative changes:

a) the Committee has recommended that the insurance sector should be opened to competition. This implies the loss of monopoly for LIC as well as GIC and its subsidiary companies.

b) LIC and GIC and its subsidiaries are at present wholly owned by Government. The Committee has recommended that these companies should become board-managed institutions with the Government holding only 50% of their capital.

c) When life insurance and general insurance were nationalised, LIC and GIC and its subsidiaries were given special dispensations thereby making provisions of the Insurance Act, 1938 either inapplicable or applicable with or without modifications. In the scheme of things suggested by the Committee all these companies would be governed by the provisions of the Insurance Act.

d) The office of the Controller of Insurance has suffered erosion of powers and authority consequent on the nationalisation of insurance industry. It is essential to restore the powers of the Controller of Insurance under the Insurance Act so that he can start regulating the industry without further delay. The Committee has recommended that the new insurance regulatory authority should be a board with a chairman and full-time and part-time members.

e) With regard to prospective entrants the Committee has recommended a minimum capital of Rs 100 crore with a lower stipulation for State level co-operative societies wishing to undertake life insurance business on a regional basis. Apart from this, the Committee has recommended that an insurance company should take up either life or general insurance business but not both.

f) In the chapter on Investment Issues of the Insurance Industry, several recommendations have been made for investment of the assets of the insurance companies. It has also been suggested that the prescriptions for 'approved investments' which are now a part of the Insurance Act may be taken out of the Act and incorporated in rules and regulations to be administered by IRA.

g) Though the Committee has recommended that LIC and the general insurance companies as well as possible new entrants into the insurance business should be governed fully by the Insurance Act, 1938, it is conscious of the fact that that Act has undergone repeated amendments, specially through the amendment Acts of 1950 and 1968, and as a result of LIC Act, 1956 and the General Insurance Business (Nationalisation) Act, 1972. Financial conditions have greatly changed since the extant insurance laws came into force. It is the Committee's view that all these laws need detailed scrutiny, amendment and consolidation, probably in a new insurance law. It would be useful if another committee with appropriate membership is set-up for this purpose.

15.2 In addition to the matters requiring legislative changes, referred to above, there are several other issues which may also call for legislative action. Some of these are indicated below:

i) According to the Committee's recommendation, though prospective promoters of insurance companies may at the outset bring in the entire prescribed minimum capital, they would have to reduce, within a specified period, their shareholding to a level which is not more than 40% (and at no time should be less than 26%) of the paid-up capital. The remaining share capital should be widely held and no person should hold more than 1% of the total equity.

ii) Section 7 of the Insurance Act requires a deposit of Rs 10/20 lakh to be made by the insurer with the Reserve Bank of India, either in cash or in securities. It is necessary to raise this amount to say, Rs 10 crore.

iii) New entrants in life insurance should be required to transact a certain minimum business in rural areas. Similarly, new general insurers would also be required to write a certain minimum rural non-traditional business. Failure to comply with these stipulations should attract suitable penalties which would be imposed by IRA.

iv) The Committee has recommended that the extent of non-tariff business should be progressively enlarged. In view of this, it would be necessary to provide that with respect to their non-tariff business, insurers file their rates, terms and conditions, and annual returns indicating their claims experience. Besides, IRA should have the power to ask for modification of such rates and conditions wherever considered necessary.

v) The insurers are required to prepare their annual accounts in the forms prescribed in the schedules to the Insurance Act. There is a need for laying down appropriate accounting standards and disclosure practices so that the true financial position of the insurance companies is duly reflected in the accounts. The existing forms were prescribed several decades back and require a thorough review in light of developments in the industry, changes in insurance accounting practices, and the need for greater transparency. It will be expedient if the forms are taken out of the Insurance Act and are made a part of the Insurance Rules.

vi) At present, under section 13 of the Insurance Act, actuarial valuation of life insurance business is to be carried out once at least in every three years. This should be done on an annual basis.

vii) The present requirement that private pension funds must, on the retirement of a member, buy a pension from LIC should be modified so that private pension funds which are so permitted by IRA, may pay pension to their retiring members.

viii) Life insurers should keep separate accounts and funds for pension, group gratuity, other group business, and other life insurance business.

ix) The Committee has recommended introduction of a new category of 'Supervisory Agents' who may be paid over-riding commission. It has also recommended that brokers may be allowed to function as intermediaries for procuring general insurance business. As the institution of brokers does not at present exist in India, there should be provision for registration of brokers and regulation of their conduct.

x) Section 2(1) of the Insurance Act defines actuary as possessing such qualifications as may be prescribed. Rule 3 of the Insurance Rules requires that the actuary should be a Fellow of the Institute of Actuaries, London or a Fellow of the Faculty of Actuaries, Scotland or a Fellow of the Actuarial Society of India. Since the fellows of the first two institutes are eligible to be enrolled as fellows of the Actuarial Society of India, it is suggested that the said rule may be amended so that only a fellow of the Indian society is recognised as an actuary. Such an amendment will bring the

actuaries who would like to practice in India under the professional code of conduct prescribed by the Indian society.

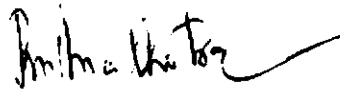
xi) The Committee has recommended that licensing of surveyors under section 64UM of the Act may be discontinued but that the Act should include a definition of surveyors.

xii) At present section 64UM of the Insurance Act requires that all claims of Rs 20,000 and above must be referred to a surveyor. It has been recommended that the threshold of Rs 20,000 should be raised to Rs one lakh.

xiii) Agents in insurance industry are required to be licensed by the Controller of Insurance or an officer authorised by him. It has been recommended that agents should be appointed by insurance companies provided they conform to the definition of agent to be incorporated in the Insurance Act, and that licensing by the Controller of Insurance should be abolished.

xiv) Section 40B of the Insurance Act and rule 17D of the Insurance Rules prescribe the ceilings on expenses of management for life insurers. It has been pointed out that the method of calculation of renewal expense ratio as prescribed in rule 17D is no longer relevant. This rule should be suitably modified so that limits on costs are related to both the first year premia and renewal premia. Expense limits have also to be prescribed for pension and group business.

xv) There are detailed provisions in the Insurance Act regarding payment of commission to agents for various types of business. These include special dispensations for new companies. It has been recommended elsewhere that some of the commission rates for agents need revision. It will be useful if the entire structure of commissions and stipulations attached thereto are subjected to a thorough review so that appropriate amendments can be made in the relevant statutory provisions.



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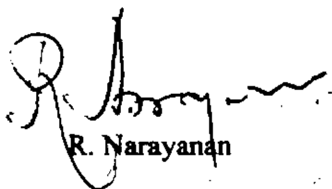

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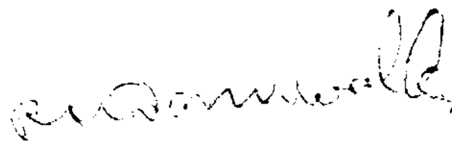

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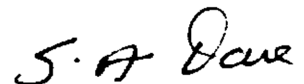
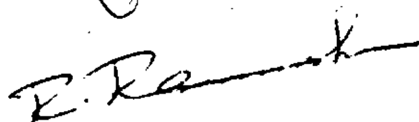
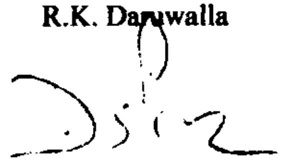


Dr. S.A. Dave



R. Ramakrishnan



Deepak Parekh

M.P. Modi

No. 17(4)/93-INS.V

GOVERNMENT OF INDIA
MINISTRY OF FINANCE
DEPARTMENT OF ECONOMIC AFFAIRS

New Delhi, the 7th April, 1993

RESOLUTION

Government has taken a number of initiatives in the area of financial sector reforms covering the banking system and the capital markets aimed at creating a more efficient and competitive financial system suitable for the requirements of the economy keeping in mind structural changes currently underway. Insurance is an important part of the overall financial system and it is necessary to address the need for similar reforms in this sector. It has, therefore, been decided to appoint a Committee on Reforms in the Insurance sector to go into these issues in depth and make recommendations.

The Committee will consist of the following:

1.	Shri R N Malhotra	Chairman
2.	Shri R Narayanan (former Chairman, LIC)	Member
3.	Shri R K Daruwala (former Chairman, GIC)	Member
4.	Shri Prasanna Chandra,[30] IIM, Bangalore	Member
5.	Dr S A Dave, Chairman, UTI	Member
6.	Shri R Ramakrishnan, President, Actuarial Society of India	Member
7.	Shri Deepak Parekh	Member
8.	Shri M P Modi, Special Secretary (Insurance)	Member Secretary

The terms of reference of the Commmittee will be as follows:

i) To examine the structure of the Insurance industry as it has evolved within the existing framework and to assess its strengths and weaknesses in terms of the objective of creating an efficient and viable insurance industry providing a wide reach of insurance services and a variety of insurance products with a high quality of service to the public and serving as an effective instrument for mobilisation of financial resources for development.

ii) To make recommendations for changes in the structure of the insurance industry, as well as the general framework of policy, as may be appropriate for the pursuit of the above objectives keeping in mind the structural changes currently underway in other parts of the financial system and in the economy.

30 Later, Shri Prasanna Chandra expressed inability to be in the Committee.

iii) To make specific suggestions regarding LIC and GIC, which would help to improve the functioning of these organisations in the changing economic environment.

iv) To review the present structure of regulation and supervision of the insurance sector and to make recommendations for strengthening and modernising the regulatory system in tune with changing requirements.

v) To review and make recommendations on the role and functioning of surveyors, intermediaries and other ancillaries of the insurance sector.

vi) To make recommendations on such other matters as the Committee considers relevant for the health and long term development of the insurance sector or which are consequential on other recommendations made by the Committee, including changes in legislation where necessary.

The Committee should submit its report within six months.

C.S. RAO, Jt. Secretary

Questionnaire circulated by the Committee

GENERAL INSURANCE

The management of general insurance business was taken over by an Ordinance issued on 13th May, 1971. The next step of nationalising the general insurance business was carried out by an Act of Parliament in September, 1971. The General Insurance Corporation was incorporated in November, 1972 as a holding company of four subsidiary companies, *viz.* New India Assurance Company Ltd., United India Insurance Company Ltd., Oriental Insurance Company Ltd., and National Insurance Company Ltd. which came into being from 1st January, 1973. The four subsidiary companies have together, about 3100 Branches, 1100 Divisional Offices and 75 Regional Offices.

The General Insurance Corporation of India and its subsidiaries are Government companies within the meaning of the Companies'Act. Being fully owned by the Government they are subject to the incidence of Vigilance and Audit of the Comptroller & Auditor General of India. The Board of Directors of GIC as well as its Companies consist of Directors all of whom are nominated by Government directly or with its approval.

The main objectives of nationalising the general insurance business in India were :-

To spread the benefits of general insurance all over the country instead of allowing it to be confined to the urban market; to foster orderly growth of general insurance business on the basis of sound under-writing principles and techniques at economic cost to the insuring public; to serve better the needs of the economy by securing the development of general insurance business in the best interests of the community; and to ensure that the operation of the economic system does not result in the concentration of wealth to the common detriment.

A brochure giving a brief account of the operations of the companies (which are wholly Government owned) transacting general insurance business in India, is enclosed.

Your reply to the following questions - all, or whichever you wish to answer - will be most welcome.

Q.1 How far have these objectives of nationalising the general insurance industry been achieved ?

Q.2 Though over the years organisation of four subsidiary companies of GIC and the volume and variety of general insurance business have expanded, the spread of insurance remains low. How can this situation be improved ?

Q.3 The functions of the GIC have been enunciated in the General Insurance Business (Nationalisation) Act, 1972. These include aiding, assisting and advising the subsidiary companies in the matter of standards of conduct and sound practice, rendering efficient customer service, controlling expenses, helping in investment of funds, and issuing direction in the conduct of general insurance business.

(a) Is it necessary for GIC to continue as a holding company to perform these functions or is it time that the subsidiary companies be allowed to operate entirely on their own ? What are the pros and cons of making such change?

(b) Should GIC continue only as a re-insurance corporation ?

Q.4 What is the level of customer satisfaction ? What factors if any you feel are hindering better service ? What are your suggestions for the improvement of customer service ?

Q.5 The four subsidiary companies compete with each other for general insurance business. Has *this competition resulted in better customer service* ?

Q.6 What are your general perceptions of the performance of the general insurance industry in the nationalised set up in respect of :

(a) technical skills;

(b) keeping abreast of developments in other parts of the world;

(c) integrity in dealings

Q.7 Has the general insurance industry been adequately interacting with the concerned associations of individuals, business and industry (such as Chambers of Commerce and Industry, Local Trade Associations, Associations of Doctors, Transporters, Policyholders, Consumer Bodies and such other interested groups), and whether such interaction has been meaningful ?

Q.8 The Tariff Advisory Committee (TAC), set up under the Insurance Act, determines the rates and terms for general insurance business for most classes of business. Some of the major covers whose rates, terms and conditions are determined by the TAC are fire, Marine Hull and Cargo, Motor,, Workmen's Compensation, Public Liability, Personal Accident etc. What has been your experience as consumer in respect of adequacy of risk coverage, and in fairness of rates and terms and interpretation thereof ?

Q.9 At present, 70% of annual accretions of funds from general insurance business is required to be invested in Government and Government-guaranteed Securities and in such other socially-oriented sectors as may be directed by the Government. Only 30% of annual accretions of funds is available for investment jn the market sectors. To the extent that rate of interest on Government paper is below the market level, the return from these investments will be less and hence have a concomitant effect on profitability. Having regard to the fact that solidity of an insurance company is very vital and that liquidity of funds to make very large claims is an essential requirement specially in regard to the general insurance business and for which Government or Government-guaranteed securities are eminently suited, does this investment pattern of GIC in your opinion need review ? What are your suggestions ?

Q.10 What has been your experience, if any, with settlement of claims? How should the differences between the insurer and the insured be settled without taking recourse to courts of law ? Do you think an institution like Ombudsman would help ?

Q.11 Have Consumer Forums played a positive role in ensuring grater consumer satisfaction ?

Q.12 Motor accidents result in large claim pay outs due to death and injury to the third parties. The aggregate claims paid exceed the premium collected, and the gap is increasing. In particular, the level of compensation for death and injury has been steadily going up. What are your suggestions for improving this situation ?

Q.13 What has been your experience, if any, with Motor Accident Claims Tribunal (MACT) in settlement of claims and payment of compensation for the dependents of accident victims ? Has the Lok Adalat System provided meaningful relief to the claimant ? What improvements would you suggest in the present arrangements for bringing more cases before Lok Adalat for early settlement of claims pending before MACT ?

Q.14 The Insurance Act provides for grant of licence by the Controller of Insurance to surveyors in respect of general insurance business. A surveyor should be a graduate in Engineering or a Chartered Accountant or a Cost Accounted or qualified Actuuary or diploma holder in inusrance or he should possess such other qualification as may be prescribed. The licence is automatically granted, if eligibility criteria are satisfied. It is valid for a period of five years

and is renewable. There are at present about 38000 licensed surveyors. They get their fees from the concerned insurance company which engages them for their services.

(a) What are your general perceptions about surveyors, particularly in respect of their technical skills, integrity in dealings, and fairness and promptness in assessment of loss ?

(b) Do you have any suggestions for improving the effectiveness of the institution of surveyors and their professional performance ?

(c) There is an impression that the present licensing system has in practice detracted the insurance companies from engaging surveyors of appropriate qualifications and expertise or various loss assessment assignments. Further, in more liberalised environment, should the present licensing system continue or should it be abolished and the empanelment and assignment of qualified surveyors left entirely to the insurers ?

Q.15 Agents and Development Officers are instruments through whom general insurance business is procured. The Development Officers are paid employees of GIC. In addition to their pay and allowances and other service benefits they receive various cash and material incentives for business procurement such as facilities of telephone and conveyance and liberal cash allowances. Having regard to the fact that (general) insurance is mandatory on motor third party and on ventures supported by institutional finance and therefore, on which little procurement effort is involved, would you suggest review of the Scheme of incentives ? If yes, what are your suggestions in this regard ?

Q.16 Do you think further computerisation and modernisation of the operations of GIC are necessary to provide better and cost-effective services to the customers?

Q.17 To serve a large and growing number of customers in the country and outside it is considered necessary that there should be technology upgradation in the form of modernisation of equipments and computerisation. Have the trade unions, in your view, played a positive role in this area ?

Q.18 There is an impression that the public sector service organisations including insurance have concentrated their attention to their own service benefits rather than to improve upon customer service and growth in business. What are your reactions in regard to the insurance sector?

Q.19 At present Government of India has 100% ownership of GIC and, through GIC 100% ownership of the four subsidiary companies. This has implications upon the manner in which the nationalised general insurance industry functions. Would it be desirable, in your view, for the Government to disinvest a part of its holding in GIC and likewise for the GIC to disinvest a part of its holding in the companies ? The extent of disinvestment may be indicated if it is advocated. Please also indicate as to how in your view a capital restructuring brought about by disinvestment would lead to the corporate restructuring and with what effects ?

Q.20 There is growing competition in several sectors of the financial market, particularly in the banking sector, mutual funds, merchant banking etc. In this context, would it be advisable to make the insurance sector more competitive by permitting the private sector also to enter into general insurance business ?

Q.21 If a competitive environment is to be promoted, it would be essential to have strict criteria which must be satisfied before new companies are allowed to transact insurance business: for instance, they must have adequate capital and sound managements. What are your suggestions in this behalf ?

Q.22 Consequent on the nationalisation of insurance business and the assumption of overall supervision by the Government, the role of the Controller of Insurance has suffered large

erosion. A competitive insurance industry would, however, require the establishment of strong regulatory and supervisory arrangements. This could either be an organisation headed by a Controller or Commissioner of Insurance, or a Board consisting of several members possessing relevant experience, expertise and standing. The Regulatory Authority would have the powers to grant registrations/licences/ permissions to transact general insurance business. What is your view should be the form and role of the Regulatory and Supervisory Authority and how autonomous should it be *vis-a-vis* the Government.

Q.23 In a competitive environment, is it necessary to continue the institution of Tariff Advisory Committee ? If yes, what should be its composition, and should it be attached to the Regulatory Authority ?

Q.24 The GIC provides socially oriented insurance such as Rural and Non-traditional Insurance which especially cover economically weaker sections of the society. Most of these Schemes are funded by the Government and are substantially Government supported.

(a) Whether the scope and coverage of these Schemes is adequate to serve the larger purpose of taking insurance to the weaker sections of the society ?

(b) If a competitive environment in insurance industry is promoted:

(i) should Social Security Schemes be entrusted to a separate body, financed by Government funds and by contributions from other insurance companies; or

(ii) should social Schemes continue to be the responsibility of the GIC which could, in addition to present sources of financing, be entitled to contributions from other insurance companies ?

LIFE INSURANCE

The Life Insurance business was nationalised in January, 1956; amongst the main objectives were:

> To spread the message of insurance as far and wide as possible reaching out beyond the more advanced urban areas into the rural areas; to mobilise more effectively the people's savings for national development; and to provide efficient service to the policyholders.

A brochure giving a brief account of the operations of the LIC is enclosed. Your reply to the following questions - all or whichever you wish to answer, will be most welcome.

Q.1 How far have the objectives of nationalising the Life Insurance Industry been achieved? What measures would you suggest for faster and wider expansion of life insurance business?

Q.2 LIC has a vast branch network and a large sales force all over the country. At present the overall coverage of insurable population stands at an approximate figure of 22.11%. What changes if any, you consider necessary for better service in the life insurance field? Do you consider that the range and design of the life insurance policies adequately cater to the needs of the people? Do you find them sufficiently attractive?

Q.3 At present, not less than 75% of annual accretions from individual life insurance business is required to be invested in Government and Government-guaranteed Securities and in such other socially-oriented sectors as may be directed by the Government. Only upto 25% of the annual accretion is available for loans to policyholders, the corporate sector and for investment in market sector. Rate of interest on Government Paper is below the market level which has effect on premium and bonus. Having regard to the requirement of solidity of insurance companies and considering the fact that Government or, Government-guranteed Securities are the least vulnerable investments, and the policy holders' expectation of returns from their policies, does the above investment pattern need review? What are your suggestions in this regard?

Q.4 What are your views about the attractiveness of life insurance policies *vis-a-vis* other instruments of savings? What are your suggestions for improving the returns on such savings?

Q.5 (a) There is a view that LIC has become too large an organisation, having 7 Zonal Offices, 93 Divisional Offices, 1900 Branch Offices. The LIC has tried to tackle the problem of size by large scale delegation of powers to Branch Offices which now issue and service life policies and settle claims in respect thereof. Are you satisfied with the quality of service of the Branches?

(b) Do you think that LIC would become too unwieldy for efficient functioning considering the desirable future growth of business?

(c) Do you consider that there is need for bringing in a measure of competition even within the public sector?

Q.6 At present Government of India has 100% ownership of LIC, which has implications for the manner in which it functions. Would it be desirable in your view for Government to disinvest a part of its holding, as is being done in many other public sector Corporations ? The extent of disinvestment may be indicated if it is advocated.

Q.7 There is a view that agents do not pay adequate attention to servicing their clients after the first premium has been secured, even though they get a commission on subsequent premia. What is your assessment of the role and functioning of agents in life insurance business ?

Q.8 At present life insurance business is secured through agents who are supervised by Development Officers. The Development Officers are paid employees of LIC who also get other benefits such as incentives for businesss procured and facilities of telephone, conveyance, entertainment etc., related to the volume of businesss. The Assistant Branch Manager(Sales) in Branch Office supervises the work of Development Officers. A little over 40% of the total expenses of management is spent by way of commission. Do you suggest any change in this three-tier set up, viz. Agent - Development Officer - Assistant Branch Manager (Sales) - in the interest of economy and efficiency ?

Q.9 Do you think further computerisation and modernisation of the operations of LIC are necessary to provide better and cost-effective services to the customers ?

Q.10 There is an impression that the public sector service organizations including insurance have concentrated their attention to their own service benefits rather than to improve upon customer service and growth in business. What are your reactions in this regard ?

Q.11 There is growing competition in several sectors of the financial market, particularly in the banking sector, mutual funds, merchant banking etc. In this context, would it be advisable to make the insurance sector more competitive by permitting the private sector also to enter into life insurance business?

Q.12 If a competitive environment is to be promoted, it would be essential to have strict criteria which must be satisfied before new companies are allowed to transact insurance business: for instance, they must have adequate capital and sound managements. What are your suggestions in this behalf ?

Q.13 Consequent on the nationalisation of insurance business and the assumption of over all supervision by the Government, the role of the controller of Insurance has suffered large erosion. a competitive insurance industry would, however, require the establishment of strong regulatory and supervisory arrangement. This could either be an organisation headed by a Controller or Commissioner of Insurance, or a Board consisting of several members possessing relevant experience, expertise and standing. The Regulatory Authority would have the powers to grant registrations/licences/ permissions to transact life insurance business and to supervise the functioning of the life insurance sector. What in your view should be the form and role of the Regulatory Authority and how autonomous should it be *vis-a-vis* the Government?

Q.14 The LIC provides Social Security Group Schemes which cover Tendu leaf collectors, handloom and khadi weavers, primary milk producers., urban poor, beedi workers, landless agricultural labourers and other approved groups under Integrated Rural Development Programmes. Most of these Schemes are funded by the Government and are substantially Government supported.

(a) Whether the scope and coverage of these Schemes is adequate to serve the broad purpose of taking insurance to the weaker sections of the society?

(b) If a competitive environment in insurance industry is promoted :

(i) should Social Security Schemes be entrusted to a separate body, financed by Government funds and by contributions from other insurance companies; or

(ii) should Social scheme continue to be the responsibility of the LIC which could in addition to present sources of financing be entitled to contributions from other insurance companies ?

APPENDIX III
Para 2(b) 'Introduction'

LIST OF PERSONS AND ORGANISATIONS TO WHOM QUESTIONNAIRE WAS SENT FOR ELICITING THEIR VIEWS

Sl.No.	Name of the Person/Organisation
1.	Gujarat Chamber of Commerce, Ahmedabad.*
2.	Nirma Chemical Works, Ahmedabad.*
3.	Ahmedabad Textile Mills Association.
4.	Association of Merchants and Manufacturers of Textiles Stores & Machinery, Ahmedabad.*
5.	Core Group of Companies, Ahmedabad.*
6.	Cadila Laboratories, Ahmedabad.*
7.	Torrent Group of Industries, Ahmedabad.
8.	Uttam Dairy, Ahmedabad District Milk Marketing Federation.*
9.	Mehsana District Cooperative Milk Producers' Union Ltd., Ahmedabad. *
10.	Ahmedabad Kaiser-i-Hind Ltd.
11.	K.L. Group of Industries, Ahmedabad.
12.	Indian Transport Association, Ahmedabad.*
13.	Dean, Indian Institute of Management, Ahmedabad.*
14.	Ahmedabad Management Association, Ahmedabad.*
15.	Shri R.J. Mody, Director, Sardar Patel Institute of Economic and Social Research, Ahmedabad.
16.	Social Security Research Centre, Ahmedabad.*
17.	Self Employed Women's Association (Sewa), Ahmedabad.*
18.	Racehorse Breeders' Association, Bangalore.*
19.	Coffee Board, Bangalore.*
20.	Shri K.B. Viswanath, Ex-President, Karnataka Growers' Federation, Bangalore.*
21.	Motor Industries Co. Ltd. (MICO), Bangalore.*
22.	Kudremukh Iron Ore Co. Ltd., Bangalore.*
23.	Shri Ramesh Gelli, Chairman, Vysya Bank, Bangalore.*
24.	Shri J.I. Devadatta, Ex. Director (Finance), BEL, Bangalore.*
25.	Hindustan Aeronautics Limited, Bangalore.*
26.	Central Silk Board, Bangalore.*
27.	Karnataka Milk Federation, Bangalore.
28.	Federation of Karnataka Lorry Owners' Associations, Bangalore.*
29.	Prof. R. Vaidyanathan, Chairman, MBA Programme, IIM, Bangalore.*
30.	Shri Prasanna Chandra, Professor, IIM, Bangalore.
31.	Ms. Prabha Murthy, Convenor, Karnataka Forum for Consumer Action, Bangalore.*
32.	Dr. P.R. Brahmananda, Economist, Bangalore.*

33. Shri J. Matthan, Ex. Chairman, LIC, Bangalore.*

34. Shri K.C. Ponnappa, Ex. CMD, New India Assurance Co. Ltd., Bangalore.*

35. Shri Satish Chandran, Ex-Chief Secretary, Govt. of Karnataka, Bangalore.

36. Federation of LIC of India Class I Officers' Associations, Bangalore.*

37. Orissa Chamber of Commerce, Bhubaneswar.

38. Chairman, IMFA Group of Companies, Bhubaneswar.

39. Hotel Swosti (P) Ltd., Bhubaneswar.

40. Kalinga Cement Ltd., Bhubaneswar.

41. President, Small Scale Industries Association, Bhubaneswar.

42. Paradeep Phosphates, Ltd., Bhubaneswar.

43. National Aluminium Co. Ltd., Bhubaneswar.

44. Dr. Baidyanath Mishra, Ex-Vice Chancellor, Orissa University of Agriculture & Technology, Bhubaneswar.

45. Shri B.K. Mishra, Ex-Vice Chancellor, Utkal University, Bhubaneswar.

46. Prof. Abhay Kumar, Deptt. of Labour Welfare, Utkal University, Bhubaneswar.

47. Prof. Gyanaranjan Kar, Deptt. of Economics, Utkal University, Bhubaneswar.

48. Director, Xavier Institute of Management, Bhubaneswar.

49. Director, Nabakrushna Choudhury Centre for Development Studies, Bhubaneswar.

50. Prof. Swaroop Chandra Sahu, Deptt. of Business Management, Utkal University, Bhubaneswar.

51. Prof.B.N. Patnaik, Deptt. of Commerce, Utkal University, Bhubaneswar.

52. Indian Merchants' Chamber, Bombay.*

53. Maharashtra Chamber of Commerce & Industry, Bombay.

54. Bombay Chamber of Commerce & Industry.*

55. Shri Fali Poncha, Tata Consultancy Services, Bombay.*

56. Shri J.H. Ashar, LIC Agent and Financial Consultant, Bombay.*

57. S/Shri Mukesh Ambani and Anil Ambani, Reliance Industries Ltd., Bombay.*

58. Shri S.M. Dutta, Chairman, Hindustan Lever Ltd., Bombay.*

59. Shri Anand Rathi, Sr. President, Indian Rayon Ltd. Bombay.*

60. Shri A. Aswathanarayanan, Chairman, ECGC, Bombay.*

61. Dr. N.M. Dhuldhoya, MD, Polyolefins Industries Ltd., Bombay.*

62. Great Eastern Shipping Corporation Ltd., Bombay.*

63. Capt. P.P. Radhakrishnan, Chairman, Shipping Corporation of India, Bombay.

64. Shri Freddie A Mehta, Chairman, Forbes Group, Bombay.

65. J.B. Boda & Co. (Pvt.) Ltd. Insurance & Reinsurance Brokers, Bombay.

66. Tower Insurance & Reinsurance Services India (Pvt.) Ltd., Bombay.

67. International Reinsurance Consultancy Services (P) Ltd., Bombay.

68. Tariff Advisory Committee, Bombay.*

69. Maharashtra Rajya Truck, Tempo, Tankers, Bus, Vahatuk Mahasangh, Bombay.*

70. Bombay Goods Transport Association.*

71. Port & Dock Workers' Union, Bombay.*

72. Maharashtra Heavy Vehicles & Container Operators' Association, Bombay.*

73. Maharashtra Truck Owners' Association, Bombay.*

74. Tank Lorry Owners' Association, Bombay.*

75. Motor Accidents Claims Tribunals Bar Association for Greater Bombay (MACT), Bombay.

76. Institute of Insurance Surveyors & Adjusters, Bombay.*

77. Capt. S.M. Divekar, MD, Loss Prevention Association of India, Bombay.*

78. Indian Institute of Insurance and Risk Management, Bombay.*

79. Director, National Insurance Academy, Pune.*

80. Actuarial Society of India, Bombay.*

81. Prof. V.M. Dandekar, President, Institute of Political Economy, Pune.

82. Shri Manu Shroff, Formerly of IIM, Ahmedabad.

83. Dr. S.L. Shetty, Chairman, Sameeksha Research Trust, Bombay.*

84. Prof. Manubhai Shah, Managing Trustee, Consumer Education & Research Centre, Ahmedabad.*

85. Association for Consumers Action on Safety of Health, Bombay.

86. Shri A. Rajagopalan, Ex-Chairman, GIC, Bombay.*

87. Shri Ashok Goenka, Ex-Chairman, GIC, Bombay.*

88. Shri A.S. Gupta, Ex-Chairman, LIC, Bombay.

89. Shri B.K. Shah, Ex-Chairman, New India Assurance Co. Ltd., Bombay.*

90. Shri S. Parthasarathy, Ex-G.M.,GIC, Bombay.*

91. Shri M.G. Diwan, Ex-Chairman, LIC, Bombay.*

92. Shri Sharad Marathe, Former Secretary, Govt. of India, Pune.

93. Shri G.S. Patel, Ex-Chairman, UTI, Bombay.

94. Shri Nani A. Palkhivala, Jurist, Bombay.

95. Shri Pierre Florin, President, Assemblee Pleniere Des Societes D' Assurances Centre, Paris.*

96. Shri S.S. Nadkarni, Chairman, IDBI, Bombay.*

97. Shri R. Sadagopan, Ex-CMD, Oriental Insurance Company Limited, Pune.

98. Shri R.M. Mehta, Ex-Managing Director, LIC, Bombay.

99. Shri Piyush I. Majumdar, Actuary, Bombay.

100 All India Life Insurance Employees' Federation, Bombay.*

101 All India Life Insurance Employees' Association, Bombay.

102 All India National Life Insurance Employees' Federation, Bombay.

103 National Organisation of Insurance Workers, Bombay.*

104 Indian Bankers' Association, Bombay.

105 Akhil Bharitya Jeevan Bima Nigam Chaturtha Sreni Karmachari Sangh, Bombay.*

106 All India SC/ST & Buddhist LIC Employees' Welfare Association, Bombay.*

107. Life Insurance Agents' Federation of India, Bombay.*

108. All India General Insurance SC/ST Employees' Welfare Association, Bombay.*

109. All India General Insurance SC/ST Employees' Parishad, Bombay.*

110. All India Federation of General Insurance Development Officers' Associations, Bombay.*

111. General Insurance Development Officers' Federation, Bombay.

112. All India General Insurance Field Workers' Association, Bombay.*

113. General Insurance Employees' All India Association, Bombay.*

114. National Federation of General Insurance Employees, Bombay.*

115. Indian National General Insurance Employees' Federation, Bombay.*

116. All India Confederation of General Insurance Employees' Federations, Bombay.*

117. All India General Insurance Employees' Congress, Bombay.

118. Bombay Hospital, Bombay.

119. Jaslok Hospital and Research Centre, Bombay.*

120. Sir Harkisondass Narottamdas Hospital, Bombay.*

121. Hinduja Hospital, Bombay.

122. Breach Candy Hospital, Bombay.

123. KEM Hospital, Bombay.*

124. Nanavati Hospital, Bombay.

125. Bengal Chamber of Commerce, Calcutta.*

126. Calcutta Chamber of Commerce, Calcutta.

127. Indian Chamber of Commerce, Calcutta.*

128. Bharat Chamber of Commerce, Calcutta.*

129. Bengal National Chamber of Commerce and Industry, Calcutta.*

130. Tea Board, Calcutta.

131. Tea Association of India, Calcutta.

132. Indian Tea Association, Calcutta.

133. Shri Raghu Mody, Chairman, J.L. Morison (India) Ltd., Calcutta.*

134. Coal India Ltd., Calcutta.

135. Shri Mukul Bhatia, General Manager, IFB Venture Capital, Calcutta.*

136. Shri K.L. Chug, Chairman, ITC Ltd., Calcutta.

137. Dr. G.M. Singhvi, Vice Chairman, Indian Jute Mills Association, Calcutta.*

138. Calcutta Port Trust, Calcutta.*

139. Williamson Magor & Co. Ltd., Calcutta.*

140. Peerless General Finance & Investment Co. Ltd., Calcutta.*

141. S/Shri R.P. Goenka and Sanjay Goenka, Industrialists, Calcutta.

142. Tata Iron & Steel Co., Calcutta.*

143. Shri R.G. Agarwala, President, "The Insurance Times", Calcutta.*

144. Shri Amit Gooca, Classic Finance, Calcutta.*

145. Joint Council of Bus Syndicate, Calcutta.

146. Bengal Bus Syndicate, Calcutta.*

147. Truck Owners' Association of Bengal, Calcutta.

148. Dr. A K Bagchi, Director, Centre for Social Science Research, Calcutta.

149. Prof. Anup Sinha, Professor of Economics, Indian Institute of Management, Calcutta.

150. Institute of Cost & Works Accountants of India, Calcutta.*

151. Indian Statistical Institute, Calcutta.

152. Smt. Jyotirmoyee Nag, President, State Consumers' Redressal Commission, Calcutta.

153. Consumers' Unity and Trust Society, Calcutta.*

154. Prof. Bhabatosh Dutta, Economist and former Professor of Presidency College, Calcutta.

155. Shri Sibendu Basu, Agent, LIC, Calcutta.*

156. Woodland Nursing Home, Calcutta.*

157. Belle Vue Clinic, Calcutta.

158. Dr. Saroj Gupta, Cancer Welfare Home, Calcutta.*

159. Ramakrishna Seva Pratisthan, Calcutta.

160. East India Clinic, Calcutta.*

161. Shri B.D. Kapoor, M.D. Atlas Cycle Industries, Chandigarh.

162. President, Chandigarh Chapter of Industries, Chandigarh.

163. R.C. Vanaspati Ltd., Chandigarh.

164. Punjab Paper Mills Association, Chandigarh.

165. Chandigarh Petroleum Dealers' Association, Chandigarh.

166. Hoteliers' Association, Chandigarh.

167. Chandigarh Traders' Association, Chandigarh.

168. Chandigarh Transporters' Association, Chandigarh.

169. Light Commercial Vehicle Association, Chandigarh.

170. Prof. H.S. Shergil, Chairman, Deptt. of Economics, Punjab University, Chandigarh.

171. Prof. Shital Prakash, Chairman, Deptt. of Public Administration, Punjab University, Chandigarh.

172. Prof. Vidhi Chand, Chairman, Deptt. of Commerce, Punjab University, Chandigarh.

173. Dr. B.N. Wallia, Director, P.G.I., Chandigarh.

174. Dr. A.P. Sanwaria, President, Indian Medical Association, Chandigarh.

175. Dr. P.N. Chutani, Director, Chandigarh Medical Centre, Chandigarh.

176. Kamrup Chamber of Commerce, Guwahati.*

177. Indian Oil Corporation, Guwahati Refinery, Guwahati.*

178. Bongaigaon Refinery & Petrochemicals Ltd.,(BRPL) Guwahati.*

179. Assam Carbon Ltd., Guwahati.*

180. India Carbon Products Ltd., Guwahati.*

181. Assam Tea Corporation, Guwahati.

182. Assam Tea Brokers, Guwahati.*

183. Assam Branch of Indian Tea Association, Guwahati.*

184. Guwahati Tea Auction Centre, Guwahati.*

185. M/s. J. Thomas Co. Pvt. Ltd., Tea Brokers, Guwahati.*

186. Assam Manufacturers' Association, Guwahati.*

187. Brahmaputra Valley Regional Handloom Weavers' Cooperative Society Ltd., Guwahati.

188. Kalpataru Silk House (Association of Silk Weavers), Guwahati.

189. Assam State Warehousing Corporation, Guwahati.

190. Assam Cooperative Silk House, Guwahati.

191. Central Silk Board, Guwahati.

192. Assam Drug Distributors' Association, Guwahati.*

193. Kamrup Medicine Dealers' Association, Guwahati.

194. Assam Pharmaceutical Association, Guwahati.

195. Greater Guwahati United Motor Transport Association, Guwahati.*

196 Guwahati Transport Association. *

197. All Assam Motor Transport Association, Guwahati.*

198. Guwahati University: Head of Deptt. of Commerce and Economics.*

199. Smt. Renuka Devi Barkataki, President, Workers' Education Centre, INTUC, and Assam Chai Mazdoor Sangha, Guwahati.*

200. Assam Institute of Development Studies, Guwahati.*

201. Grahak Suraksha Samiti, Guwahati. *

202. Justice S.N. Phukan, Presiding Officer, State Commission, Consumers' Disputes Redressal Forum, Guwahati.*

203. Federation of A.P. Chambers of Commerce & Industry, Hyderabad.*

204. Techtran Polylenses Ltd., Hyderabad.*

205. Nagarjuna Finance Ltd., Hyderabad.*

206. Tobacco Growers' Association, Hyderabad.

207. Agri - Horticultural Society, Hyderabad.*

208. A.P. Poultry Federation, Hyderabad.*

209. Pennar Steels Ltd., Hyderabad.*

210. Nagarjuna Fertilisers and Chemicals Ltd., Hyderabad.*

211. Capt. J. Rama Rao, Ex-MD., Capol Farm Equipment Ltd., Hyderabad.

212. Poultry Farmers' Association, Hyderabad.*

213. Shri M. Narasimham, Chairman, Administrative Staff College of India, Hyderabad.

214. Shri T.L. Shankar, Principal, Administrative Staff College of India, Hyderabad.

215. Dr. T.C.A. Srinivasa Ramanujan, Director General, National Institute of Rural Development, Hyderabad.*

216. Dr. R.K. Mishra, Prof. and Chairman and Dr. (Mrs.) Geeta Gowri, Prof. and Chairperson, Institute of Public Enterprises, Hyderabad.*

217. Prof. S. Basheeruddin, Vice Chancellor, Dr. Ambedkar Open University, Hyderabad.*

218. Shri Niraj P. Baxi, Manfrs. Life Insurance Co., USA.*

219. Shri G.V. Rao, CMD (Retd.), The Oriental Insurance Co. Ltd., Hyderabad.

220. Malwa Chamber of Commerce, Indore.*

221. Association of Industries, M.P., Indore.*

222. Transport Co-operative Bank Ltd., Indore.*

223. Shri V.D. Nagar, Ex-Principal, School of Economics, Indore University, Indore.*

224. Shri R.D. Pathak, Institute of Management, Devi Ahilya University, Indore.*

225. Dr. Uday Jain, Professor, Vaishnav Commerce College, Indore.*

226. Dr. Jayantilal Bhandari, Deptt. of Economics, Arts & Commerce College, Indore.

227. Shri S.P. Anand, Consumer Activist, Indore.*

228. Shri A.L. Purohit, Ex-Chairman, Nagrik Sahkari Bank, Indore.*

229. Rajasthan Chamber of Commerce & Industries, Jaipur.*

230. Garment Crafts, Jaipur.

231. Shri Rashmi Kant Durlabjee, Jeweller, Jaipur.*

232. Shri Vimal Chand Surana, Jeweller, Jaipur.

233. Modern Group of Industries, Jaipur.*

234. Rajasthan General Insurance Fund, Jaipur.*

235. Rajasthan Textile Mills Association, Jaipur.

236. Rajasthan State Road Transport Corporation, Jaipur.

237. Dr. Udai Pareek, President, Institute of Health Mgt. and Research, Jaipur.*

238. Shri S.K. Dadhich, Agriculture Economist, Agriculture Deptt., Govt. of Rajasthan, Jaipur. *

239. Dr. R.N. Singh, Dean & Director, Podar Insitute of Management, Jaipur.*

240. Prof. Ramesh Arora, Head of Deptt. of Public Administration, University of Rajasthan, Jaipur.*

241. Dr. M.S. Rathore, Senior Fellow, Insitute of Development Studies, Jaipur.*

242. Shri Sanjit (Bunker) Roy, Director, and Fellow Social Workers, Social Work and Research Centre (SWRC), Tilonia, District Ajmer.*

243. Shri C.S. Rajan, Spl. Secretary (Agriculture), Government of Rajasthan, Jaipur.

244. Tilam Sangh, Jaipur.

245. Indian Chamber of Commerce & Industries, Kanpur.

246. Dr. Gaur Hari Singhania, J.K. Organisations, Kanpur.

247. Shri Lalit Singhania, Director, Lohia Machines Ltd., Kanpur.

249. U.P. State Textile Corporation, Kanpur.

250. Super House Group, Kanpur.

251. Dr. V.M. Agarwal, Head of Deptt. (Economics), D.A.V. Degree College, Kanpur.

252. Dr. B.P. Srivastava, Head of Deptt.(Commerce), Christ Church College, Kanpur.

253. Dr. D.S. Awasthi, Secretary, Indian Economists Association, Christ Church College, Kanpur.

254. Awadh Chamber of Commerce and Industry, Lucknow.

255. Lucknow Vyapar Mandal.

256. Hindustan Aeronautics Ltd., Lucknow.

257. U.P. Asbestos Ltd., Lucknow.

258. Precision Tools and Castings Pvt. Ltd., Lucknow.

259. Mohan Cold Water Beverages Pvt. Ltd., Lucknow.

260. India Pesticides (P) Ltd., Lucknow.

261. Kanhaya Packaging Pvt. Ltd., Lucknow.

262. Shri Durga Bansal Fertiliser Ltd., Lucknow.

263. Lucknow Motor Operators' Association, Lucknow.

264. Dr. C.P. Barthwal, Head of Deptt., Public Administration, Lucknow University, Lucknow.

265. Dr. K.K. Saxena, Head of the Deptt. of Commerce, Lucknow.

266. Dr. K.L. Maheshwari, Head of Deptt. of Applied Economics, Lucknow.

267. Dr. P.M. Srivastava, Head of Deptt. of Business Administration, Lucknow.

268. Dr. M.K. Awasthi, Ex-V.C., Lucknow University, Lucknow.

269. Shri Srilal Shukla, Academician, Lucknow.

270. Indian Institute of Management, Lucknow.

271. Principal, K.G. Medical College, Lucknow.

272. Apex Chamber of Commerce & Industries, Ludhiana.

273. Northern Chamber of Commerce, Ludhiana.

274. Shri Munjal, Chairman, M/s. Hero Cycle Ltd., Ludhiana.

275. Shri S.P. Oswal, CMD, Vardhman Spng. & Gen. Mills Ltd., Ludhiana.

276. Metro Tyres Ltd., Ludhiana.

277. United Cycle Parts Manufacturers' Association, Ludhiana.

278. Hosiery Manufacturers' Association, Ludhiana.

279. Dr. D.R. Singh, Prof. & Head of Deptt. of Business Management, Punjab Agricultural University, Ludhiana.

280. Dr. S.S. Johal, Retd. Vice Chancellor, Punjab Agricultural University, Ludhiana.

281. President, Citizens' Council, Ludhiana.

282. Southern India Chamber of Commerce & Industry, Madras.

283. Andhra Chamber of Commerce and Industry, Madras.*

284. Madras Chamber of Commerce and Industry, Madras.*

285. Federation of Indian Hire Purchase Associations, Madras.*

286. Shri T.S. Santhanam, Chairman, TVS Group, Madras.

287. Shri A. Sivasailam, Amalgamation Group, Madras.

288. Shri M.V. Arunachalam, Tube Investments of India, Madras.*

289. MAC Industries, Madras.

290. All India Skin Merchants' Association, Madras.

291. South India Shipping Corporation, Madras.*

192. Triplicane Urban Cooperative Society (TUCS), Madras.*

293. Chemicals & Plastics India Ltd. (CHEMPLAST), Madras.

294. Shaw Wallace & Company Ltd., Madras.

295. W.S. Industries Ltd., Madras.

296. Indian Potash Limited, Madras.*

297. Indian Organic Chemicals, Madras.*

298. Shri K. Ramachandran, Insurance Consultant, Madras.

299. S & S Industries, Madras.*

300. Shri P.A. Seshan, Editor, Finance and Commerce, "Hindu", Madras.*

301. T.T.K. & Company, Madras.

302. Lakshmi General Finance Ltd., Madras.

303. Ashok Leyland Ltd., Madras.

304. Lucas TVS Ltd., Madras.

305. Parry Group, Madras.

306. T.P. Ltd., Madras.

307. India Radiators, Madras.

308. S F Ltd., Madras.

309. Madras City Lorry Owners' Association, Madras.

310. Association of Insurance Surveyors and Loss Assessors (South India), Madras.

311. Institute of Insurance Surveyors and Adjusters, Madras.*

312. Institute of Chartered Accountants of India (Southern India Regional Council), Madras.

313. Madras Institute of Development Studies, Madras.*

314. Karur Consumers Protection Council.

315. Shri K. Parasaran, Former Attorney General of India, Madras.

316. Shri P.C. Sekhar, Ex-CMD, United India General Insurance Co. Ltd., Madras.*

317. Shri N. Radhakrishnan, Retd. Financial Commissioner, Railways.*

318. Shri S.G. Subrahmanyan, Managing Director (Retd.) LIC, Madras.

319. Dr. Pratap C. Reddy, Chairman, Apollo Hospital, Madras.*

320. Tamilnad Hospital, Madras.

321. Chennai Kaliappa Hospital, Madras.

322. Vijaya Hospital, Madras.

323. FICCI, New Delhi.*

324. ASSOCHAM, New Delhi.*

325. PHD Chambers of Commerce and Industry, New Delhi.*

326. Confederation of Indian Industries, New Delhi.*

327. Federation of Associations of Small Industries in India, New Delhi.*

328. Bharat Krishak Samaj, New Delhi.*

329. FISHCOFED, New Delhi.*

330. National Co-operative Union of India, New Delhi.*

331. All India Motor Transport Congress, New Delhi.*

332. National Council of Applied Economic Research (NCAER), New Delhi.*

333. Insitute of Chartered Accountants of India, New Delhi.*

334. All India Insurance Employees' Association, Madras.*

335. National Federation of Insurance Field Workers of India, Pune.*

336. National Confederation of General Insurance Officers' Associations, New Delhi.*

337. General Insurance Officers' All India Association, New Delhi.*

338. National Association of Surveyors & Loss Assessors, New Delhi.*

339. Dy. Director General (PLI) and Director, Postal Life Insurance, New Delhi.*

340. Sh. C.S. Rao, Controller of Insurance, Ministry of Finance, New Delhi.*

341. Prof. Ishwar Dayal, Management Development Institute, Gurgoan.*

342. Indian Institute of Public Opinion, New Delhi.*

343. Shri H.D. Shourie, Consumer Activist, Common Cause, New Delhi.*

344. Smt. Jayanti Patnaik, Chairperson and Members, National Commission for Women, New Delhi.*

345. Shri H.N. Nigam, Editor, "The Hindustan Times", New Delhi.

346. Shri T.N. Ninan, Editor, "Business Standard", New Delhi.

347. Shri Prem Shankar Jha, Former Editor, "The Hindustan Times", New Delhi.

348. Shri Sumit Chakravarty, Editor, "Mainstream", New Delhi.

349. Shri S. Bhattarcharya, Political Editor, "The Tribune", New Delhi.

350. Shri Aroon Purie, Editor, "India Today", New Delhi.

351. Shri Chandramohan Khumbhakarni, Chief of Bureau, "The Tribune", New Delhi.

352. Shri Vinod Mehta, Editor-in-Chief, "The Pioneer", New Delhi.

353. Mohd. Syed Malik, Resident Editor-in-Chief, "Sunday Observer", New Delhi.

354. Shri K.K. Katyal, Dy. Editor, "The Hindu", New Delhi.

355. Shri Sumer Kaul, Editor-in-Chief, "National Herald", New Delhi.

356. Shri Ravindra Kumar, Editor, "The Statesman", New Delhi.

357. Shri A.N. Prabhu, Executive Editor, "The Hindustan Times", New Delhi.

358. Shri K.P.K. Kutty, General Manager, "United News of India", New Delhi.

359. Shri Dileep Padgaonkar, Editor-in-Chief, "The Times of India", New Delhi.

360. Shri Y.C. Halan, Former Editor, "Financial Express", New Delhi.

361. Shri Swaminathan S. Anklesaria Aiyar, Editor, "The Economic Times", New Delhi.

362. Dr. A.M. Khusro, Editor, "The Financial Express", New Delhi.

363. Shri Pritish Nandy, Executive Producer, "Fiscal Fitness", New Delhi.

364. Dr. R.M. Honavar, Hon. Director of Indian Institute of Political Economy, Pune.

365. Dr. I.Z. Bhatty, Former Director General of National Council of Applied Economic Research, New Delhi.

366. Shri Prabash Joshi, Editor, "Jansatta", New Delhi.

367. Shri K. Narendra, Editor, "Daily Pratap", New Delhi.

368. Shri Prabhu Chawla, Executive Editor, "The Indian Express", New Delhi.

369. Shri Gopalkrishna, Editor, "The Sunday Mail", New Delhi.

370. Shri Anil Padmanabhan, Principal Correspondent, Business Standard, New Delhi.

371. Shri N.V. Subramaniam, Asstt. Editor & Acting Chief of Bureau, "Sunday Weekly", New Delhi.

372. Shri S. Viswam, Chief of Bureau, "Deccan Chronicle", New Delhi

373. Shri Sachidananda Murthy, Chief of Bureau, "Malayala Manorama" & "The Week", New Delhi.

374. Shri Madhavkant Mishra, "Rashtriya Sahara", Noida.

375. Shri Hari Sharan Chhabra, "Indian Economic Diary", New Delhi.

376. Shri Sulakshna Mohan, Business Editor, "Free Press Journal", New Delhi.

377. Dr. I.G. Patel, Former Governor, Reserve Bank of India, Baroda..

378. Shri G.S. Kundapur, General Manager, Press Trust of India, New Delhi.

379. Shri A. Raghavan, Chief of Delhi Bureau, "Blitz (Weekly)", New Delhi.

380. Shri S.K. Ghosh, Editor, "Ananda Bazar Patrika", New Delhi.

381. LIC Policyholders Welfare Organisation, New Delhi.

382. Shri Pravin A Desai, Bombay

383. Shri V.N. Desai, C/O New India Assurance Company, Bombay.

384. Bihar Chamber of Commerce, Patna.

385. Bihar Industries Association, Patna.

386. Bihar Petroleum Dealers Association, Patna.

387. Mica Trading Corporation of India, Patna.

388. Prof. Gunanand Mishra, Professor (Marketing Management), L.N. Mishra Institute of Economic Development & Social Change, Patna.

389. Shri Jitendra Singh, Director, Dr.S.N. Sinha Institute of Journalism and Mass Communication, Patna.

390. Prof. Pradhan H. Prasad, Emeritus Professor, A.N. Sinha Institute of Social Studies, Patna.

391. Dr. J.P. Sharma, Head of Deptt. of Applied Economics & Commerce, Patna University, Patna.

392. Dr. Manju Geeta Mishra, Secretary, Indian Medical Association, Patna.

393. Shri V. K. Luthra, Patron, Patna Grahak Panchayat, Patna.

394. Shri K.P. Sinha, Member, State Commission, Consumer Redressal Forum, Patna.

395. Bihar Consumer Federation, Patna.

Life Insurance Corporation of India

396. Shri N.N. Jambusaria, Chairman.*

397 Shri J.S. Salunkhe, M.D.*

398 Shri S.P. Subhedar, M.D.*

399 Shri N.N. Joshi, Z.M., Central Zone - Bhopal.*

400 Shri S.C. Joshi, Z.M., North Central Zone, Kanpur.*

401. Shri Harkirat Singh, Z.M., Northern Zone, New Delhi.*

402. Shri B.R. Sethi, Z.M., Eastern Zone, Calcutta.*

403. Shri D.S. Narain, Z.M., Southern Zone, Madras.*

404. Shri R. Thothadri, Z.M. South Central Zone, Hyderabad.*

405. Shri N. Ramamurthi, Z.M. Western Zone, Bombay.*

General Insurance Corporation of India and Subsidiaries

406. Shri S.V. Mony, Chairman, GIC.*

407. Shri A.S. Mitra, MD, GIC and Offg. CMD, New India Assurance Co. Ltd., Bombay.*

408. Shri U. Mahesh Rao, M.D., GIC.*

409. Shri Y.D. Patil, CMD National Insurance Co. Ltd., Calcutta.*

410. Shri K.C. Mittal, CMD, Oriental Insurance Co. Ltd., New Delhi.*

411. Shri V. Natarajan, Offg. CMD, United India Insurance Co. Ltd., Madras.*

412. Senior Management Group of General Insurance Industry represented by: S Shri D. Sengupta, General Manager, National Assurance Co., O.P. Rana, General Manager, New India Assurance, H. Ansari, Asstt. General Manager, Oriental Insurance Co.*

* These persons and representatives of organisations appeared before the Committee.

APPENDIX IV
Para 3 'Introduction'

List of persons and organisations
who sent letters, views, suggestions and memoranda
to the Committee

1. Gujarat Narmada Valley Fertilisers Company Ltd., Ahmedabad.
2. Gajara Gears Ltd., Dewas.
3. Shri Vijaya Kumar, Chairman, 'Navbharat', Pondicherry.
4. Shriram Group of Companies, Madras.
5. Shri B.S. Bhatnagar, Management Consultant, Bombay.
6. Shri Mayank Parikh, Insurance Consultant, Bombay.
7. Shri D.K. Roy Chowdhury, Insurance Consultant, Bombay.
8. Shri B.S. Srivastava & Associates, Kanpur.
9. D.S. Wadhwa & Co., Surveyors, Assessors, Adjusters, Valuers, Investigators, Estimators & Consulting Engineers, Calcutta.
10. Shri B.S. Murthy, Insurance Surveyor & Loss Assessor, Hyderabad.
11. Shri S.R. Krishnamurthy, Retd. AAO, LIC, Mysore.
12. Shri K.R. Kohli, Ex-GM, First Nigeria Insurance Co. Ltd., New Delhi.
13. Bihar Coal Field Surveyors' Association.
14. Shri Mohan S. Kulkarni and 9 others of National Insurance Co., Bombay.
15. Karnataka State Federation of Consumers' Organisations, Mysore.
16. Shri R.S. Sharma, Retired from General Insurance Industry, Alwar.
17. Kashmir Migrant Businessmens' Union, New Delhi.
18. Shri C.L. Jain, Assistant Controller of Insurance (Retd.), Ministry of Finance, Insurance Division, New Delhi.
19. Shri R.D. Thapar, Addl. Secretary (Insurance) (Retd), Ministry of Finance, New Delhi.
20. Shri M.M. Ahuja, Direct Agent, LIC, New Delhi.
21. Dr. (Mrs.) Ranu Misra, Chairperson, State Commission for Women, Orissa.
22. General Insurance Marketing Agents' Association (A.P. Region), Hyderabad.
23. South Central Zone Life Insurance Employees' Congress, Hyderabad.
24. Insurance Surveyors' Association, Allahabad.
25. Shri Jayant Shitoot, Raipur.
26. Shri A.K. Srivastava, Engineer, Oriental Insurance Co. Ltd., Ahmedabad.
27. Shri B.C. Tolat, Actuarial and Insurance Consultant, Bombay.
28. Shri B.R. Das, Belgaum, Karnataka.
29. Shashi Bhushan and Associate, Surveyor and Loss - Assessor, Bokaro Steel City.

APPENDIX V
Para 2.5

Life Insurance Corporation of India

New business in India - Individual Assurances

Year	No.of Policies (in lakh)	Sum Assured (Rs. in cr.)	First Yr. Premium Income (Rs. in Cr.)
1957*	9.5	329.3	13.1
1958	9.5	339.1	13.4
1959	11.4	419.7	17.2
1960	12.5	487.8	19.7
1961	14.6	598.8	22.6
1962-63#	17.6	734.7	30.1
1963-64	16.4	692.6	28.4
1964-65	14.4	690.0	8.9
1965-66	15.5	789.3	30.9
1966-67	14.1	757.9	31.4
1967-68	14.2	835.4	33.6
1968-69	14.5	920.7	37.4
1969-70	14.0	979.8	40.9
1970-71	16.1	1215.6	48.0
1971-72	19.0	1498.1	60.3
1972-73	20.2	1726.1	71.6
1973-74	20.5	1912.9	82.2
1974-75	18.0	1760.9	82.7
1975-76	20.1	2104.0	94.2
1976-77	20.5	2095.4	98.5
1977-78	18.5	2004.9	97.2
1978-79	17.6	2057.4	103.4
1979-80	21.0	2733.1	130.0
1980-81	19.5	2882.7	142.2
1981-82	21.0	3478.9	157.6
1982-83	22.3	3974.4	180.3
1983-84	23.7	4387.0	190.0
1984-85	27.0	5375.9	224.4
1985-86	32.9	7056.1	285.2
1986-87	38.7	9067.5	371.9
1987-88	46.9	12434.5	523.1
1988-89	59.8	17222.8	713.3
1989-90	73.9	23219.5	976.7
1990-91	86.5	28139.1	1192.0
1991-92	92.4	32064.4	1398.8
1992-93	99.6	35956.8	1609.2

N.B. (1) *Figures for years from 1956 to 1968-69 are inclusive of group schemes business as separate figures for these years are not available.*

(2) *Figures are inclusive of direct business from foreign countries on Indian register.*

* *From 1.9.1956 to 31.12.57 (16 months)* # *From 1.1.62 to 31.3.63 (15 months)*

Life Insurance Corporation of India

Business in Force (in India) - Individual Assurances

As at	No. of policies (in lakh)	Sum Assured (Rs in cr)	Prem. Income (Rs in cr)	Life Fund (Rs in cr)	Average Sum Assured (Rs)
31.12.1957	54.2	1375	81.7	378.0	2536
31.12.1958	59.7	1584	68.8	412.6	2651
31.12.1959	66.8	1862	79.9	457.5	2780
31.12.1960	74.6	2176	92.6	519.7	2918
31.12.1961	83.4	2623	107.6	588.3	3147
31.03.1963	92.6	3054	144.2	674.3	3298
31.03.1964	101.2	3458	141.8	760.1	3417
31.03.1965	106.7	3774	157.3	847.5	3537
31.03.1966	114.1	4282	175.4	930.9	3753
31.03.1967	120.0	4606	191.4	1064.2	3828
31.03.1968	126.4	5116	207.5	1202.6	4046
31.03.1969	133.5	5606	229.4	1374.8	4201
31.03.1970	139.4	6303	254.9	1552.1	4521
31.03.1971	146.9	6952	279.1	1765.0	4732
31.03.1972	157.1	8082	323.3	2010.0	5144
31.03.1973	167.9	9204	372.4	2300.5	5481
31.03.1974	179.4	10725	434.4	2643.7	5977
31.03.1975	187.5	11728	486.9	2970.9	6257
31.03.1976	196.1	13248	543.0	3381.6	6757
31.03.1977	202.8	14371	597.6	3891.0	7088
31.03.1978	207.1	15698	647.5	4443.7	7581
31.03.1979	211.7	16743	710.9	5062.4	7908
31.03.1980	220.4	19114	802.8	5764.2	8673
31.03.1981	227.6	20923	888.1	6583.5	9194
31.03.1982	236.0	23998	1006.6	7513.9	10167
31.03.1983	243.8	26264	1108.2	8583.7	10774
31.03.1984	252.7	30266	1228.9	9740.2	11977
31.03.1985	264.8	33785	1404.6	11126.0	12760
31.03.1986	279.9	40404	1609.1	12588.0	14436
31.03.1987	298.0	47906	1884.8	14405.6	16075
31.03.1988	323.5	58798	2336.9	16524.0	18178
31.03.1989	360.8	74129	2938.0	19450.0	20546
31.03.1990	403.4	94408	3812.3	23327.6	23404
31.03.1991	455.1	118651	4777.3	28221.1	26073
31.03.1992	508.6	145929	5945.9	34423.8	28691
31.03.1993	566.1	177268	7146.2	40706.4	31313

Note: *Figures as on 31.12.57 to 31.3.1970 are inclusive of group schemes business as separate figures are not available*

Life Insurance Corporation of India

Group Insurance Business in Force (in India)

As at 31st	Group Insurance Schemes (Including Group Gratuity Schemes)			Annuity Schemes			Group Insurance & Annuity Schemes
	No. of Schemes	No. of Lives (in lakh)	Sum Assured (Rs in cr)	No. of Schemes	No.of Lives (in lakh)	Annuity per annum (Rs in cr)	Premium for the yr. (Rs in cr)
March 1971	316	3.1	119.3	170	0.08	3.6	6.9
March 1972	476	4.4	193.8	224	0.11	4.3	9.2
March 1973	814	9.5	407.1	291	0.13	5.1	10.4
March 1974	1371	15.8	754.6	326	0.15	5.4	14.1
March 1975	2062	23.2	1457.1	366	0.16	6.6	18.4
March 1976	3967	45.9	3496.9	416	0.24	7.6	39.0
March 1977	4915	40.5	3443.8	453	0.26	9.0	47.0
March 1978	5739	44.4	4371.9	496	0.30	10.8	51.6
March 1979	6504	55.9	5801.1	559	0.34	13.2	54.2
March 1980	7442	58.0	6137.5	639	0.38	15.5	61.0
March 1981	8537	64.0	6960.3	783	0.49	20.1	69.9
March 1982	9786	68.8	7786.9	958	0.58	26.4	80.1
March 1983	11184	74.3	8972.0	1123	0.70	27.2	103.1
March 1984	12624	75.8	9251.3	1287	0.82	27.9	118.7
March 1985	14521	78.9	10218.6	1391	0.93	31.9	146.5
March 1986	16635	91.7	11764.2	1512	1.00	34.9	164.5
March 1987	19528	102.1	12644.5	1654	1.08	37.5	199.9
March 1988	23781	120.8	17495.6	1834	1.24	43.3	310.8
March 1989	30028	144.9	22052.5	2095	1.50	214.0	342.7
March 1990	37089	160.7	23049.6	2405	2.32	245.1	447.3
March 1991	46624	169.6	30501.6	2600	2.43	253.1	544.3
March 1992	54704	189.5	32973.5	2806	2.54	301.8	681.1
March 1993	59128	212.5	43086.8	3040	2.69	358.9	726.3

Note: *Figures for the years from 1956 to 1969-70 are not available for group insurance business separately.*

Summary of major findings of MARG survey

1. The awareness levels of the various policies of both GIC and LIC are quite limited even among people who hold policies of these corporations. Among non-policy holders, as expected, the awareness levels are even lower.

2. In the area of general insurance, spontaneous awareness of the four subsidiaries ranges between 23% and 67% across various categories of general insurance policy holders. In fact, a fair proportion consider LIC and Peerless as companies offering general insurance. Among non-holders of general insurance, spontaneous awareness levels of the GIC subsidiaries are abysmal - below 15%. In fact, more non-holders think LIC offers general insurance than any GIC subsidiary.

3. Non-policyholders of both life and general insurance policies mainly do not hold these policies because of their inability to pay the premium. For general insurance, many non-policy holders do not perceive the need to acquire a policy.

4. A majority of the individuals who have made claims on LIC or the GIC subsidiaries feel that the claims have been settled speedily and satisfactorily. In these areas, LIC's customers appear to be better placed than GIC customers (though one has to take account of the fact that many of LIC's claims are on maturity and paid as a matter of course).

	LIC Individual	**GIC Auto**	**GIC Individual (Non-Auto)**
% lodging claim in 5 years	5	11	40
% of claimants saying last claim settled:			
satisfactorily	75	60	67
speedily	67	52	59
Average no. of days to settle last claim	87	97	121
Average value of last claim (Rs. '000)	44	20	56

5. When asked to rate the overall service provided by LIC and the GIC subsidiaries on a five-point scale (ranging from Excellent to Very Poor), in almost all cases, 10% or fewer rate LIC or the GIC subsidiaries 'poor' or 'very poor'. On the whole, LIC's overall ratings are somewhat better than those of the GIC's subsidiaries.

   However, on specific aspects, there appears to be some degree of dissatisfaction with documentation and service levels.

6. A clear majority of LIC Agents (90%) and GIC Agents (78%) were satisfied with their career with the insurance companies. As expected, they desired a better remuneration package. GIC Agents were relatively less satisfied with training seminars run by the companies. LIC Agents, on the other hand, rated LIC's training seminars much better. There is also some dissatisfaction among LIC Agents in their dealings with Development Officers.

   75% and more of GIC and LIC Agents felt that customers are very/quite satisfied with the service provided by the insurance companies.

7. GIC surveyors felt that a fair proportion of customers were dissatisfied with the amount paid on the claim. They did not have a very positive opinion of the employees of the GIC subsidiaries on grounds of technical skills and honesty and believed that the general insurance industry was far behind its western counterparts.

8. In general, both life and general insurance policyholders welcomed the entry of the private sector into the insurance industry. They perceived two broad areas of benefits that would accompany the entry of private sector companies:

- greater efficiency

- better financial benefits (higher bonus, lower premium, etc.)

However, for the past 20 years and more, the Indian policyholder has lived in an environment where all insurance has been provided by nationalised companies. Thus, he is used to the cast iron financial stability of these companies. Consequently, the major concern of a number of persons, in relation to even reputed private companies, is that, their money may not be safe and the possibility of defalcation/dishonest management.

These views are also shared by Agents and Surveyors who, in addition, were concerned about job security.

Some target groups were asked to visualise their ideal scenario in the future. They were given three options:

- only public sector

- only private sector

- public + private sector

In most cases, the clearly preferred choice was a mixed scenario with both public and private sector companies competing in the market. In all categories, except LIC Agents, the `only private sector' scenario was the second choice. Among LIC Agents, however, there was a strong plea for maintaining a public sector monopoly.

	Only Public	Only Private	Both	No option
LIC Policyholders : Corporate	9	29	60	2
GIC Policyholders : Corporate	15	23	61	1
LIC Agents	42	12	42	4
GIC Agents	17	30	51	3
GIC Surveyors	14	20	64	2

APPENDIX IX
Para 2.15

GIC and Subsidiaries
Financial performance: 1973-93

(Rs in lakh)

Indicators	1973	1980	1985	1990-91	1991-92	1992-93
1 Net Premium Income	22234	48051	119050	274240	345013	386845
2. Net claims payable	11293	29578	79494	189812	230299	283918
% to Net Premium	50.8	61.6	66.8	69.2	66.8	73.4
3. Net Commission, Expenses of Management & other charges	6800	12138	28661	65183	80224	90809
% to Net Premium	30.6	25.3	24.1	23.8	23.3	23.5
4. Unexpired Risk Reserve Increase/Decrease(-)	2312	4854	9653	31062	42184	24046
% to Net Premium	10.4	10.1	8.1	11.3	12.2	6.2
5. Underwriting Profit/ Losses (-)	1829	1481	1242	-11817	-7694	-11928
% to Net Premium	8.2	3.1	1.0	-4.3	-2.2	-3.1
6. Interest, Dividend & Rents (Gross incl.dividend from sub.cos.)	2050	8734	24499	60276	80807	91508
6a. (excl. dividend from subs. cos.)	2050	7375	21683	56644	75214	85915
7. Other Income (Net)	-69	-691	611	-300	-6244	1651
8. Transfer to Preference Share Capital Redemption Reserve	40	350				
9. Profit Before Tax	3810	9174	26352	48159	66869	77930
9a. Profit Before Tax (excluding dividend from subsidiary cos.)	3810	7815	23536	44527	61276	72337
10. Tax Provision	2112	4897	10685	14753	24095	27594
11. Net Profit	1385	4277	15667	33406	42774	50336
11a Net Profit (excluding dividend from subsidiary cos.)	1385	2918	12851	29774	37181	44743
12 Capital & Reserves (including Reserve for Unexpired risks and Investment Reserve)	23947	62000	142695	340304	427534	496494
12a Capital & Free Reserves	9874	31497	69515	179128	224174	260189

GIC and Subsidiaries

Growth of Investments: 1973-93

(Rs. Lakh)

Year	Central Govt. Securities	State Govt.& Public Sector	*Loans for Housing etc.	Market Investments	Other Investments	Total	Yield on mean value basis (excl. dividend from subs.cos.)	Investment income (exclu. dividend from subs. cos.)
1973	4363	4377		12115	14618	35473	6.5	2050
1974	5995	4987		12990	18216	42188	7.6	2656
1975	8363	6376		14626	20400	49765	8.1	3426
1976	10952	7412		17027	21832	57223	8.7	4311
1977	13085	6391	77	19171	26666	65390	8.9	5077
1978	14738	7045	3013	22143	23305	70244	8.4	5370
1979	16495	7566	5413	26255	22145	77874	8.7	6094
1980	18929	8297	7373	29926	24298	88823	9.3	7375
1981	23220	10589	11711	32646	30277	108443	9.8	9242
1982	32678	13635	19965	38817	26830	131925	10.1	11740
1983	38708	16579	32271	49060	28010	164628	10.7	15440
1984	45346	20357	44284	60844	17787	188618	10.7	18538
1985	52193	22295	57274	68570	17218	217550	10.9	21683
1986	59874	24711	71656	81052	19327	256620	11.5	26056
1987	65720	30184	85698	92151	17772	291525	11.4	29921
1988-89	72855	37562	106500	107489	26859	351265	11.9	#44160
1989-90	79409	44966	126069	131189	31794	413427	11.6	42477
1990-91	95166	54937	153494	153518	59174	516289	12.4	55392
1991-92	106588	64752	186580	178471	70663	607054	13.5	74304
1992-93	127031	79618	223416	235875	66889	732829	12.3	82209

* *Including special deposits with Govt. of India, loan for purchase of fire fighting equipments and loans to staff for housing.*

For 15 months from 1.1.1988 to 31.3.1989

Market investments represent equity and preference shares, debentures of and loans to corporate sector.

Other investments represent fixed deposits with non-banking companies, short term investments i.e. participation certificates/bills, immovable properties and deposits with banks.

List of Foreign Countries in which the GIC or a Subsidiary Company is operating

A: Directly

1. Australia
2. Bahrain
3. Canada
4. Fiji
5. France
6. Hong Kong
7. Japan
8. Kuwait
9. Mauritius
10. Nepal
11. Netherland Antilles
12. Oman
13. Philippines
14. Saudi Arabia
15. Thailand
16. U.A.E.
17. United Kingdom
18. Singapore

B. Through Subsidiaries and Associate Companies

1. Barbados
2. Dominica
3. Ghana
4. Guyana
5. Jordaan
6. Kenya
7. Malaysia
8. Nigeria
9. Sierra Leone
10. Singapore
11. Trinidad & Tobago
12. St. Lucia
13. Antigua
14. Liberia

GIC and its subsidiaries

Total Gross Direct and Net Premium (In India and abroad): 1973-1993

(Rs in lakh)

Year	Gross Direct Premium	Net Premium	%
1973	18426	17036	92.5
1974	21999	18661	84.8
1975	25375	21749	85.7
1976	28651	24484	85.5
1977	30606	25393	83.0
1978	34305	28766	83.9
1979	38768	32270	83.2
1980	46939	38509	82.0
1981	58514	48859	83.5
1982	72333	59878	82.8
1983	85700	73129	85.3
1984	99116	85031	85.8
1985	115776	98311	84.9
1986	136056	114245	84.0
1987	156452	131971	84.4
1988-89*	224781	197079	87.7
1989-90	217443	190926	87.8
1990-91	279570	241917	86.5
1991-92	328722	294528	89.6
1992-93	379207	328415	86.6

Net premium income of an insurer denotes gross direct premium income plus premiums receivable on reinsurances accepted minus premiums payable on reinsurances ceded.

* *For 15 months ending 31.3.1989*

APPENDIX XIII
Para 3.3

Life Insurance Corporation of India

Direct Agents - Performance

Year	Total No. of Direct Agents	Total Business of Direct Agents Sum Assured (Rs in lakh)	% to Total Business	Average Production per Direct Agent		No. of Direct Agent Branches
				No. of Policies	Sum Assured (Rs)	
1958	12387	2457.2	7	4	19837	3
1959	7904	3269.0	7	9	41359	4
1960	7505	3725.8	7	11	49644	4
1961	8029	4420.2	7	11	55053	4
1962-63*	9538	5029.1	6	11	52727	6
1963-64	8708	4668.8	6	11	53615	6
1964-65	8516	4421.5	6	9	51920	6
1965-66	8486	5047.7	6	10	59483	6
1966-67	8971	5174.0	6	10	57675	6
1967-68	8967	5935.4	7	10	66191	6
1968-69	9199	7401.2	7	12	80457	7
1969-70	10166	10124.5	9	12	99592	7
1970-71	11212	13527.7	11	14	120653	7
1971-72	13166	17804.6	11	15	135232	15
1972-73	15454	21242.3	12	14	137455	27
1973-74	15285	24478.0	12	15	160144	37
1974-75	15266	23856.4	13	14	156271	42
1975-76	17417	28752.7	13	14	165084	45
1976-77	14438	26875.4	12	16	186144	49
1977-78	14929	33910.0	17	18	227142	54
1978-79	15182	40821.0	20	19	268877	61
1979-80	16093	48904.0	18	21	303883	67
1980-81	19357	56324.0	20	18	290975	79
1981-82	22511	75301.0	22	20	334507	80
1982-83	25982	90617.0	23	19	348768	89
1983-84	25373	95251.0	22	19	375403	88
1984-85	29159	120497.0	22	19	413241	85
1985-86	30200	146022.0	21	21	483517	74
1986-87	31288	174449.0	19	23	557559	54
1987-88	34886	248269.0	20	25	711821	35
1988-89	38134	314077.0	18	25	823614	34
1989-90	43271	383820.0	17	25	887014	28
1990-91	48131	439028.0	16	25	912152	27
1991-92	50483	483206.2	15	25	957166	26
1992-93	54424	548717.2	15	24	1008227	26

* *15 months from 1.1.1962 to 31.3.1963*

APPENDIX XIV
Para 3.6

Life Insurance Corporation of India

Agents Statistics

Year	No. of Agents at the beginning of the year	Number recruited during the year	No. who ceased to be agents during the year		No. of Agents at the end of the year
			due to termination of agencies	due to other causes	
1961	139821	59656	42929	658	155890
1962-63*	155890	87132	69195	2294	171533
1963-64	171533	62872	58942	1462	174001
1964-65	174001	50465	53159	926	170381
1965-66	170381	45851	44979	673	170580
1966-67	170580	40782	44168	671	166523
1967-68	166523	43182	43560	590	165555
1968-69	165555	34009	44927	486	154151
1969-70	154151	28283	35007	478	146949
1970-71	146949	29599	27842	492	148214
1971-72	148214	39176	23915	1118	162357
1972-73	162357	32296	24818	831	169004
1973-74	169004	42286	44006	829	166455
1974-75	166455	46381	50888	935	161013
1975-76	161013	42403	47493	770	155153
1976-77	155153	37360	49491	974	142048
1977-78	142048	31478	43548	985	128993
1978-79	128993	30650	41854	583	117206
1979-80	117206	32983	28302	2810	119077
1980-81	119077	33711	25622	5909	121257
1981-82	121257	37274	29311	4631	124589
1982-83	124589	41409	26946	4310	134742
1983-84	134742	46202	30772	3699	146473
1984-85	146473	55044	34181	4858	162478
1985-86	162478	71852	38292	6542	189496
1986-87	189496	74530	43350	4070	216606
1987-88	216606	95757	49921	4483	257959
1988-89	257959	118275	54922	4385	316927
1989-90	316927	135875	69813	5060	377929
1990-91	377929	153597	81009	9687	440830
1991-92	440830	152578	96404	7444	489660
1992-93	489660	150402	109190	10063	520809

* *For 15 months from 1.1.1962 to 31.3.1963*

APPENDIX XV
Paras 3.6 and 3.12(d)

Life Insurance Corporation of India

Active Agents - Performance

Year	Total on Rolls	Number of Active Agents	Percentage of Active Agents to total Agents	Average Performance per Active Agent	
				No. of Policies	Sum Assured Rs
1961	155890	125000	80.2	12	47900
1962-63*	171533	141000	82.2	12	52070
1963-64	174001	143209	82.3	11	48359
1964-65	170381	146207	85.8	10	47191
1965-66	170580	148026	86.8	11	53315
1966-67	166523	144154	86.6	10	52573
1967-68	165555	144304	87.2	10	57883
1968-69	154151	137144	89.0	11	67115
1969-70	146949	132790	90.4	11	73773
1970-71	148214	136578	92.1	12	88997
1971-72	162357	150859	92.9	13	99291
1972-73	169004	154766	91.6	13	111509
1973-74	166455	153334	92.1	13	124743
1974-75	161013	146103	90.7	12	120518
1975-76	155153	144385	93.1	14	145722
1976-77	142048	130621	92.0	16	160413
1977-78	128993	117702	91.2	16	170326
1978-79	117206	107966	92.1	16	190565
1979-80	119077	110366	92.7	19	250164
1980-81	121257	112312	92.6	17	256671
1981-82	124589	115832	93.0	18	300342
1982-83	134742	123221	91.4	18	322542
1983-84	146473	132947	90.8	18	329980
1984-85	162478	147783	91.0	18	363772
1985-86	189496	172542	91.1	19	408949
1986-87	216606	198734	91.7	19	456261
1987-88	257959	239832	93.0	20	519845
1988-89	316927	296713	93.6	20	580455
1989-90	377929	348325	92.2	21	666605
1990-91	440830	414820	94.1	21	678344
1991-92	489660	464505	94.9	20	690293
1992-93	520809	495745	95.2	20	725309

N.B.:- An agent who has done some business during the year, irrespective of number of policies or amount, is termed as an "Active Agent".

- *15 months from 1.1.1962 to 31.3.1963*

<u>*APPENDIX XVI*</u>
Paras 3.9 and 3.10

Life Insurance Corporation

Development Officers - Performance and Cost Ratios

Year	No. of Dev. Officers at the end of the yr.	Average production per Dev. Officer		Average scheduled First year premium per Dev.Officer (Rs 000's)	Average payments to a Dev. Officer (Rs)	Overall Cost Ratio of Dev. Officer (%)
		Policies No.	Sum Assured Rs(lakh)			
1960	5808	201	7.7	29.2	4980	17.0
1961	7128	192	7.7	27.4	4630	16.9
1962-63*	8208	202	8.2	31.5	5780	18.4
1963-64	8585	179	7.4	28.1	5270	18.7
1964-65	8720	156	7.2	28.0	5880	21.0
1965-66	8613	170	8.4	30.5	6770	22.2
1966-67	8513	155	8.1	31.5	8000	25.4
1967-68	8366	159	9.0	34.2	8110	23.8
1968-69	8134	165	10.1	38.2	10190	26.7
1969-70	7838	162	11.2	43.3	9740	22.5
1970-71	7643	190	14.1	50.7	12650	24.3
1971-72	7900	215	16.7	61.6	13890	22.5
1972-73	7908	227	19.1	73.7	15360	20.9
1973-74	8078	225	20.7	79.8	17215	21.6
1974-75	8175	194	18.6	77.9	19861	25.5
1975-76	7698	230	23.6	84.2	21916	26.0
1976-77	7356	248	24.8	84.3	25485	30.2
1977-78	7102	223	23.5	100.8	25822	25.6
1978-79	6931	212	23.8	123.3	27318	22.2
1979-80	6732	261	33.3	132.0	27977	21.2
1980-81	6382	251	36.3	152.0	34963	22.8
1981-82	6281	265	43.4	158.0	34513	21.8
1982-83	6180	281	49.6	183.0	37800	20.7
1983-84	6649	283	51.7	178.0	38481	21.6
1984-85	7047	304	59.2	[illegible]	45827	23.0
1985-86	8076	327	69.3	225.0	47067	20.9
1986-87	9458	332	77.4	[illegible]	**69732	27.3
1987-88	10682	358	93.2	[illegible]	63522	19.7
1988-89	12457	404	113.0	[illegible]	72100	18.9
1989-90	14117	447	[illegible]	465.0	92312	19.9
1990-91	15366	484	154.6	525.0	106344	20.3
1991-92	16580	496	169.6	[illegible]	120152	20.0
1992-93	17903	484	170.2	612.7	132433	21.6

** *The payments in 1986-87 are on higher side due to payment of arrears on account of wage revision.*

* *15 months from 1.1.1962 to 31.3.1963*

General Insurance Industry - Development Officers

In 1976 there were Inspectors in Grade I and II in pay scales of Rs 250 - 850 and Rs 175 - 240 respectively along with the run off cadre of development superintendents in pay scale of Rs 400 - 890. There was no allowance for technical qualifications. Their annual increments were subject to working within stipulated cost ratio and to registering a specified minimum increase in scheduled premium income (SPI). Temporary additional increments were given to those working within stipulated cost ratio and earning cash incentives at the highest permissible rate for two out of preceding three years. Cash incentives were payable to those Inspectors who worked within the stipulated cost ratio, who had earned their annual increments, and had registered specified increase in SPI by 20% or Rs 50,000. The quantum of incentives ranged from $1.{}^{1}/_{4}\%$ to $7\text{-}{}^{1}/_{2}\%$ for operating surplus exceeding 20% and 30% respectively. The total maximum incentive was subject to a ceiling of total basic pay drawn during the year. They were entitled to entertainment allowance of Rs 50 and 75 respectively. Inspectors Grade I was entitled to an interest free loan repayable in 10 years for getting for himself telephone facility provided he contributed premium income of Rs 5 lakhs in "A" class and metro cities and Rs 2 lakhs in other centres. No telephone facility was granted to Inspectors Grade II. Inspectors Grade I with premium contribution exceeding Rs 4 lakhs were entitled to interest free loan, recoverable in 96 monthly instalments and restricted to 75% of purchase price, subject to a maximum of Rs 25,000. Both Grade I and Grade II of Inspectors were entitled to a loan for purchase of two wheelers recoverable in 48 monthly installments to the extent of 75% of the purchase price and subject to a maximum amount of Rs 6000. Certain expenses on conveyance, such as cost of comprehensive insurance cover, 80% cost of replacement of tyre, tube and battery after a certain mileage, battery replacement after 18 months, were also admissible. In addition, Inspectors were given monthly conveyance allowance, with or without vehicle, ranging from Rs 150 at the minimum to Rs 450 at the maximum depending upon the quantum of business contributed by their efforts. Emoluments including basic pay of Inspectors exceeding stipulated cost ratio were liable to be reduced to bring them within cost. Such reductions for three consecutive years could lead to termination of their services.

Remunerations and incentives of Development Officers have been progressively revised upwards by 1987 and 1990 amendments to the 1976 scheme. Their salary scales in Grade I and Grade II are similar to those of senior assistants in the clerical cadre, i.e. Rs 1430 - 3880 and Rs 1050 - 1410 respectively. They get technical allowance ranging from Rs 40 to Rs 200 per month for passing insurance/acturial examination and chartered/cost accountancy at par with the provision for the clerical staff. Effective 1990, their annual increments are no longer subject to cost ratio or minimum premium provided they are not liable to decremental provisions. Additional increments of 1976 were substituted in 1987 by cost based growth incentive (CBGI) payable to a Development Officer working within stipulated cost ratio upon reaching a minimum SPI of Rs 3 lakhs and upon showing minimum increase of Rs 60,000 over previous years. The amount of incentive was calculated by multiplying the increase in SPI by the cost margin subject to a maximum of 5%. The maximum admissible CBGI was 12 months basic pay. 1987 amendment also provided for more generous cash incentives, now restyled as "profit incentives" payable when Development Officer was working within stipulated cost ratio and SPI was not less than that of the previous year. 1987 and 1990 Amendments also diluted provisions of disincentives for lackadaisical performance: provision was introduced for prospective restoration of basic pay reduced due to decrements if the cost ratio was brought back within limits subsequently, etc. Norms were also progressively made less restrictive while calculating cost ratio. The premium requirement for telephone facility was reduced from Rs 5 lakhs to 3 lakhs in metropolitan cities and monthly allowance of Rs 75 was introduced for such development staff as were without telephone. Instead of interest free loan, the telephone was provided by the company at its cost to eligible officers. Call limits were revised upwards progressively in 1988 and 1991. The telephone facility was extended to grade II of Development Officers in 1991. Terms of conveyance facilities were made progressively more attractive and loan amount was extended to 100% purchase price of the car/two wheelers with repayments spread over 120 instalments. Monthly conveyance allowance now ranges from Rs 275 to Rs 1700 depending on the quantum of premium contributed.

Appendix XVIII
Paras 2.5 and 5.8

Life Insurance Corporation of India

Life Fund, Investment Income and Share of Central Government in valuation surplus

(Business in India)

(Rs in Crore)

Year	Life Fund (in India)	Interest Dividend and Rents etc.	Yield Gross %	Central Govt. Share of Valuation Surplus
1957#	378.0	18.5	3.7	1.5
1958	412.6	14.8	4.5	--
1959	457.5	15.8	4.5	--
1960	519.7	18.5	4.6	1.3
1961	588.3	21.6	4.8	1.7
1962-63*	674.3	30.7	4.8	1.3
1963-64	760.1	30.1	5.1	--
1964-65	847.5	37.9	5.3	3.1
1965-66	930.9	43.4	5.5	--
1966-67	1064.2	58.4	5.8	3.6
1967-68	1202.6	59.0	5.9	--
1968-69	1374.8	67.9	5.9	4.8
1969-70	1552.1	78.4	6.1	--
1970-71	1765.0	91.9	6.3	5.8
1971-72	2010.0	104.6	6.3	--
1972-73	2300.5	126.3	6.6	7.6
1973-74	2643.7	148.2	6.8	--
1974-75	2970.9	173.8	6.9	9.1
1975-76	3381.6	200.9	7.1	--
1976-77	3891.0	265.9	7.6	12.7
1977-78	4443.7	305.1	7.5	--
1978-79	5062.4	351.6	7.6	18.7
1979-80	5764.2	415.1	7.9	--
1980-81	6583.5	492.8	8.2	26.1
1981-82	7513.9	583.0	8.6	--
1982-83	8583.7	684.8	8.8	39.2
1983-84	9740.2	812.6	9.2	--
1984-85	11126.0	950.6	9.5	52.8
1985-86	12588.0	1127.0	9.9	29.1
1986-87	14405.6	1334.2	10.3	39.2
1987-88	16526.0	1557.2	10.5	47.6
1988-89	19450.0	1884.8	11.0	59.4
1989-90	23327.6	2278.3	11.1	75.7
1990-91	28221.1	2820.6	11.4	89.5
1991-92	34423.8	3573.9	12.0	104.6
1992-93	40706.4	4157.4	11.6	117.6

\# *For 16 months ended 31.12.1957*   * *For 15 months ended 31.3.1963*

GIC and subsidiaries

General Insurance Business coming under Tariff

1. Fire Insurance
2. Consequential Loss (Fire) Policy
3. Marine Cargo & Hull Insurance
4. Motor Vehicles Insurance
5. Personal Accident (Individual and Group upto 500 persons)
6. Personal Accident : Air Travel
7. Engineering Insurance
   a. Machinery Insurance
   b. Machinery Loss of Profit Insurance
   c. Contractors Plant & Machinery
   d. Electronic Equipment Insurance
   e. Boiler Explosion
   f. Erection All Risks/Marine-cum-Erection/Contractors All Risk
8. Workmen Compensation
9. Bankers Indemnity Policy
10. Carriers Legal Liability
11. Public Liability Act Policy

General Inusrance Business falling outside Tariff

1. Burglary and House Breaking
2. All Risk : Jewellery and Valuables
3. Television Insurance
4. Baggage Insurance
5. Mediclaim
6. Overseas Mediclaim
7. Personal Accident (Group over 500 persons)
8. Bhavishya Arogya

Insurance covers governed by General Insurance Cmapnies' "Market Agreements"

1. Public/Product Liability Insurance (Other than Public Liability Insurance Act)
2. Professional Indemnity Policy
3. Error and Omission Insurance for Computer Software
4. Directors'/Officers' Error and Omission Liability Policy
5. Insurance cover for members of Stock Exchange in India
6. Personal Accident for visitors on Bank Premises
7. Insurance of Salt works
8. Joint Stock Company's Policy for Share Transfer
9. Insurance cover for SBI Mutual Fund
10. Race Horse Insurance
11. Jewellers' Block
12. House holders' Comprehensive Insurance
13. Shopkeepers' Insurance
14. Export of diamonds/precious stones by Air or Post
15. Market Agreement relating to Marine rates for storage of lubricants in vessels afloat
16. Third Party Insurance of Inland vessels
17. Insurance of Cargo through Couriers
18. Non-Industrial Risk Public Liability Insurance

Life Insurance Corporation of India

Rural Insurance - New Business

Year	Rural New Business		Percentage of Rural New Business to Total New Business	
	No.of Policies (Lakh)	Sum Assured (Rs in crore)	No.of Policies (Lakh)	Sum Assured (Rs in crore)
1981-82	6.89	926.51	32.7	26.6
1982-83	7.33	1037.98	32.8	26.1
1983-84	8.30	1260.24	35.1	28.7
1984-85	9.52	1569.62	35.3	29.2
1985-86	12.23	2176.79	37.2	30.8
1986-87	14.82	2916.04	38.3	32.2
1987-88	18.28	3996.94	38.9	32.1
1988-89	24.12	5818.22	40.3	33.8
1989-90	30.48	8086.35	41.2	34.8
1990-91	36.75	10294.55	42.5	36.6
1991-92	41.27	12439.93	44.7	38.8
1992-93	44.39	14085.03	44.6	39.2

Life Insurance Corporation of India

Rural Career Agents - Performance

Year	No. of Rural Career Agents	Total Business of Rural Career Agents		Average Production per Rural Career Agent	
		Sum Assured (Rs in crore)	No. of policies	Sum Assured (Rs in lakh)	No. of policies
1980-81	1301	10.3	10942	0.8	8
1981-82	2083	24.7	22755	1.2	11
1982-83	3321	40.1	35392	1.2	11
1983-84	3830	52.6	44379	1.4	12
1984-85	3838	61.4	48533	1.6	13
1985-86	4063	86.7	61977	2.1	15
1986-87	4403	114.6	80229	2.6	18
1987-88	4394	154.5	89824	3.5	20
1988-89	4904	202.4	103901	4.1	21
1989-90	4814	282.0	128966	5.9	27
1990-91	7746	380.2	172370	4.9	22
1991-92	9500	486.6	212264	5.1	22
1992-93	9242	537.5	206563	5.8	22

APPENDIX XXIII
Para 7.19

GIC and subsidiaries

Rural Non-traditional Business* : 1974 - 1992-93

(Figures in lakh)

Year	Cattle Insurance		Agricultural Pumpsets Insurance		Janata Personal Accident Insurance		Gramin Accident Policy		Total
	No. Covered	Premium	No. Covered	Premium	No. Covered	Premium	No. Covered	Premium	Premium
1974	0.3	25							25
1975	0.6	48							48
1976	2.1	133	0.2	9	17.3	208			350
1977	5.9	247	0.5	21	11.0	131			399
1978	14.1	472	0.6	25	8.7	103			600
1979	32.3	948	0.9	36	9.2	111			1095
1980	43.7	1334	1.1	53	11.3	127	10.3	41	1554
1981	56.8	1909	1.0	81	17.9	193	1.0	5	2188
1982	82.4	2633	1.4	105	20.1	219	1.3	6	2963
1983	105.8	3390	1.7	126	30.8	317	1.7	9	3842
1984	142.7	4596	2.4	170	35.1	361	3.0	18	5145
1985	160.8	5136	3.0	258	43.4	458	7.5	38	5890
1986	189.7	5935	3.7	374	40.5	415	7.1	40	6764
1987	185.4	6945	4.2	477	42.3	440	7.6	41	7903
1988-89#	233.41	10272	6.9	831	32.6	389	9.9	71	11563
1989-90	181.9	8498	6.2	701	24.1	328	5.3	30	9557
1990-91	172.6	8569	5.6	577	35.2	383	8.2	44	9573
1991-92	163.8	8961	6.1	673	36.4	399	11.9	43	10076
1992-93	180.6	9609	6.6	700	130.7**	815**	--	--	11124

* *Denotes such general insurance business in rural areas which is not carried on ordinarily by insurers.*

\# *For the period 1.1.1988 to 31.3.1989 (15 months)*

** *Includes Gramin Accident Policy*

GIC and subsidiaries

Reinsurance Exchanges - 1976 to 1991-92

(Rupees in lakh)

Year	Reinsurance Cessions out of Indian business				Reinsurance Acceptances from abroad			
	Premium ceded	Comm.	Incurred loss	Total outflow	Premium accepted	Comm.	Incurred loss	Total inflow
1976	4570	1251	2822	497	4192	1526	2939	-273
1977	5324	1345	2526	1453	5266	1739	3142	385
1978	5584	1617	9339	-5372	6142	2040	3434	668
1979	6937	1906	8132	-3101	6238	2176	3790	272
1980	8476	2295	3136	3045	7622	2487	4500	635
1981	10322	2735	3920	3667	8611	2761	5465	385
1982	12107	3065	15136	-6094	9844	3154	7002	-312
1983	12879	3583	8052	1244	12170	3870	8642	-342
1984	14260	3842	11789	-1371	15093	4830	10159	104
1985	18015	4446	28451	-14882	17555	5599	12432	-476
1986	21467	4553	10420	6494	17009	5104	11472	433
1987	23944	5413	11603	6928	18299	5769	14187	-1657
1988-89*	29112	6867	26513	-4268	20608	6263	16944	-2599
1989-90	26645	7383	31804	-12542	19113	6109	14020	-1016
1990-91	33173	8588	35964	-11379	22004	6833	23060	-7889
1991-92	36897	9208	32849	-5160	31777	9773	34189	-12185
Total	**269712**	**68097**	**242456**	**-40841**	**221543**	**70033**	**175377**	**-23867**

* *For 15 months from 1.1.1988 to 31.3.1989*

APPENDIX XXV

Para 8.9

Solvency Analysis of Indian General Insurance Companies

	GIC	National	New India	Oriental	United India
A. U/W Exposure	Good	Good	Good	Good	Good
B. Change in Premium	Within Limits	Within Limits	Exceeds Limits	Within Limits	Exceeds Limits
C. Dependence on Reinsurance	Within Limits	Within Limits	Within Limits	Within Limits	Within Limits
D. Sufficiency of Investment Income	Sufficient	Insufficient	Sufficient	Sufficient	Sufficient
E. Trading Size	Within Limits	Within Limits	Within Limits	Within Limits	Within Limits
F. Adequacy of Shareholders' Funds	Adequate	Adequate	Adequate	Adequate	Adequate
G. Adequacy of Liquid assets	inadequate	inadequate	inadequate	inadequate	inadequate
H. Return on Premium	High	High	High	High	High
No. of ISI Norms Satisfied (Out of 8)	7	6	6	7	6

APPENDIX XXVI
Para 12.2

Life Insurance Corporation of India

Financial Performance : 1957-1993

(Rs in crore)

	1957*	1963**	1972-73	1982-83	1992-93
INCOME					
1. Total Premium Income	88.6	151.1	389.7	1218.0	7987.2
2. Income form Investment ineluding Miscellaneous Income	19.3	35.2	136.6	689.4	4257.0
3. Total Income	107.9	186.3	526.1	1907.4	12244.2
OUTGO					
4. Commission etc. to Agents	7.7	14.1	36.8	102.7	772.6
5. Salaries & other Benefits to Employees	12.2	22.3	58.1	119.7	799.8
6. Other Expenses of Management	4.6	7.9	13.7	39.0	256.0
7. Taxes Etc.	0.0	0.0	0.2	53.8	422.7
8. 5% Valuation Surplus paid to Govt.	--	1.7	--	--	105.4
PAYMENTS TO POLICY-HOLDERS					
9. Claims by Maturity	20.8	31.3	77.0	350.7	2243.6
10. Claims by Death	7.9	12.6	26.1	86.4	508.2
11. Annuities	0.5	0.4	1.5	7.8	104.2
12. Surrenders	4.4	5.1	19.2	78.2	724.8
13. Total Outgo (4 to 12)	58.1	95.4	232.6	838.3	5937.3
14. Excess of Income over Outgo(3-13)	49.8	90.9	293.5	1069.1	6306.9

* *16 months from 1.9.1956 to 31.12.1957*

** *15 months from 1.1.1962 to 31.3.1963*

APPENDIX XXVII
Para 14.26

Foreign Branch Net Operations of General Insurance Companies
1982 - 1991-92

(Rs in lakh)

Year	Branch Net Premium	Branch Net Claims	Commission incl.profit commission	Management Expenses	Reserve Strain	Other income less outgo	Net Profit /Loss
1982	3960.59	2403.34	910.60	545.56	80.83	374.36	394.62
1983	3979.27	2520.88	877.85	582.62	29.74	345.43	313.61
1984	4390.09	2800.27	916.45	683.26	252.90	873.95	611.16
1985	5085.01	3247.70	1087.89	818.38	324.43	540.33	146.94
1986	6516.04	3950.22	1321.10	985.61	693.48	982.30	547.93
1987	8949.11	5218.50	1851.64	1471.17	1228.89	811.31	-9.78
1988-89*	10388.77	5790.38	2415.63	1738.93	479.09	1647.90	1612.64
1989-90	10018.74	5719.96	2541.86	1609.63	830.97	1049.66	365.98
1990-91	11720.35	8188.54	2748.17	2303.70	1089.69	2610.63	0.88
1991-92	20894.15	15297.36	5054.18	3891.75	5187.47	6153.62	-2382.99
Total	**85902.12**	**55137.15**	**19725.37**	**14630.61**	**10197.49**	**15389.49**	**1600.99**

* *15 months from 1.1.1962 to 31.3.1963*

General Insurance Corporation of India

Performance of associated / subsidiary companies outside India

	United Oriental Assurance SDN. BHD. Malaysia	Kennindia Assurance Company Ltd.,Kenya	India International Insurance PTE. Ltd., Singapore
Year of Incorporation	1976	1978	1988
Paid up capital	RM 14.22 m	K.Shs 59.30 m	S $ 25 m
Holding by GIC & Subsidiaries	21%	45%	100%
Dividend record	7 to 10% from 1978 to 1983 6% for 1984 & 1985 Nil thereafter	% 1982-84 20 1985 15 1986 17.5 1987 10 1988 15 1989 18 1990 15 1991 12.5 1992 12.5	7.5% for each of the years 1990, 1991 and 1992.
Bonus/right shares	Nil	7 bonus issues since inception amounting to K Sh 22.18 m.	Bonus shares S $ 5 m in each of the years 1989 and 1992 Right shares S $ 5 m in 1990