Nationalisation of Insurance in India

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Introduction

The insurance sector in India has experienced a 360-degree journey over a period of more than a hundred years. Its transition from an open competitive sector to nationalisation and then back to a liberalised market characterises this phenomenon. The insurance sector was brought under the government wrap within ten years of independence. Since then, till the re-opening of the sector in the 1990s, the state-owned companies functioned under the deluge of bureaucracy and inefficiency but still had millions of policyholders, as there were no alternatives. During this period, any suggestion regarding the opening up of the sector was met with harsh criticism and agitation from insurance employees unions. The Congress government (1991-1996), that introduced reforms in various sectors of the economy could not bring about a change in the insurance sector and it was left to the BJP-led coalition to instate the present liberal structure, despite criticism from some of its left support groups. The argument behind opening up of the sector was consumer-centric, which claimed that opening up insurance would give better products and service to consumers; the opponents of privatisation argued that in a poor country like India insurance needs to have social objectives and newcomers will not have that commitment. Although the insurance sector was opened to competition again in 1999-2000, it still has some way to go before we can gauge its true performance.

Overview

Insurance business is divided into four classes:

a) Life Insurance
b) Fire
c) Marine
d) Miscellaneous Insurance.

Life insurers undertake the Life Insurance business; general insurers handle the rest. The business of insurance essentially means defraying risks attached to an activity (including life) and sharing the risks between various entities, both persons and organisations. Insurance companies are important players in financial markets as they collect and invest large amounts of premium in various investment instruments. Insurance offers the following benefits:

a) Protection to investors
b) Accumulation of savings
c) Channelling these savings into sectors needing huge long-term investments.

Insurance companies receive a steady cash stream of premium or contributions to pension plans. Their cash flows are determined on the basis of various actuary studies and models. Since their liabilities are long-term or contingent in nature, their investments are also long-term and they are able to maintain a healthy liquidity position. Since they offer more than the return on savings in the shape of life cover to the investors, the rate of return guaranteed on their insurance policies is relatively low. Consequently, the need to seek high rates of return on their investments is also low. Since the risk factor in the insurance business is quite high, insurance companies usually invest in relatively safer bets such as bonds of GOI, PSUs, state governments, local bodies, corporate houses and mortgages of long-term nature. Lately, insurance companies have also ventured into pension schemes and mutual funds.

Life insurance constitutes the major share of insurance business. Life insurance depends upon the laws of mortality. Life has to end sooner or later and the claim in respect of life is certain. On the other hand, in case of general insurance, there may never be any claim and the amount cannot be ascertained in advance. Hence, life insurance, besides providing a cover for life of individuals, also serves as a good source of savings for the beneficiaries.

The life insurance market in India presents several striking features, which appear, for the most part, to be necessary concomitants of the underdeveloped nature of the country's economy. Existences of a large number of life insurance sellers and the narrowness of the life insurance market have been the characteristics peculiar to India.

The volume of life insurance business annually sold on the Indian life insurance market came on an average to about Rs 160 crore. Most of these policies were sold during the phase of private enterprise, by Indian organisations termed "insurers" by the Indian Insurance Act (Act IV of 1938). The term "insurers" included":

a) Proprietary Joint Stock Companies
b) Mutual Joint Stock Companies
c) Partnership firms to which the Indian Partnership Act of 1932 applied
d) Co-operative Life Insurance Societies

History of Insurance in India

Ancient Indian history has preserved the earliest traces of insurance in the form of marine trade loans or carriers' contracts. These can be found in Kautilya's *Arthashastra*, Yajnyavalkya's *Dharmashastra* and Manu's *Smriti*. These works show that the system of credit and the law of interest were well developed in India. They were based on a clear appreciation of the hazard involved and the means of safeguarding against it.

Life Insurance

The business of life insurance in India in its existing form started in India in the year 1818 with the establishment of the Oriental Life Insurance Company in Calcutta, which failed in 1834. However, the success of Indian life insurance can be traced back roughly to the second decade of the nineteenth century when the Madras Equitable began transacting life insurance business in the Madras Presidency in 1829. After that, it was a rather dull phase with regard to the growth in life insurance enterprise. This dullness was due to the very critical phase through which the British insurance companies were passing due to mismanagement and inexperience, thus resulting in the failure of several British offices before 1870 and leading to the enactment of the British Insurance Act, 1870. Till the 70s of the nineteenth century, insurance had found no real place in the scheme of things and only certain European companies operating in parts of India did life insurance business on some scale. But Indian enterprise in this sphere later began to expand and in the last three decades of the nineteenth century the following companies were started in the Bombay Presidency:

a) Bombay Mutual (1871)
b) Oriental (1874)
c) Empire of India (1897)

Few other companies were also set up in other parts of India. However, this period was dominated by foreign insurance offices, which did good business in India, namely – Albert Life Assurance, Royal Insurance, Liverpool and London Globe Insurance. The Indian offices that were set up during this period came up the hard way and had to struggle against the prevailing prejudice against life insurance and natural ignorance of the people.

The recorded history of Insurance business in India, however, began in 1914 when the Government of India started publishing returns of Insurance Companies in India. 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 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 provident insurance societies. In 1938, with a view to protecting the interest of insuring public, the earlier legislation was consolidated and amended by the Insurance Act 1938 with comprehensive provisions detailed and effective control over the activities of insurers.

The Insurance Amendment Act of 1950 abolished Principal Agencies. However, there were a large number of insurance companies and the level of competition was high. There were also allegations of unfair trade practices. The Government of India, therefore, decided to nationalise the insurance business. An Ordinance issued on 19th January 1956 nationalised the Life Insurance sector and Life Insurance Corporation of India (LIC) came into existence in the same year. The LIC absorbed 154 Indian, 16 non-Indian insurers as also 75 provident societies. Since then LIC was the only player till the late 90s when the Insurance sector was reopened for the private sector.

General Insurance in India

The history of general Insurance dates back to the Industrial Revolution in the west and the consequent growth of sea-faring trade and commerce in the 17th century. It came to India as a legacy of British occupation. British and other foreign Insurance companies through their agencies in India transacted this business. The General insurance business in India can trace its roots to the Triton Insurance Company Ltd., the first general insurance company established in the year 1850 in Calcutta by the British. Some of the important milestones in the general insurance business in India are:

1907: The Indian Mercantile Insurance Ltd. set up, the first company to transact all classes of general insurance business.
1957: General Insurance Council, a wing of the Insurance Association of India, frames a code of conduct for ensuring fair conduct and sound business practices.
1968: The Insurance Act amended to regulate investments and set minimum solvency margins and the Tariff Advisory Committee set up.
1972: The General Insurance Business (Nationalisation) Act, 1972 nationalised the general insurance business in India with effect from 1 January 1973.

The reason why GIB was not brought into the public sector in 1956 was the fact that general insurance was considered a part and parcel of the private sector of trade and industry and functions on a yearly basis. Errors of omission and commission in the conduct of its business did not directly affect the individual citizen.

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

Before November 1972, a number of Indian and many foreign companies did general insurance business in India and this business was linked with their branches abroad. In addition, LIC, some mutual companies and cooperative societies also offered this product. In fact, on the eve of nationalisation, 68 Indian (including LIC) and 45 non-Indian entities carried out insurance business in India. Nationalisation saw the business of all these organisations absorbed by the General Insurance Corporation (GIC) with its four subsidiaries.

Nationalisation of Life Insurance

The nationalisation of life insurance is an important step in our march towards a socialist society. Its objective will be to serve the individual as well as the state. We require life insurance to spread rapidly all over the country and to bring a measure of security to our people. – Jawaharlal Nehru[1]

The first step towards nationalisation of life insurance was taken on 19 January 1956 by the promulgation of the Life Insurance (Emergency Provisions) Ordinance, 1956. In terms of this Ordinance, the management of the 'controlled business' of insurers was vested in the central government. The period between 19 January 1956 and 31 August 1956 was utilised as a period of

[1] Nehru's views on the occasion of nationalisation of life insurance in the parliament

preparation to facilitate the subsequent integration of the various insurers into a single State-owned Corporation.

Before nationalisation, the insurance industry was organised into 243 autonomous units, each with its own separate administrative structure of office and field staff, its own separate set of agents and of medical examiners. Their offices concentrated in the large cities and their field of operation was confined to the major urban areas. Out of 145 Indian insurance companies, as many as 103 had their head offices in the four cities of Bombay, Calcutta, Delhi and Madras.

When the Corporation was constituted on 1 September 1956, it integrated into one organisation, the controlled business of 243 different units, Indian and foreign, which were engaged in the transaction of life insurance business in India.

The total assets of the above 243 units as on 31 August 1956 were about Rs 4,110 million and the total number of policies in force was over five million assuring a total sum of more than Rs 12,500 million. The total number of salaried employees was nearly 27,000. These figures give a broad idea of the magnitude of the problem involved in setting up an integrated structure.

When parliament set up LIC as a monopolistic public undertaking, it was argued and believed that elimination of competition and the malpractice that competition has given rise to, would lead to:

a) Better and more economical management of the Business of life insurance.
b) Reduction in administrative expenses.
c) Improvement in the quality of service.
d) Increase in volume of business.
e) Maximisation of social advantages that insurance can provide through higher returns on investments of life fund, consistent with safety and liquidity of the invested funds.

The Corporation had an Executive Committee consisting of the Chairman, two Managing Directors and two other Members of the Corporation. There was also an Investment Committee consisting of the Chairman, a Functional Director, and five other persons, to advise the corporation in matters referred to it relating to the investment of its funds.

The whole country had been divided into five zones and the zonal head offices were located at Bombay, Calcutta, Madras, Delhi and Kanpur. The Central Office of the Corporation was located at Bombay. Every full-time employee of the insurers whose business was transferred to and was vested in the Corporation became an employee of the Corporation. They held the same positions at the same remuneration, upon the same terms and conditions and with the same rights and privileges as before. The Corporation was required, once at least in every two years, to cause an investigation to be made by actuaries into the financial condition of the business of the Corporation, including a valuation of its liabilities, and submit the report to the Central Government.

Life insurance offices other than those of Indian insurers were of several types, and of these, the most important group was constituted by *non-Indian life offices*. Then there were *provident societies*, which were set up with the view to sell life insurance policies of small amounts to persons of small means.

Together, the three life offices transacted on an average Rs 160 crore of business. But the bulk of business was conducted by Indian insurers (88.3%, 1946-1955, post war). Of the 236 life offices operating in the country in 1955, not less than 149 were Indian insurers. Non-Indian offices were only 16.

Table1: Indian and Foreign Insurance Companies Operating in India

Year	Number of Indian Offices	Number of Non-Indian Offices
1928	97	138
1929	108	149
1938	200	143
1941	197	80
1945	234	81

Source: Dr. A N Agarwala, 1961, Life Insurance in India: A Historical and Analytical Study

Table2: Life Insurance Business Transacted in India by Indian and Non-Indian Offices in 1945 and 1955

	1945			1955		
	Number of Policies	Insured Amount	Premium Income	Number of Policies	Insured Amount	Premium Income
		Rs lac	Rs lac		Rs lac	Rs lac
Indian Life Offices	5,77,000	122,78	6,73	7,49,000	2,20,85	11,39
Non-Indian Life Offices	22,000	12,60	74	22,000	17,44	1,00
Total	5,99,000	135,38	7,47	7,71,000	2,38,29	12,39
Percentage of Non-Indian Figures to Total	3.7	9.3	9.9	2.9	7.0	8.0

Source: Dr. A N Agarwala, 1961, Life Insurance in India: A Historical and Analytical Study

From the above table its clear that over the years, the Indian companies gained in importance. The relatively unimportant position occupied by non-Indian insurers in the life insurance market of the country around 1955 is attributed to the passing of the Indian Insurance Act of 1938, which necessitated reorganisation and overhauling of life insurance offices. World War II also resulted in the withdrawal of a large number of foreign life insurers from the Indian market.

Table 3

Year	Average Amount of New Policies Issued by Indian Insurers in India
	Rs
1946	2,205
1947	2,177
1948	2,306
1949	2,341
1950	2,471
1951	2,575
1952	2,526
1953	2,569
1954	3,123
1955	2,950

Source: Dr. A N Agarwala, 1961, Life Insurance in India: A Historical and Analytical Study

By the end of 1955, life insurance touched only a fringe of the urban population. The immense benefits of modern concepts of life insurance remained largely unknown to the large sections of the people and thus the country did not derive full benefit from the system. The shortcomings noticed in the insurance business were due to the unscrupulous business practices of some insurance business magnates. Also, a large number of foreign insurers charged a much higher premium compared to the Indian insurers, thus catering to only the higher income groups. It is believed that insurance is a type of business that ought never to fail if it is properly run. But it was found that during the decade 1945-1955, as many as 25 life insurance companies went into liquidation and another 25 had so frittered away their resources that their business had to be transferred to other companies at a loss to the policyholders' savings. Hence, effective mobilisation of people's savings was given as one of the major reasons for nationalisation as a nation's savings are the prime mover of its economic development.

The amount of capital required for starting or running an insurance company is extremely small as compared to the total life fund that it may come to control. Once, however the control is secured, the tendency frequently has been to utilise the funds to meet the capital requirements of enterprises in which the companies are interested rather than those which are clearly in the interests of policyholders. This was another reason ascribed for the nationalisation of the insurance sector.

There were many small units that were rendered insolvent, which was revealed by their valuation-deficits and they eventually found it difficult to meet claims on matured policies. In such a situation, they either sought absorption with some other company or went into liquidation. In the period 1950-1954, 43 life offices exited from the business[2]. This can be partly ascribed to the amendment Act of 1950, which necessitated reorganisation and control on expenses.

Moving the life insurance (emergency provisions) Bill 1956 in the Lok Sabha on 29th February 1956, the then Finance Minister, C D Deshmukh, stated as follows:

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

The Finance Minister had also revealed that the Govt. had taken up the investigation of the functioning of the Life Insurance Industry in the private sector sometime in 1951. He said that the industry was not playing the role expected of insurance in the modern times and efforts at improving the standards are needed. Commenting on the dismal performance of the insurance companies, he said that there were extravagant expenses incurred by the private insurers. He said that the ratio of expenses of management to premium income for Indian insurers was 27%. Even statutory imposition of expense limits had failed to check extravagant expenditure. On the point of policy servicing he said that with all this high expenditure, one would expect that policyholders were well served but here also the record was not good. Post-sale services did not exist and lapses continued to be high. He also pointed out that there was a large-scale fraudulent-investment resorted to by the various companies with a view to divert the funds to some other purposes. He said that the kind of mismanagement and outright frauds indulged in by the private companies had pushed as many as 25 insurance companies into liquidation during the decade 1944 to 1954. Among the companies carrying on the business, as many as 75 were unable to declare any bonus at their valuations. Besides, Shri Deshmukh said that the insurance companies remained confined to urban areas and the creamy layers of the insuring public totally neglecting the ordinary people and the rural area. As regards settlement of claims, he said that many companies systematically postponed or avoided payment of claim until of course forced by the legal means. In 1954, a thousand complaints were received by the Government alleging delays and non-payment of claims. A number of complaints were referred to the Controller of Insurance under Sec. 47 A of Insurance Act, 1938. In most of the cases, it was found that the insurance companies were wrong and there were clear attempts to defraud the insuring public.

Therefore, it was felt that in India, the private insurance companies had failed to live upto the expectations of the insuring public.

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[2] Does not include figures for 1951 due to non-availability

Acquisition Compensation

The Government had to pay compensation to the existing life offices, whose business it was going to acquire. For this purpose, insurers were divided into three categories:
Part A- Insurers who had a share capital on which dividend was payable, and who had allocated bonus to policyholders at the last actuarial valuation prior to January 1 1955;
Part B- Insurers who had a share capital on which dividend or bonus was payable but who did not allocate any bonus to policyholders at the last actuarial valuation prior to January 1 1955; and
Part C- Insurers who did not have any share capital or having a share capital on which dividend or bonus was not payable.

Compensation Policy[3]

Part A

The compensation to be given by the Corporation to an insurer having a share capital on which dividend or bonus is payable, who has allocated as bonus to policy-holders the whole or any part of the surplus as disclosed in the abstracts prepared in accordance with Part II of the Fourth Schedule to the Insurance Act in respect of the last actuarial investigation relating to his controlled business as at a date earlier than the 1ast day of January, 1995, shall be computed in accordance with the provisions contained in Paragraph 1 or Paragraph 2, whichever is more advantageous to the insurer.

Paragraph 1

Twenty times the annual average of the share of the surplus allocated to shareholders as disclosed in the abstracts aforesaid in respect of the relevant actuarial investigations multiplied by a figure which represents the proportion that the average business in force during the calendar years 1950 - 1955 bears to the average business in force during the calendar years comprised in the period between the date as at which the actuarial investigation immediately preceding the earliest of the relevant actuarial investigations was made and the date at which the last of such investigations was made.

Paragraph 2

Half the amount payable under Paragraph 1 plus the paid-up capital or assets equivalent thereto, or, in the case of a composite insurer, that part of the paid-up capital or assets equivalent thereto which has or have been transferred to and vested in the Corporation under this Act less the amount, if any, of expenses or losses or both capitalised by the insurer for the purposes of Form A in the First Schedule to the Insurance Act.

Part B

The compensation to be given by the Corporation to an insurer having a share capital on which dividend or bonus is payable who has not made any such allocation as is referred to in Part A in respect of the last actuarial investigation as at a date earlier than the 1st day of January, 1955, shall be an amount equal to the value of the assets of the insurer appertaining to his controlled business in existence, on the 19th day of January, 1956, computed as at that date in accordance with the provisions of paragraph 3 less the amount of liabilities of the insurer appertaining to such business in existence on the 19th day of January, 1956, computed as at that date in accordance with the provisions of paragraph 4.

Paragraph 3

(a) The market value of any land or buildings.
(b) The market value of any shares, securities or other investments held by the insurer.
(c) The total amount of the premiums paid by the insurer in respect of all leasehold properties reduced in the case of each such premium by an amount which bears to such premium the same

[3] LIC Act, 1956.

proportion as the expired term of the lease in respect of which such premium shall have been paid bears to the total term of the lease.

(d) The amount of debts due to the insurer whether secured or unsecured, to the extent to which they are reasonably considered to be recoverable.

(e) The amount of premiums, which have fallen due to the insurer on policies of life insurance but have not been paid and the days of grace for payment of which have not expired.

(g) The value of all tangible assets other than those falling within any of the preceding clauses.

(f) The amount of cash held by the insurer whether in deposit with a bank or otherwise.

(g) The value of all tangible assets other than those falling within any of the preceding clauses.

Paragraph 4

(a) The total amount of liabilities of the insurer to holders of policies in respect of his controlled business on account of matured claims on which payment has to be made.

(b) The total amount of liabilities of the insurer to holders of policies in respect of his controlled business which have not matured for payment, the liabilities in respect thereof being calculated on the following actuarial basis:-

(i) in respect of whole-life assurances and endowment assurances, the mortality table to be used shall be the Oriental (25-35) ultimate mortality table, and for expenses 20 per cent of office premiums in the case of with-profit policies and 15 per cent of office premiums in the case of non-profit policies shall be reserved;

(ii) in respect of other policies such actuarial bases determined by the actuary making the valuation as may be consistent with the basis specified in clauses (i); and

(iii) in determining the liabilities of insurer under clause (b) the actuary shall make all the usual provisions and reserves as are ordinarily done in such cases.

(c) The total amount of all other liabilities of the insurer.

(d) Where, as a result of the actuarial valuation of policy liabilities made under clause (b), the life insurance fund is shown to be in surplus, a sum equal to 96 per cent of such surplus shall be deemed to be a liability under this paragraph.

Paragraph 5

If the insurer to whom compensation is to be given under this Part is a displaced insurer, the compensation to given shall be computed in accordance with the following provisions:

First, there shall be ascertained the losses incurred by the displaced insurer in respect of claims arising by death established by the displaced insurer to have been caused by the civil disturbances which took place on the occasion of the setting up of the Dominions of India and Pakistan, the total loss being taking as the difference between the amounts paid as claims in respect of such deaths and the total amount of the actuarial reserve in respect of the relevant policies;

Second, there shall be ascertained the difference between the market value as at the 15th day of August, 1947, of any immovable property in West Pakistan belonging to the displaced insurer and the market value thereof determined under Paragraph 3 of this Part, or, where any such immovable property has been sold before the 19th day of January, 1956, the difference between the market value there of the 15th day of August, 1947, and the sale price;

Third, there shall be ascertained the amount of deposits held by the displaced insurer in banks which could not be withdrawn on account of a moratorium declared under any law for the time being in force, to the extend to which such deposits have become losses;

Fourth, there shall be ascertained the difference between the market value as at the 15th day of August, 1947, of any shares in any company now carrying on business in West Pakistan held by the displaced insurer and which had been acquired before the 15th day of August, 1947, and the market value of such shares as at the 19th day of January, 1956.

The amount of compensation to be given to the displaced insurer under this Part shall be-

(a) the amount which would have to be given to him if this Paragraph had not been enacted, plus

(b) an amount which represents one-half of the difference between the compensation which would have to be given to him if to the value of the assets referred to in Paragraph 3 there had been added the sum of the four items referred to in this Paragraph and with respect to the liabilities referred to in Pakistan 4, the life insurance fund had been increased by a like sum, and the compensation which would have to be given to him if this Paragraph had not been enacted.
Or
one-half of the paid-up capital of the displaced insurer whichever is less.

PART C
The compensation to be given by the Corporation to an insurer-
(a) having no share capital; or
(b) having a share capital on which a dividend or bonus is not payable;
shall be in the form of an addition at the rate of rupees one per thousand in respect of the sum assured (excluding bonuses) under each with-profit policy, and in the case of an insurer falling under clause (b), such compensation shall also include a sum equivalent to the paid-up capital of the insurer to be paid to him.

Performance: Efficiency and Size of Indian Life Offices Prior to 1956

For the purpose of evaluating the performance of life insurance offices in India, we have referred to a study undertaken by Dr. A.N. Agarwala[4]. On the basis of the new business undertaken by life offices during 1946-1954, they can be divided into three categories:

a) The "Big Eleven", each of which had new business of Rs 3 crore or more per annum on an average;
b) The "Middle Eleven", each of which had new business of Rs 1 crore or more but less than Rs 3 crore per annum on an average; and
c) The "Small Offices Group", each of which had new business of less than Rs 1 crore per annum.

In order to gauge the performance of the life insurance enterprise, Dr Agarwala used the following efficiency criteria:

A) **Level of Premium Rate:** The level of premium rate is a good index of its efficiency. A company charging a lower rate of premium than the other
   1) is presumably managed with greater economy,
   2) is worked on a better scale so as to give to the law of averages better scope for working itself out,
   3) is more judicious and careful in accepting new lives,
   4) pursues a policy of stricter selection and has more discriminating field service.

   Such a company adopts a more scientific and uptodate investment policy because greater the rate of interest, consistent with safety, obtained on investments, other things being equal, the less will be the premium rate. Therefore, if efficiency increases with the size of life insurance units, premium rates should vary inversely with size.
B) **Lapse Ratio:** This ratio is used by life insurers to determine the effectiveness of their marketing efforts. It is the ratio of the number of life contracts that have lapsed within a specified period of time to the number in force at the beginning of the period.

   High lapse of life insurance policies suggests the possibility
   1) that agents are forcing the pace of business in their own personal interests;
   2) that genuine demand for life insurance is not being tapped;
   3) that real service is not being rendered to policy-holders and they are being persuaded to exceed their insurable capacity; and

[4] Dr A N Agarwala, *Life Insurance in India: A Historical and Analytical Study*, Allahabad Journal Press, Allahabad, 1961.

4) that the life insurance company is not perhaps in a position to recoup the initial expenses it incurs at the time of issuing a policy out of future premiums because their payment is not sufficiently continued.

For all these reasons, low lapse ratio can be taken to be an index of efficiency of life insurance units. If life insurance business is being conducted on efficient lines, the lapse ratio should be negatively correlated with the size of the unit.

C) **Expense Ratio:** Insurance work is mostly done in office or on field. Such work is subject to increasing returns or diminishing cost. Therefore, depending upon the size of the unit, once the business reaches a certain limit, the more the business, the less of expenses of management per insurance of Rs 1000. Hence, if large size were associated with greater efficiency of a unit, it would be reflected in a lower expense ratio.

D) **Rate of Interest:** A large-sized life insurance office can be in a position to invest its funds more scientifically and rationally than a small office because its operations are large enough to permit the maintenance of a separate Investment Department manned by experts. A big investor can afford to take more risks and thus increase return on investments. Hence, there is a strong probability of there being a positive correlation between the size of the life offices and the interest earned by them, which in turn determines the premium charged by them, which has already been discussed earlier.

E) **Nature of Investment Policy:** The nature of investment policy adopted is a matter of great importance in relation to the rate of return as also the financial soundness of the whole enterprise. Therefore, the extent of diversification of investments, as an efficiency indicator, becomes an important criterion.

For the purpose of the study, 22 largest life insurance offices of the country were taken into account. The "Big Eleven" and the "Middle Eleven" transacted 67 percent and 16.2 percent, respectively, of the entire new business done by Indian life offices annually on an average during 1946-1954. The remaining 132 small companies wrote the remaining 16.8 percent of the new business, and were left out of the study. The following table shows the list of the 22 largest companies:

Table4: Size and With Profit Premium Rates of Top twenty-two Indian Life Offices

Insurer	**New Life Business (Average for 1946-1954)**	**Premium Rate on Whole Life With-Profit Policy Limited by 20 Payments at Age 25 in 1949-50 for Insurance of Rs 1000**
	Rs crore	Rs
I- The "Big Eleven"		
1. Oriental	22.0	48.3
2. New India	15.7	45.3
3. Hindusthan Cooperative	15.3	43.4
4. National Insurance	7.2	45.3
5. Metropolitan	6.8	42.6
6. Bombay Mutual	4.5	46.1
7. Lakshmi	4.0	47.0
8. Empire of India	3.9	41.5
9. Bharat	3.3	47.2
10. New Asiatic	3.0	41.4
11. United India	3.0	45.8
II- The "Middle Eleven"		
12. General Assurance	2.9	39.2

13. National Indian Life	2.6	45.2
14. Western India	2.4	41.1
15. Bombay Life	2.3	45.6
16. Ruby General	2.2	37.5
17. Industrial and Prudential	2.1	44.6
18. Asian	1.9	45.2
19. Andhra	1.7	45.3
20. Jupiter General	1.2	45.0
21. Warden	1.1	45.9
22.Calcutta Insurance	1.1	43.1

Source: Dr. A N Agarwala, 1961, Life Insurance in India: A Historical and Analytical Study

The following is the empirical data with regard to the above mentioned factors:

A) The base was taken as the premium rate charged in the mid-period (1949-1954) on a participating whole-life policy, limited by 20 payments, issued at the age of 25, for an insured amount of Rs 1,000. Taking into account the with-profit insurance rates, the Oriental, which was the largest life insurance company in India, charged the highest rate of premium of Rs 48.3, among all the 22 leading insurance companies, whereas Ruby General, one of the "Middle Eleven" companies, charged the lowest premium of Rs 37.5. The coefficient of correlation between the new life insurance business and the premium rate was calculated to be +.272 approximately. Instead of being negative, the coefficient of correlation is actually positive. Though +.272 is not significant, it still shows a picture contrary to the efficiency condition. If one calculated the without-profit premium rates, the Oriental rate remains to be the highest at Rs 38.9 whereas the lowest rate ascribes to General Assurance at Rs 32.1, and the coefficient of correlation comes out to be +.155, which is still positive. The average of the with-profit premium rates charged by the "Big Eleven" comes to Rs 44.4 per Rs 1,000 of insured amount whereas the corresponding figure for the "Middle Eleven" is Rs 41.6 per Rs 1,000 of insured amount. This shows that smaller size was associated with a somewhat lower premium rate. Thus, premium rate did not diminish with an increase in the size of insurance unit; instead it showed a slight increase.

B) Since efficiency is associated with increase in size of office, the coefficient of correlation between size and lapse ratio should be significantly negative.

Table 5: Size and Lapse Ratio in Relation to the "Big Eleven" and the "Middle Eleven"

Insurer	**New Life Business Written in 1951(Rs crore)**	**Percentage of Business in 1951 Lapsing by 1954**
	Rs crore	
I- The "Big Eleven"		
1. Oriental	19.6	35
2. New India	15.2	38
3. Hindusthan Cooperative	15.1	47
4. National Insurance	6.81	51
5. Metropolitan	7.5	57
6. Bombay Mutual	3.9	32
7. Lakshmi	3.0	41
8. Empire of India	3.7	42
9. Bharat	3.9	42[5]
10. New Asiatic	2.8	43

[5] Lapse in 1954 is not included, as the figure is not available.

11. United India	2.7	30
II- The "Middle Eleven"		
12. General Assurance	1.7	46
13. National Indian Life	2.7	67
14. Western India	2.5	37
15. Bombay Life	2.1	55
16. Ruby General	2.0	45
17. Industrial and Prudential	1.8	25
18. Asian	1.8	47
19. Andhra	2.1	43
20. Jupiter General	1.0	56
21. Warden	1.1[6]	64
22.Calcutta Insurance	1.0	64

Source: Dr. A N Agarwala, 1961, Life Insurance in India: A Historical and Analytical Study

The Oriental, which was the largest life office in India, had a lapse ratio of 35 percent, which was not the lowest. The lowest lapse ratio of 25 percent was shown by the Industrial and Prudential, one of the "Middle Eleven" companies. Two of the "Big Eleven" companies, The Metropolitan, with new life business of Rs 7.5 crore in 1951, and the Bombay Mutual, with new life business of Rs 3.9 crore in the same year, had lapse ratios of 57 percent and 32 percent respectively. The coefficient of correlation between size and lapse ratio of the "Big Eleven" is -.073, which is insignificant whereas the same comes to -.281 for the "Middle Eleven", which is somewhat better than the former.

C) As regards size and expense ratio, again there should be a negative correlation between the two. The study showed that the Oriental had a very low renewal expense ratio of 12.7, and only two other offices, New India and Western India, lower renewal expense ratio of 12.4 and 12.3 respectively. The coefficient of correlation between the two variables is -.512, which is significant. For the two groups separately, the coefficient of correlation for the "Big Eleven" is -.78 with a probable error of .0079, thus making the coefficient highly significant. On the other hand, for the "Middle Eleven", it is -.064 with a probable error of .195, thus rendering the coefficient insignificant.

Table 6: Renewal Expense Ratio and Size of the "Big Eleven" and the "Middle Eleven" in India, 1946-1954

Insurer	**Renewal Expense Ratio (Average for 1946-1954)**	**New Life Insurance Business (Average for 1946-1954)**
		Rs
I- The "Big Eleven"		
1. Oriental	12.7	22.0
2. New India	12.4	15.7
3. Hindusthan Cooperative	14.1	15.3
4. National Insurance	15.9	7.2
5. Metropolitan	16.9	6.8
6. Bombay Mutual	15.0	4.5
7. Lakshmi	18.2	4.0
8. Empire of India	18.6	3.9
9. Bharat	16.5	3.3
10. New Asiatic	18.0	3.0

[6] Figures for 1949 1950 and 1951 not available; figure for 1948 given.

11. United India	14.9	3.0
II- The "Middle Eleven"		
12. General Assurance	17.0	2.9
13. National Indian Life	18.7	2.6
14. Western India	12.3	2.4
15. Bombay Life	15.1	2.3
16. Ruby General	20.7	2.2
17. Industrial and Prudential	14.0	2.1
18. Asian	15.1	1.9
19. Andhra	15.1	1.7
20. Jupiter General	18.6	1.2
21. Warden	20.2	1.1
22.Calcutta Insurance	16.8	1.1

Source: Dr. A N Agarwala, 1961, Life Insurance in India: A Historical and Analytical Study

Therefore, from the point of view of economical management, the optimum-sized office could be found among the big life offices.

D) If efficiency grows with size, there should be a positive correlation between size and rate of interest earned on investments. The Oriental, the largest office, earned only 3.03 percent yield on an average, which is lowest not only in the group of the "Big Eleven", but also in that of the "Middle Eleven". The smallest company in the two groups, Calcutta Insurance, earned 3.7 percent, which is lower than only four other offices. Comparing the "Big Eleven" with the "Middle Eleven", the average interest earned by the latter was 3.68 percent as against 3.53 percent earned by the former. The coefficient of correlation for the "Big Eleven" was -.148 whereas for the "Middle Eleven", it was +.405 showing that size had a more favourable effect in the latter group. Therefore, from the point of view of rate of return on investments, the optimum firm could be found in the middle-sized insurance offices rather than in the big-sized group.

Table 7: Size and Rate of Interest

Insurer	**Percentage Interest Earned (Average for 1946-1954)**	**New Life Insurance Business (Average for 1946-1954)**
		Rs
I- The "Big Eleven"		
1. Oriental	3.03	22.0
2. New India	3.50	15.7
3. Hindusthan Cooperative	3.40	15.3
4. National Insurance	4.10	7.2
5. Metropolitan	3.70	6.8
6. Bombay Mutual	3.67	4.5
7. Lakshmi	3.59	4.0
8. Empire of India	3.27	3.9
9. Bharat	3.37	3.3
10. New Asiatic	3.63	3.0
11. United India	3.80	3.0
II- The "Middle Eleven"		
12. General Assurance	3.87	2.9
13. National Indian Life	3.67	2.6
14. Western India	4.43	2.4

15. Bombay Life	3.50	2.3
16. Ruby General	3.23	2.2
17. Industrial and Prudential	4.03	2.1
18. Asian	4.17	1.9
19. Andhra	3.20	1.7
20. Jupiter General	3.37	1.2
21. Warden	3.30	1.1
22.Calcutta Insurance	3.70	1.1

Source: Dr. A N Agarwala, 1961, Life Insurance in India: A Historical and Analytical Study

E) Generally speaking, insurers having low "Investment Concentration Ratio" might be said to have a better investment policy. However there was no fixed statistical device to measure the same. Therefore, for the purpose of the study, a few statistical devices were suggested by the author, which we discuss below.

Table 8: Investment Concentration in India in 1954

	Area of Investment Concentration (Percentage)	**Area of Excess Investment Concentration (Percentage)**	**Investment Concentration Ratio**
1. The "Big Eleven"	64.4	+3.8	0.64
2. The "Middle Eleven"	51.0	-9.1	0.51
3. The "Small Offices Group"	55.9	-4.7	0.56

Source: Dr. A N Agarwala, 1961, Life Insurance in India: A Historical and Analytical Study

a) **Area of Investment Concentration:** This may be measured by the percentage of total assets kept in the shape of the single biggest class of securities. In 1946, largest "Area of Investment Concentration" existed in the case of the "Big Eleven" at 81 percent of their total investments in the form of government securities, whereas the corresponding figure for the "Middle Eleven" was 68.8 percent and for the "Small Offices Group", it was 71 percent. By 1954, this figure had come down to 64.4, 51, and 55.9 percent for the three groups respectively. This shows a comparative neglect of corporate securities.

b) **Area of Excess Investment Concentration:** This is calculated as the percentage-excess of the investment in one class of securities made by an insurer over the whole-enterprise figure. It may be positive or negative indicating greater or less degree of concentration, respectively. In 1954, this figure for the "Big Eleven" was +3.8 percent whereas for the "Middle Eleven" and the "Small Offices" group, it was –9.1 and –4.7 percent respectively.

c) **Investment Concentration Ratio:** This is the ratio of concentration in one class of security to the maximum possible concentration in that class of security. The all-India figures for the two years 1946 and 1954 are 0.78 and 0.61 respectively. The figure for the "Big Eleven" was greater than the average for both the years. Therefore it is evident that as per the degree of diversification in investments, efficiency was best realised in the case of medium sized offices.

Performance of the LIC in the Post-Nationalisation Period (1957-1975)

For this section, we referred to an assessment made by Professor B S R Rao of Institute for Financial Management and Research, Madras in 1976[7], regarding the functioning of the LIC from 1957 to 1975. In order to draw a fair comparison, we will refer to the same parameters as used in the earlier study.

[7] B S R Rao, Functioning of the LIC: An Appraisal, IFMR, Madras, 1976.

A) **Premium Rates**
The study agreed with the fact that the premium rates charged by LIC for various policies were high. A higher premium rate is associated with a higher mortality rate. But the LIC premium rates did not depend upon the mortality rates. What was relevant for the LIC was the mortality experience of those who were insured with the corporation. For this purpose, it had adopted the mortality tables of the Oriental Life Assurance Company. It was argued that since there had been a considerable reduction in the mortality rates over the years, there was ample scope and justification for reduction in premium rates. It was estimated by the Estimates Committee of Parliament that even if LIC's 1961 mortality experience was adopted as the basis for premium rates, the rates should have been about 11 percent lower for age 30, term 35 under endowment assurance and about 19 percent lower in the case of whole life limited payment, age 30, term 35. Even after this, there was no substantial change in the premium rates, except in the case of some less important policies.
B) **Lapse Ratio**
The overall lapse ratio of the Corporation rose from 6.4 percent in 1957 up to 8.2 percent by 1963-64 and showed a downward trend in the subsequent years, reaching a low level of 5 percent in 1971-72. In the next three years, however, there was a slight rise in the ratio and it was 5.4 percent in 1974-75. These figures compared favourably with voluntary termination rate[8] of life policies in the United States of America (USA) of 6 percent in 1972, 6.3 percent in 1973 and 6.5 percent in 1974.[9]

The fact that LIC was able to bring down the overall lapse ratio can be assessed by looking at the figures for the net lapse ratio at mean duration.[10]

Table 9: Lapse Ratios of the LIC, 1957 through 1974-75

Year Ending	**Lapse Ratio** (Percentages)
December 1957	6.4@
December 1958	5.1
December 1959	6.0
December 1960	6.6
December 1961	7.0
March 1963	8.1@
March 1964	8.2
March 1965	7.5
March 1966	7.2
March 1967	7.4
March 1968	7.0
March 1969	6.3
March 1970	5.9
March 1971	5.2
March 1972	5.0
March 1973	5.3
March 1974	5.3
March 1975	5.4

@ Annual rate
Source: Report on the Activities of the Life Insurance Corporation of India, 1961 to 1974-75, Life Insurance Corporation of India, Bombay.

As per the above table, while nearly 31 percent of the new business written in 1957 lapsed in a period of three years, approximately 28 percent of the business written in 1971-72 lapsed during the subsequent three years. Also, while 19 percent of the new business written in 1957 lapsed before the

[8] The termination rate includes both lapses as well as surrenders.
[9] *Life Insurance Fact Book*, 1975, op. cit., p.52.
[10] Mean duration is defined as the year of lapse *minus* the year of issue of the policy.

end of year, nearly 15 percent of the new business written in 1973-74 lapsed before the end of March 1975. If we compare it with the lapse ratio of The Oriental, which was to the tune of 35 percent, LIC definitely scored way above the former, as it was able to bring down the ratio to a much lower level.

C) **Expense Ratio**

The overall expense ratio, which was about 27 percent in 1957 rose to 29 percent in the next year and fluctuated between 28 and 29 percent till 1962-63. After that, it varied between 27.5 percent and 27.9 percent till 1972-73. In 1974, there was a slight increase in the overall expense ratio to 28.5 percent and in 1974-75 it was 30.5 percent. According to the study this was much higher than the expense ratios of companies in the US and the UK.

As for the renewal expense ratio, it continued to be on the higher side. It was 16 percent in 1957 and dropped to a little more than 12 percent by 1961. In 1973-74, the ratio stood at 15 percent while it was further reinforced in 1974-75 at the level of 19 percent. Comparing the ratios with some of the erstwhile insurance companies, we find that in 1954, the renewal ratio of the Oriental was 11.8 percent while it was 9.1 percent in the case of New India. Therefore, contrary to the expectations at the time of nationalisation, the overall and renewal expense ratios of the LIC did not come down even by the mid-seventies.

Table 10: Overall and Renewal Expense Ratios of the LIC, 1957 through 1974-75

(Percentages)

Year Ending	Overall Expense Ratio	Renewal Expense Ratio
December 1957*	27.20	15.89
December 1958	29.01	15.46
December 1959	28.68	12.92
December 1960	28.45	12.90
December 1961	27.97	12.42
March 1963**	29.31	14.13
March 1964	27.46	12.46
March 1965	27.55	14.09
March 1966	27.55	14.69
March 1967	27.72	15.91
March 1968	27.52	15.90
March 1969	27.54	15.91
March 1970	27.69	16.15
March 1971	27.19	14.65
March 1972	27.85	14.36
March 1973	27.86	13.72
March 1974	28.52	14.99
March 1975	30.48	18.97

* 16 months   ** 15 months

Source: Report on the Activities of the Life Insurance Corporation of India, 1965-66, 1972-73 to 1974-75, Life Insurance Corporation of India, Bombay.

D) **Rate of Interest**

The gross yield earned by the corporation was less than five percent prior to 1963-64and it rose to six percent in 1969-70. It increased at a steady pace for the next four years and reached a figure of 6.93 percent by 1974-75. As far as net yield figures are concerned, a similar trend was noticed. The figure ranged between 3.5 to five percent till 1965-66, five to six percent from 1966-67 to 1972-73 and stood at 6.25 percent in 1974-75.

Table 11: Yield on Life Fund of the LIC, 1957 through 1974-75

(Percentages)

Year Ending	Gross Yield	Net Yield
December 1957	4.58	3.74
December 1958	4.52	3.52
December 1959	4.54	4.08
December 1960	4.58	3.55
December 1961	4.80	4.68
March 1963	4.76	4.08
March 1964	5.11	4.07
March 1965	5.27	4.90
March 1966	5.51	4.76
March 1967	5.76	5.29
March 1968	5.88	5.18
March 1969	5.94	5.31
March 1970	6.06	5.57
March 1971	6.25	5.73
March 1972	6.39	5.65
March 1973	6.56	5.97
March 1974	6.79	6.34
March 1975	6.93	6.25

Source: 1) Report on the Activities of the Life Insurance Corporation of India, 1966-67, 1972-73 to 1974-75, Life Insurance Corporation of India, Bombay.
2) Valuation Reports, Life Insurance Corporation of India, Bombay.

F) **Investment Policy**

According to section 19 (2) of the LIC Act, 1956, the LIC constituted an investment committee for the purpose of advising it in matters relating to the investment of its funds. The Corporation, in accordance with powers vested in it by section 49 of the LIC Act, frames regulations, which were published in the Official Gazette after the approval of the Central Government. The constitution of the Investment Committee is dealt with in regulation 22, while regulation 24 stipulates that the Investment Committee will advise the Corporation on matters referred to it relating to the investment of its funds. According to rules approved regarding investment of funds, the executive director of Investments, under instructions from the chairman, was empowered to invest funds of the LIC up to a maximum of Rs 50 lakh in respect of Government and approved securities and Rs five lakh in the case of debentures and ordinary or preference shares. Further, no single scrip was to be more than Rs 2.5 lakh in the case of debentures and Rs one lakh in the case of ordinary and preference shares. It was also authorised to make investments in foreign countries to the extent of Rs 25 lakh.

However, a formal declaration of the investment policy of the LIC was made on August 23 1958, with suitable amendments, which made section 27-A of the Insurance Act applicable to LIC. Under this, the Corporation had to invest 25 percent of the controlled fund in Government securities, a further sum equal to not less than 25 percent in Government securities or other approved securities and not more than 15 percent in other investments. This amounts to around 35 percent of the controlled fund being held in approved investments, and defined in section 27-A of the Act.

In November 1974, the investment policy of the LIC was revised, as recommended by an informal group headed by the Governor of the Reserve Bank of India. According to the revised policy, the LIC had to invest not less than 75 percent of the controlled fund in Central Government marketable securities, Central and State Government securities and in socially oriented projects, including house building by policyholders. Of this 75 percent, not less than 50 percent could be invested in Central and State Government securities and Government guaranteed marketable securities. Further, of this 50 percent, not less than 25 percent should be in Central Government marketable securities.

There is no doubt that over the period 1957-1975, the major proportion of the assets of the LIC was in Government securities, albeit with a declining trend. Government securities, which were Rs 235 crore at the end of December 1957 rose to Rs 1160 crore by the end of March 1975, but the ratio to the total assets declined from about 50 percent to 36 percent. Loans to State Electricity Boards and statutory authorities, guaranteed by the Government, showed a remarkable rise from Rs five crore at the end of December 1959 to Rs 876 crore by the end of March 1975. There was improvement in the relative position of bonds, debentures, stocks and other securities and the figure improved from Rs 18 crore at the end of 1957 to Rs 286 crore by the end of 1975, with a rise in the ratio from four to nine percent.

There is no doubt that the rate of return on investment showed an increase over the years but it was not enough to cause a reduction in the premium rates. The primary reason seems to be the high proportion of funds invested in Government securities. It is a well known fact that the rate of interest on these securities used to be quite low thus rendering the overall rate of return to a much lower level. Had the rates of interest been fixed at a reasonable level, reflecting a more realistic interest rate structure, it would have served the interests of the policyholders better and made life insurance in India a much more attractive proposition. The Government should have kept this in mind while imposing constraints on the investment policy of the LIC.

Review of the Committee on Reforms in the Insurance Sector

In 1993, the Government set up a committee under the chairmanship of R N Malhotra to propose recommendations for reforms in the insurance sector. The progress of the nationalised life insurance business had to be judged by the rate of its progress towards the realisation of the goals it set for itself.

In 1974, the Administrative Reforms Commission of the Government put forward certain recommendations in pursuance of which the LIC formulated its objectives:

a) 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.
b) To maximise mobilisation of people's savings by making insurance linked savings adequately attractive.
c) To bear in mind, in the investment of funds, the primary obligation is to its policyholders, whose money it holds in trust, without losing sight of the interest of the community as a whole; the funds to be deployed to the best advantage of the investors as well as the community as a whole, keeping in view national priorities and obligations of attractive return.
d) To conduct business with utmost economy and with the full realisation that the moneys belong to the policyholders.
e) To act as trustees of the insured public in their individual and collective capacities.
f) To meet the various life insurance needs of the community that would arise in the changing social and economic environment.
g) 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.
h) 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.

Keeping in view these objectives, the committee stated that LIC had achieved several of the objectives of nationalisation; but at the same time, it pointed out several negative constraints.

The Committee appointed MARG to conduct a market survey among users[11] of life insurance to find out their satisfaction levels with LIC and to assess their perceptions regarding a possible liberalisation of the insurance sector. As per the findings as well as the statistics of growth furnished by LIC, the committee found the following:

A) On the positive side, LIC had
   1) spread the insurance culture fairly widely;
   2) mobilised large savings for national development and financed socially important sectors such as housing, electricity, water supply and sewerage;
   3) acquired considerable financial strength and gained confidence of the insuring public;
   4) and had built up a large talented pool of insurance professionals.

B) On the negative side,
   1) the vast marketing and services network of LIC was inadequately responsive to customer needs;
   2) insurance awareness was low among the general public;
   3) marketing of life insurance with reference to the customer needs left much to be desired;
   4) term assurance plans were not being encouraged and unit linked assurance was not available;
   5) insurance covers were costly and returns from life insurance were significantly lower compared to other savings instruments due to
      a) excessive government directed investments of LIC funds;
      b) the marketing organisation was weak and turnover of agents extremely high;
      c) development officers concentrated on their incentives to the neglect of training the agents and building up an efficient agency organisation
      d) there was excessive lapsation of policies
   6) LIC management was top heavy and excessively hierarchical, especially at the central and the zonal offices, and was overstaffed;
   7) Work culture within the organisation was unsatisfactory;
   8) trade unionism had contributed to the growth of restrictive practices;
   9) failure to adequately computerise had seriously affected the efficiency of the organisation and the quality of customer service;
   10) the functioning of LIC was constrained in some respects as it was covered by the definition of 'State' as well as governmental interference.

On the issue of competition, the major resistance came from the employees' unions and representatives of agents. However a majority of those covered in the survey was in favour of liberalisation, albeit with certain reservations with regard to the rural sector as well as the poor man.

On the basis of the above report, the Committee proposed the following recommendations:

a) Private sector be permitted to enter insurance industry with a minimum paid up capital of Rs 100 crore. Foreign insurance companies be allowed to enter by floating Indian companies, preferably a joint venture with Indian partners.
b) LIC be converted into a company and its capital be raised to Rs 200 crore, 50 percent to be owned by the Government and the rest by the public at large, with suitable reservation for its employees. The capital of GIC be also raised to Rs 200 crore with similar composition.
c) All insurance companies be treated on equal footing and governed by the provisions of the Insurance Act. The Office of Controller of Insurance be restored its full functions under the Act.
d) Postal life insurance be permitted to transact life insurance business in rural areas. It should be strengthened.
e) Relief-oriented welfare schemes be transferred to the concerned Government authorities.

[11] The survey also included LIC's corporate clients and agents as well as non-users of insurance services.

f) State-level cooperative societies not more than one in a state for transacting life insurance business subject to regulation by the Insurance Regulatory Authority. The capital base should be appropriately lower.
g) GIC should function exclusively as a reinsurance company. Its four subsidiaries be completely delinked by acquisition of entire stock by the Government. Capital of each subsidiary be, thereafter, raised to Rs 100 crore, with 50 percent equity held by the Government and the rest by the public at large.

The move towards liberalisation was fiercely opposed by the National Organisation of Insurance Workers. They claimed that the opening up of the sector to foreign players will lead to exploitation of consumers, wasteful expenditure and will lead to the same problems that were present prior to nationalisation.

Present Status

Following the recommendations of the Malhotra Committee Report, in 1999, the Insurance Regulatory and Development Authority (IRDA) was constituted as an autonomous body to regulate and develop the insurance industry. The key objectives of IRDA were to promote competition so as to enhance customer satisfaction through increased consumer choice and lower premiums, while ensuring the financial security of the insurance market. The IRDA opened the market in August 2000 with the invitation for application for registrations. Foreign companies were allowed ownership of up to 26%. Companies were required to submit business plans detailing the proposed capital structure, the nature of business they planned to carry out and their plans for selling insurance to the rural and social sectors. Even prior to the IRDA Act, a number of multinational insurance companies had begun exploring the possibility of setting up operation in India in anticipation of the deregulation of the industry. The first step was generally finding a local partner and working towards signing a Memorandum of Understanding. Certain Indian companies were also keen to enter the insurance market and were themselves seeking international partners. At present, there are 13 companies in the life insurance business and another 13 in the general insurance business operating in the country.

Concluding Remarks

While it seems that there definitely was a lapse in the performance of the private insurance companies prior to 1956, nationalisation was probably not the only feasible option. The Government should have realised as well as anticipated the potential problems common to all Government departments and corporations. The LIC experienced similar problems faced by the earlier big life companies. The main objective of the Government seems to have been pooling in of people's money and mobilising them to invest in key sectors, which the Government deemed important from the point of view of development. This is quite evident from the fact that LIC was enacted in 1956, the year of the beginning of the Second Five-Year Plan and the passing of the Industrial Policy Resolution. In the process, it was assumed that private initiative, driven by profit motive, would not work in this area. The private sector was believed to be indulging in speculative activities.

The initiative taken by the Government to open up the insurance sector in 1999 was backed by the setting up of IRDA to regulate the insurance business. The Government, at the time of nationalisation, could have done the same. Instead of barring private initiative completely, it could have set up a regulatory body to monitor the insurance business. This would have taken care of the problem of speculative investments by the private companies. Hence, in the light of the above, a partial nationalisation of the sector would probably have been a better option, with the private companies existing side by side thus keeping the element of competition alive. It would have also served the objective of the Government of reaching out to the masses of all strata and income groups.

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