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A REVIEW OF INSURANCE INDUSTRY IN INDIA

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Abstract

Life is full of risks, being a social animal and risk averse, man always tries to reduce risk. An age-old method of sharing of risk through economic cooperation led to the development of the concept of 'insurance'. Insurance can be defined as a legal contract between two parties whereby one party called the insurer undertakes to pay a fixed amount of money on the happening of a particular event, which may be certain or uncertain. The other party called the insured pays in exchange a fixed sum known as premium at regular intervals. The insurer and the insured are also known as assurer or underwriter and assured respectively. The document which embodies the contract is called the policy.

Key words; life insurance; Schemes

1. MEANING OF LIFE INSURANCE

According to sec. (2) (11) of the Insurance Act, Life Insurance Business means "the business of effective contracts upon human life. It includes: (a) any contract whereby the payment of money is assured upon death or the happening of any contingency dependent on human life. (b) any contract which is subject to the payment of premiums for a term dependent on human life. Insurance is one of the primary risk management devices available to the people. The term 'insurance' stands for a mechanism to protect against risks, hazards or dangers to life and property.

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Vaghan and Vaghan define insurance from two points of view. From an individual point of view, ‘insurance is an economic device whereby the individual substitutes a small certain cost for a large uncertain financial loss that would exist if it were not for the insurance. Second, from the society point of view, ‘insurance is an economic device for reducing and eliminating risk through the process of combining a sufficient number of homogeneous exposures into a group to make the losses predictable for the group as a whole[1].

2.HISTORY OF INSURANCE IN INDIA

The story of insurance is probably as old as the story of mankind. The same instinct that prompts modern business people today to secure themselves against loss and disaster existed in primitive men also. They too sought to avert the evil consequences of fire and flood and loss of life and were willing to make some sort of sacrifice in order to achieve security. Though the concept of insurance is largely a development of the recent past, particularly after the industrial era, its beginnings date back to almost 6,000 years.

In India, insurance has a deep-rooted history. It finds mention in the writings of Manu (Manusmrithi), Yagnavalkya (Dharmasastra) and Kautilya (Arthasastra). The writings talk in terms of pooling of resources that could be re-distributed in times of calamities such as fire, floods, epidemics and famine. This was probably a pre-cursor to modern day insurance. Ancient Indian history has preserved the earliest traces of insurance in the form of Marine Trade Loans and Carriers’ Contracts. Insurance in India has evolved over time heavily drawing from other countries especially from England.

The year 1818 saw the advent of life insurance business in India with the establishment of the Oriental Life Insurance Company in Calcutta. This Company however failed in 1834. In 1829, the Madras Equitable had begun transacting life

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insurance business in the Madras Presidency. The year, 1870 saw the enactment of the British Insurance Act and in the last three decades of the nineteenth century, the Bombay Mutual (1871), Oriental (1874) and Empire of India (1897) commenced their operations in Mumbai formerly known as Bombay. This era, however, was dominated by foreign insurance offices, which did good business in India, namely Albert Life Assurance, Royal Insurance, Liverpool and London Globe Insurance and the Indian offices were up for hard competition from the foreign companies.

The Indian Life Assurance Companies Act, 1912 was the first statutory measure to regulate life business. In 1928, the Indian Insurance Companies Act was enacted to enable the Government to collect statistical information about both life and non-life business transacted in India by Indian and foreign insurers including provident insurance societies. In 1938, with a view to protect the interests of the Insurance public, the earlier legislation was consolidated and amended by the Insurance Act, 1938 with comprehensive provisions for 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 nationalize insurance business[2].

3.FACTORS LEADING TO NATIONALIZATION

By 1956, as many as 154 Indian insurers, 16 non-Indian insurers and 75 provident societies (in all, 245 entities) were doing life insurance business in India. However, the geographical spread and the number of lives covered were rather small. In fact, insurance companies, by and large were governed by short-term considerations and consequently, the business was confined mainly to cities and the more affluent segments of society. Offering insurance policies to people with small incomes, to suit their income and financial position had not even been attempted.

During this period a number of malpractices occurred in the industry causing loss to the unsuspecting public. There were also some instances of mismanagement and misutilization of the funds collected. An objectionable and harmful development was that the business houses which promoted these companies were, in fact, diverting large funds for their other concerns, with no consideration for prudence of doing so. Often, such large diversions of funds led to a situation where the insurance companies were not in a position to honor their commitment to their own customers. Winding up of companies was also not totally unknown. This process gathered momentum especially after the First World War, and between 1914 and 1920, many insurance companies were closed down causing large losses for the small investors.

The Union Governments efforts at regulating the industry through various legislative measures were not very effective. The former Finance Minister, Dr. C.D. Deshmukh, during the debate in parliament on the Life Insurance (Emergency Provisions) Bill, 1956, stated that the industry was not playing the role expected of insurance in a modern state and efforts at improving the standard by further legislation were unlikely to be successful. The concept of trusteeship which should be the cornerstone of life insurance, seemed entirely lacking. Indeed, most managements had no appreciation of the clear and vital distinction that exists between trust moneys and those which belong to joint stock companies. In the light of these developments, the demand for stricter government control of the industry gathered momentum and called for nationalization of the insurance business-which almost became a foregone conclusion. Dr. C.D. Deshmukh again said that misuse of power, position and privilege are the reasons that compelled the Government to nationalize life insurance business[3].

Although that was the immediate cause of nationalization, Dr. C.D. Deshmukh argued that the principal point about nationalization was that the state did not have to make out a case that the private sector had failed. Nationalization is justified on many other grounds of ideology, philosophy and the objective of a welfare state. It was necessary in order that the interest of the insuring public and the industry could be

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safeguarded, the country's economy promoted and more funds provided for economic development. These were the considerations which persuaded the Government of India to opt for nationalization of insurance industry.

4.NATIONALIZATION OF LIFE INSURANCE

When the congress party at its Avadi session of 1955, formally included in its manifesto the concept of the socialist pattern of society, it also urged the nationalization of the life assurance business. In January 1956, the All India Congress Committee formally resolved that the life insurance business should be nationalized. This demand was pressed more vigorously in the context of the Dalmia affair. Accordingly as a first step, on January 19, 1956 the management of to the life insurance business of 245 Indian and foreign insurers and provident societies, then operating in India, was taken over by the central government through the Life Insurance (Emergency Provisions) Ordinance, 1956. The Ordinance was replaced by an Act of Parliament known as the Life Insurance (Emergency) Provisions Act, 1956. The bill to provide for nationalization of the life insurance business was introduced in the Lok Sabha in February 1956, and the same became an Act on July 1, 1956.

In fact, prior to this Dr. C.D. Deshmukh had thought of the idea of nationalization for some time, and had even asked one of his officers, H.M. Patel, to do some preliminary exploration in this regard. The detailed plan that was prepared included the action to be taken by officers to take over various life insurance units as soon as an ordinance for nationalization was issued. This ordinance had also been kept ready for the President of India's signature and when the insurance business was actually nationalized on September 1, 1956, it caught many people by surprise, and was perhaps, one of the best kept secrets of the government. During the Parliamentary debate Dr. C.D. Deshmukh, who later became known as the architect of nationalization, said that if the history of the first decade after India attained independence is correctly written, his name will be mentioned as that of the Finance

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Minister of India who nationalized the Life Insurance business, when everything else is forgotten[4].

5.TRANSITION FROM PRIVATE TO PUBLIC SECTOR

The process of the transfer of management from the private sector to the government was not very easy. There was not just the issue of taking over the units but more importantly, of running them after they were taken over by the government and consolidated into one entity. In order to secure new business, it was also essential to extend the network of the LIC in different corners of the country. However, with all the powers being centered in the hands of the government, the decision-making process was bound to be complicated and slow. It goes to the credit of Dr. C.D. Deshmukh that he was able to take the appropriate measures and to make the transition a smooth one.

During this phase, several problems relating to compensation payable, rationalization and categorization of employees at different levels and such other issues arose. Other problems which the government was required to handle included the following:

- The emotional integration of the employees with a government outfit was difficult because they were used to a different type of work culture in the private sector.

- The different business and administrative practices also needed to be integrated and the procedures followed made uniform and in line with the practices of the new corporation. The systems relating to accounting, investments, loans etc. also needed redrafting and

- The malpractices that had crept into the procurement of new business or while holding on to the old business had to be plugged.

Fortunately, inspite of its many shortcomings, the life insurance industry in India was fairly well-established by the time India attained independence.

For the interim arrangement it was decided that a Joint Committee of Custodians would take over the management of the insurance companies and also supervise the process of establishing of the LIC. During the limited time available, the Joint Committee worked hard to tackle the following jobs including the collection of statistics regarding the number of officers, field staff, their pay scales and terms; the number of agents; the number of branches and and other offices; the organizational structure for the new corporation; detailed manuals for accounts and other procedures; rules and regulations for its smooth working and the selection of suitable officers at various levels[5].

6.FORMATION AND STRUCTURE OF LIC

For the purpose of looking after the life insurance business, the LIC was formed on September 1, 1956 by an Act of Parliament viz., the Life Insurance Corporation Act (the LIC Act), 1956, with a capital contribution of Rs. 5 crores from the Government of India. The main point to be decided was the form of the new organization. While it was important that it should be closely monitored by the government, its management felt the need for sufficient autonomy. It was to enjoy a monopoly in respect of the life insurance business and was expected to function as far as possible on business principles. As a result, it was decided to set up an autonomous corporation.

There was one view that instead of one gigantic entity, there should be four or five corporations, with one of them specially meant for rural development. Dr. C.D. Deshmukh, strongly believed that it would be difficult to justify the creation of so many corporations and it would also be equally difficult for the government to deal with these corporations effectively. Since there had to be some uniformity in respect of the policies to be followed, the purpose would be well served by setting up just one

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– the LIC, Mr. H.M Patel of the Indian Civil Services (ICS) and Secretary, Ministry of Finance, was nominated as its first Chairman. At the time of its inception, the LIC had five zonal offices, 33 divisional offices and 212 branches[6].

Dr. Deshmukh stated (Lok Sabha Debates, 1956) that it was the government's intention to avoid over-centralization except in matters like investment and major policy decisions which should be dealt with at the central office of the LIC. His ideas were to delegate maximum authority to the zonal offices. He also clarified that due to the peculiar nature of insurance business, its functioning has to be different from that in Government Departments or other industries and required the exercise of 'a very large measure' of judgment and discretion by the executive authorities and the controlling authorities. This system is more attuned to commercial audit with which the staff of the Comptroller and Auditor General are unaccustomed. He also stated that if the affairs of the Corporation, are going to be audited by the ordinary audit machinery, he would not have recommended the nationalization of life insurance business because he was quite convinced that it would not serve the desired purpose. As a result, the LIC Act provided for auditing of the accounts of the LIC by qualified auditors to be appointed with the previous approval of the central government. It was stipulated that at least once in two years, actuarial investigations should be made and a valuation report should be submitted to the central government. Further, the report of the auditors, the valuation report through actuarial investigations, the annual report and the audited accounts of the corporation were also required to be placed before both Houses of Parliament every year by the central government. This provided an opportunity to the government to monitor the working and performance of the corporation[7].

7.PROGRESS SINCE NATIONALIZATION

The following is a brief account of the several developments that took place after the life insurance business was nationalized. Immediately after nationalization

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the task before the LIC was formidable, since, it was called upon to build an imposing edifice on its recent foundations. The task had to be completed very carefully particularly after the Mundhra scandal. Further, the Parliament was also watching its performance with great vigil. The LIC had to chalk up policies on different fronts simultaneously. As was to be expected, the first five years of its existence were devoted to integration and consolidation work. Of these, the first few years were devoted to the framing of rules and regulations, setting up other administrative procedures and streamlining the accounting procedures. Concurrently, there was a vast expansion of its network during this period. In addition to the structural reorganization and decentralization, human resource development was an important item in working out a new strategy in which training was organized on a large scale[8].

In the period immediately after nationalization, unfortunately, new business was actually adversely affected and saw some fall in terms of the number of policies and the sum assured. This arose mainly on account of the fact that the process of restructuring the divisional and branch offices had not been completed and there were inadequate technical and experienced staff. Some of the branch offices did not even have the competent employees. The agents had not yet accustomed to the new set up, the procedures and methods of the corporation. A particularly difficult year was 1957, during which the money position in the economy was tight, investors were shy and the common man was affected because of a steady rise in the cost of living. Agriculture was also affected by famine conditions. In these adverse circumstances, LIC's performance during that period should be considered as reasonably good.

After this initial difficult period, LIC over years has made commendable progress. At the time of nationalization, the total new business of the 245 erstwhile insurance companies was around Rs. 200 crores of sum assured. From a new business of Rs. 283.07 crores of sum assured under 8.16 lakh million policies procured in India during the period of 16 months between September 1, 1956 to December 31, 1957,

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LIC progressed to a business of Rs. 91,490.94 crores sum assured under 1,69,89,430 policies on individual lives in 1999-2000[9]. The first year premium received during 1999-2000 reached Rs. 6,026.02 crores from Rs. 13.72 crores in the 16-month period ending December 31, 1957. Similarly its business in force has grown from a level of Rs. 1,474 crores sum assured under 36.86 lakh policies in 1957 to Rs. 5,36,451 crores under 1013.89 lakh policies as on March 31, 2000. Further, the income from investments was as large as Rs. 16,056.62 crores during 1999-2000[10]. The number of lives covered during 1999-2000 under the 24 approved occupations pertaining to the social security group insurance scheme was 4,05,638 and the total till date was as large as 49,49,987.

The life insurance business has thus seen a rising curve of growth. Its growth rate in 1999-2000 was one of the best in the decade in all respects, such as policy growth rate, sum assured, premium growth rate and investment income. The total funds of the corporation increased from Rs. 35,969.33 crores in 1991-92 to Rs. 1,61,002.22 crores as on March 31, 2000, thereby registered a growth rate of more than 4 times.

The ‘valuation surplus’ and consequently the bonus payable to policyholders (95 percent of the surplus) and the central government’s share (being 5 percent of valuation surplus in terms of section 28 of the Life Insurance Corporation Act, 1956) have been steadily increasing over years. For instance, the valuation surplus paid to the central government was Rs. 265.02 crore during 1999-2000.

The LIC also acquired a significant presence in the rural sector. The rural new business in 1999-2000 amounted to a sum assured of Rs. 44,168.19 crores under 97.04 policies representing 57.5 percent of total new business in terms of policies and 48.7 percent in terms of sum assured.

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The Rural Group Life Insurance Scheme (RGLS) was introduced with effect from 15 August 1995. This scheme is for the rural masses and is administered through the Intermediate Level Panchayats (ILP). Any person living in the jurisdiction of the ILPs can become a member of the scheme. Under the subsidized scheme, 50 percent of the premium is shared by the central government while the remaining 50 percent premium is shared by the state governments concerned subject to the condition that only one person belonging to the family living below the poverty line is eligible to join as member. During 1999-2000 as many as 103,619 new lives were covered.

LIC in its efforts to include more people under the umbrella of life insurance has endeavored to provide insurance coverage to a large number of individuals who have no previous insurance on their lives. During 1999-2000, 125.35 lakh individuals were insured for the first time for a sum assured of Rs. 61,915.50 crores as against 107.53 lakh lives for a sum assured of Rs. 50845.63 crores in 1998-99. The ratio of first insurance to the total business completed for the year 1999-2000 comes to 74.2 percent in terms of policies and 68.2 percent in terms of sum assured[11].

The LIC with a its vast network of 2,048 branches 100 divisions and seven zonal offices spread over the country coupled with its qualitative marketing force of 19,474 development officers and 6,83,190 agents during 1999-2000 has reached various corners of the country thereby providing sales and service to the insured public at their doorsteps. LIC has also been able to reach illiterate people, those living in interior rural areas, and even people in the marginal income group or below the poverty line. Side by side, group insurance activities have been expanded through an increasing number of pensions and group superannuation units. The Group Insurance Schemes cover not only the organized sector but also the unorganized sector[12].

At this stage, it is worth nothing that although LIC has a virtual monopoly over the life insurance business, there are some other very small players viz. Postal

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Life Insurance, Army Group Insurance Fund and Naval and Air Force Life Insurance funds. Some of the state governments also have insurance schemes for their employees. A few pension funds are also in operation though reliable data about these small businesses are not easily available. In short, the LIC enjoyed absolute monopoly in the life insurance business until the liberalization of insurance sector.

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