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ADMINISTRATIVE REFORMS COMMISSION

Report

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LIFE INSURANCE ADMINISTRATION

DECEMBER, 1968

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GOVERNMENT OF INDIA

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ADMINISTRATIVE REFORMS COMMISSION

REPORT

ON

LIFE INSURANCE ADMINISTRATION

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No. 2197/CH/ARC/68
ADMINISTRATIVE REFORMS COMMISSION
CHAIRMAN
GOVERNMENT OF INDIA
SARDAR PATEL BHAVAN, NEW DELHI

December 10, 1968

My dear Prime Minister,

I am herewith presenting to you the eighth report of the A.R.C. The Life Insurance Corporation is a giant national organisation having assets of over Rs. 1400 crores with an annual expenditure amounting to Rs. 59 crores. Its financial dimensions compare with those of States. Such an undertaking needs an in-built agency charged with the responsibility of discussing its budget, annual reports, policies and programmes, and expansion of business. We have recommended, for this purpose, a General Council which may meet twice a year. This Council is necessary, since Parliament and its Committee on Public Undertakings have not been able to exercise authority over the Corporation effectively except occasionally.

We have made recommendations to improve efficiency and introduce economy in the working of the Corporation by delegation of more authority and functions to the Branches and the abolition of Zonal Offices. The Commission has recommended service at the door by the agents to the policyholders. This is of basic importance.

At the time of the nationalisation of Life Insurance, the Finance Minister, in his speech in Parliament, referred to the concept of trusteeship as being the corner-stone of Life Insurance. We have shown in our report how the responsibility of trusteeship has not been clearly appreciated and discharged. The policyholder who saves for his family and also helps the nation by investment of his savings, has suffered by the high cost ratio, high premium and what is poignant, by the depreciation of the currency over the years. Justice requires that the Government and the Corporation have to so devise measures as to compensate the beneficiary of the policy to the extent possible.

The A.R.C. has made recommendations on important aspects of the administration. The Working Group has made some recommendations of administrative details, which the Finance Ministry and the Corporation may consider for implementation.

I wish to bring to your notice that the Working Group headed by Shri Tenneti Visvanatham, M.P., has done commendable work and deserves appreciation and thanks.

Yours sincerely,
(Sd.) K. Hanumanthaiya.

Shrimati Indira Gandhi,
Prime Minister.
New Delhi.

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CHAPTER I

INTRODUCTORY

The nationalisation of life insurance in India in 1956 was a unique experiment never before attempted anywhere in the world on such a gigantic scale. The merger of 246 heterogeneous units with divergent managements, policy conditions, administrative practices and varying levels of technical and managerial abilities was undoubtedly a stupendous task. The amalgamation of these heterogeneous units into a single organisation could not but give rise to complicated problems—administrative and otherwise. The Corporation has been in existence for more than twelve years and one can now appropriately call for a review of the results achieved against the background of the objectives expected to be fulfilled by it. Further, the operations of the Life Insurance Corporation have a vital bearing on the effective mobilisation of public savings for the economic development of the country. A study of the functioning of the Life Insurance Corporation would, therefore, have been a fitting sequel to our studies on 'Public Sector Undertakings' and 'Economic Administration'. We accordingly appointed a Working Group under the chairmanship of Shri Tenneti Viswanatham, M.P., to examine and report upon the Life Insurance Administration. The other members of the Group were Shri Randhir Singh Chaudhary, M.P., Shri V. B. Narayana Reddy and Shri B. K. Shah. Shri S. S. Sharma, an officer of the Central Secretariat Service, was appointed Secretary of the Group. We are grateful for the very useful report furnished by the Working Group after a detailed and a painstaking study of the issues involved. In this report, we make recommendations of certain broad issues. As regards the other issues dealt with by the Working Group, we recommend that Government may go through the Group's report and take appropriate decisions.

2. The objectives of nationalisation as set forth in the Objects and Reasons of the Life Insurance Corporation Bill, 1956 and as defined in the Finance Minister's speeches are summarised by the Working Group as follows :

(i) Spread of message of life insurance as far and as wide as possible reaching out beyond the more advanced urban areas well into the hitherto neglected rural areas;

(ii) Effective mobilisation of the people's savings;

(iii) Complete security to policyholders;

(iv) Prompt and efficient service to the policyholders;

(v) Conducting of business with the utmost economy and with the full realisation that the money belongs to the policyholders;

(vi) Investment of funds in such a way as to secure maximum yield consistent with the safety of capital;

(vii) Economic premium rates;

(viii) Development of dynamic and vigorous organisation under a management conducted in a spirit of trusteeship;

(ix) Formulation of schemes of insurance to suit different sectors of the community.

After making a review of the Corporation's performance with reference to the objectives and comparing it with growth of life insurance in U.K. and U.S.A., the Working Group has come to the conclusion that the Corporation has not come up to the nation's expectations.

3. At the time of passage of the Life Insurance Corporation Bill, 1956, the then Finance Minister stated :

> "It has been claimed on behalf of private enterprise that it was confident of increasing the total life business in force from a little over Rs. 1200 crores to Rs. 8000 crores and the per capita insurance from Rs. 25 to Rs. 200 per head in the course of the next 10 years. While I have very little doubt that the nationalised life insurance will be able not only to achieve it but exceed it......"

After more than 11 years the Corporation's life business in force as on 31st March, 1968 was Rs. 5240 crores as against the Finance Minister's expectation of more than Rs. 8000 crores. Similarly, the per capita insurance was only Rs. 105 as against the expected Rs. 200. So, *prima facie,* the Corporation has fallen short of expectations. This, however, should not make us ignore the results which have actually been achieved. These certainly record an improvement over the pre-nationalisation period. Further, a comparison of the growth of life insurance business in India cannot validly be made with that of U.K. and U.S.A. which are highly advanced in industry and so provide larger scope for savings among the common folk than in India.

4. The shortfall in the achievement of the objectives of nationalisation can ultimately be traced, according to the Working Group, to the failure of the Corporation—(a) to spread the message of insurance amongst the vast population of the country, especially in the rural areas; and (b) to create the necessary psychological climate which would make people to go in for life insurance not only as a means of protection to one's family from the consequences of an unforeseen death of its breadwinner but also a reasonably worthwhile investment. We shall first deal with the steps to be taken for ensuring the expansion of insurance business in the rural areas and then proceed to consider the reforms necessary for promoting a climate in favour of life insurance.

CHAPTER II

DEVELOPMENT OF LIFE INSURANCE IN RURAL AREAS

1. Dealing with insurance in the rural areas, the Working Group has pointed out that about 30 per cent of the rural population, say, 2.4 crores families, can be said to have good income and can save and buy life insurance. Passive recipients of savings like banks and the post offices cannot effectively tap the savings of the rural population. What is required is an active agency like the Life Insurance Corporation which should be effective in selling at the doors, so to say, of the rural house-holder the concept of savings-*cum*-insurance.

2. In order that life insurance may become popular in the rural areas the Working Group proposes that some special type of policies be introduced for these areas. First, there should be a system of collecting deposits of 2/3 years term insurance premium along with the first premium so that even if the premiums fall in arrears for 2/3 years on account of floods, droughts or other natural calamities, the policyholders will continue to enjoy the insurance cover for the full amount assured. This will obviate complications like medical examination for revival of policy. Such a system of collection will help to keep the policy alive even if the policyholder is unable to pay the premium in time because of low crop realisation or occasional failure of crops. Secondly, the policy should be so designed as to permit the collection of as many premiums as possible at odd intervals. Thirdly, the policy must have certain built-in advantages such as borrowing facilities for productive purposes.

3. The Working Group has recommended that besides selling life insurance in the rural areas, the Corporation should actively seek to promote rural development and rural housing. For this purpose, it should introduce schemes of farm loans and rural housing so that the rural population is able to identify and appreciate the Corporation's role in rural development thereby making life insurance purposeful, effective and popular in the villages. In bumper years, deposits could be taken and loans being a multiple of the deposits made could be given. A special Rural Development Wing should be set up in the Corporation for looking after rural development including rural housing. A local person of influence with substantive means should be appointed as a Special Agent to organise the business in a cluster of villages accounting for a population of 20,000 to 25,000. For each village, there will be a part-time Sub-Agent.

4. Here, we would like to utter a word of caution. The Group's estimate of the business which can be secured in the rural areas appears to us to be too optimistic, though there is, of course, great scope for increasing

business in those areas. We agree that there should be a vigorous campaign for popularising the concept of savings-*cum*-insurance. A special type of policy suited to the peculiar needs of the rural areas should be devised. The income of the agriculturist is seasonal. He is often the victim of the vagaries of the monsoon. The terms of collection of premia will, therefore, have to be devised accordingly. There should be a provision for collection of deposits in bumper years which could be set off against premia due in lean years. However, we would not recommend that the Corporation should go beyond this and collect deposits in the manner of a banking institution. We also agree with the scheme of appointing Special Agents as proposed by the Working Group. There is a large number of unemployed graduates in the rural areas and their services should be utilised for appointment as Agents as well as Special Agents in those areas. The Group's suggestion that the Special Agents should organise the business in a cluster of villages accounting for a population of 20,000 to 25,000 cannot be rigidly followed in all parts of the country. The potential for insurance will necessarily be related to the economic conditions in the various areas. We would, therefore, leave it to the Branches to settle the area of operation of its Special Agents. We would, however, like to emphasise that the scheme should not result in increase in cost.

5. The suggestion of the Working Group that the Corporation should actively interest itself in rural development may not be feasible for administrative and other considerations. We would, however, recommend that the Corporation's OYH Scheme may be adapted to the needs of the rural areas. Policy loans should also be so designed as to cater to the needs of farmers for the development of their farms and increasing agricultural production.

CHAPTER III

PROMOTING A CLIMATE IN FAVOUR OF LIFE INSURANCE

A. Administrative Measures

1. The factors which create a climate unfavourable for the growth of insurance are—(a) poor and insufficient service leading to inconvenience to the policyholders during the currency of the policies and unconscionable delay in making payments when they become due; and (b) unattractive financial features, *viz.*, high premia, low bonus and low surrender values.

(a) *Reorganisation of the Agency Force with a view to providing better service to the policyholder and promoting the expansion of business.*

2. As a result of a sample check covering a period of six months during 1966-67 carried out by officers of the Corporation, it would appear that 36% of the maturity claims were settled in time, and the remainder took on the average, 96 days per case for settlement. The position regarding death claims was worse. Only 3% were paid within one month of the intimation of the death and for the remaining, the average period for settlement was 199 days or 343 days per case depending on whether the claims needed investigation or not. Some delay may be attributed to the claimants themselves. Even so, the position is clearly very unsatisfactory. In this connection, the Study Team on Administrative Tribunals has suggested that interest at 6% per annum should be paid for the period in excess of 30 days from the date of maturity, or sixty days from the date of receipt of intimation of death, as the case may be—the time taken by the claimants in complying with the necessary formalities being left out of account. At present interest is payable at 3% per annum on delayed payments. This is hardly satisfactory seeing that interest rates are nowadays much higher. We, therefore, agree with the Study Team that interest should be paid in such cases at the rate of 6% per annum for delays upto 6 months and 9% thereafter.

3. In the opinion of the Working Group the maturity claims should be paid on the date of maturity and the death claims within a week of the intimation of death in ordinary cases and within a month of such intimation where investigations are required. The sample studies referred to above also brought out that the policy files were incomplete in respect of crucial requirements like proof of age, nomination and assignment and that simple formalities like filling up of forms took an inordinately long time. These unsatisfactory features could easily have been avoided if the Agents had kept a continuous touch with the policyholders and taken all necessary action to keep the records fully posted with the necessary

details. For this purpose, they should provide at or near the residence of the policyholder or his nominee or assignee the assistance necessary for completing the requisite formalities for claiming the payment due from the Corporation. One of the main recommendations of the Working Group is that the Agent should render the maximum service at the door, so to say, of the policy holder. The Agent should not lose touch with the policyholder after the insurance is sold. He should be responsible for post-sales service on items like—

(1) admission of age, if not already done;
(2) nomination or assignment in respect of a policy;
(3) ensuring payment of premium in time;
(4) grant of loan or surrender value;
(5) alteration in plan or terms of assurance;
(6) revival of lapsed policies;
(7) additional insurance;
(8) settlement of claims; etc.

We fully endorse these proposals of the Working Group that the Agent should be in continuous touch with the policyholder and provide him the necessary post-sales service.

The Working Group has drawn attention to the unsatisfactory features of the agency force. Out of 1,67,000 Agents in position at the end of March 1967, only 32,434 had received training. During the years 1961–67, 31 to 46% of the Agents went out and a similar number of new Agents were appointed every year. The Corporation has to depend on Agents, a large number of whom are either untrained or are not suitable for their jobs. Further, the freedom allowed to an Agent to canvass business anywhere he likes in India is not conducive to the growth of active agencies which can concentrate on their work of insurance in specified areas and harness fully the insurance potential therein. We, therefore, agree with the Working Group that for effective development of business the Corporation should have a well-trained and efficient agency force, each Agent working in a well-defined Area. The Area should be so defined as to make it worth the Agent's while to function efficiently and effectively in his area. It should further provide him with adequate potential for new business and facilitate the necessary service to the policyholders in the area. Before being put on his job, the new Agent should receive training in a Model Office for a period of two to three months during which time he should get himself fully conversant with the relevant procedures and also get a good knowledge of the theoretical aspect of life insurance. When the agency force is reorganised in this manner, its strength should be capable of considerable reduction. It may be round about one lakh.

4. The existing agents should be given the option to work as Area Agents in specified areas. It is possible that some Agents who under the existing arrangements are able to canvass business on a large scale may find it unattractive to be tied to a specified area. In their case, an option may be given to work as "free Agents" but only in the urban areas, with the stipulation that any policy sold by them should not be of less than a prescribed minimum value. The minimum amount may be determined by the Corporation in consultation with the Life Insurance Agents Federation. If the free Agent also provides the necessary service facilities to the policyholder he could retain the whole of the renewal commission. If the Area Agent provides these services, half of the renewal commission should be paid to him.

5. Further, in big cities some areas, where the opportunities for selling insurance are far in excess of what can reasonably be left to be handled by a single Area Agent, may be declared as "free areas". The free Agents can sell insurance therein without being subjected to the requirement that the policy should exceed a prescribed minimum in value. However, to ensure proper servicing in such "free areas", the Group has proposed that Agents for these areas should form a new cadre of officers to be drawn from the cadre of Assistants. These suggestions are made apparently to facilitate the transition from the present agency system to one based on "Areas" and may, therefore, be adopted.

(b) *The role of the Development Officer*

6. In building up an efficient agency force and guiding and supervising their work, the Development Officers have to play an important role. The Working Group has referred to the unsatisfactory way in which the Development Officers are discharging their responsibilities. The amount of business which the Agents working under the guidance of the Development Officers are able to secure in a year is far too low in relation to the expenditure involved on the Development Officers, when compared to the business secured by direct Agents who work on their own. The expenditure on Development Officers is as high a percentage as 28 of the first year's premium for 1966-67, if the business brought in by staff and direct Agents is excluded from consideration. This is too high a figure and we would like to see it reduced significantly. This can be achieved by expansion of business done through the Agents by effective supervision, guidance and motivation of the agency force. We agree with the Working Group that the Development Officer should be allotted an exclusive jurisdiction comprising a given number of Areas in which he should concentrate instead of looking for business wherever possible as he does at present. In the rural areas, the Development Officers' headquarters should be located at an appropriate place within the areas covered. One DevelopmentOfficer should be in charge of, say, 20 Agents. On this basis, the number of Development Officers required will be about 5,000.

The functions of the Development Officer should, as proposed by the Working Group, be the following :

(1) To develop and increase production of new business;

(2) To recommend recruitment of new Agents;

(3) To guide, supervise and direct the Agents;

(4) To give on the spot training to new Agents;

(5) To activise the existing Agents and motivate new Agents;

(6) To supervise and audit the service rendered to policyholders by Agents in his area;

(7) To check on policyholders whose premiums are unpaid and ensure that there is no defalcation by the Agent;

(8) To certify copies of documents submitted as proof of age by the policyholders;

(9) To certify that an applicant for insurance under non-medical schemes has been seen by him and is in apparent sound health;

(10) To work in the area allotted to him as representative of the Corporation and perform such other duties as the Corporation may call upon him to do.

Each Development Officer should be assisted by an audit team of two to three Assistants.

(c) *Maximum delegation of functions to the Branch Offices and the abolition of Zonal Offices.*

7. Expeditious and continuous service to the policyholders, through the Agents supervised by Development Officers, will be possible only if the time involved in seeking higher policy direction is minimised and the lines of communication shortened. At present, there is a considerable amount of concentration of powers in the Central Office which contributes to delays and also blunts the initiative of the field offices. Even in the field, there is a secondary point of concentration of powers in the Divisional Office which is some hundreds of miles removed from the outer parts of its jurisdiction. A programme of reorganisation made for improving the service facilities to the policyholders should, therefore, include a substantial measure of delegation of powers to the Branches. We agree with the Working Group that there should be a Branch Office at every district headquarters to function as a complete servicing and development unit like a "satellite insurance company", with only certain functions of a central character reserved for the Head Office. Further, the administrative procedures should be so simplified as to obviate references to the Central Office in regard to the functions devolving on the Branch Offices.

We expect that not more than 500 Branches will be required. The substantial delegation of powers to the Branches should lead to changes at the Divisional and Zonal level. With the servicing and routine functions transferred to the Branch Offices, the Divisional Office should devote its attention to the coordination of the activities of the Branches. Inspection by Divisional Office and periodical reports to it by the Branches should ensure that the policies laid down by the Central Office are faithfully implemented and the organisation is functioning satisfactorily. The territorial jurisdiction of Divisions should as far as possible not extend beyond the State boundaries. By proper adjustments, it should be possible to reduce the number of Divisions also. The Zonal Offices will then have hardly any function to discharge and may be abolished. The personnel in the offices may be distributed among the Central Office, the Divisional Offices and the Branches, whose work is expected to go up as a result of the proposed delegation of powers and increase in development of business. The Central Office should confine its work to planning and development of business, to research and surveys, investment of funds, valuation and personnel problems.

8. The Working Group has proposed that a new cadre of Officers whose pay and allowances will be identical with those of Assistants should be created. These officers will work as Agents and may be designated as 'Area Officers'. We support this recommendation as it would enable the Corporation to utilise the available manpower to the optimum extent.

9. The strength of each office should be fixed by the O&M Department of the Central Office in the light of the reorganisation recommended so as to deploy the available personnel fully and effectively. Until this is done, we would recommend a complete ban on recruitment of officers and staff by the Corporation.

(d) *Policyholders' Associations and Policyholders' Council at the Divisional level.*

10. The Corporation has established Policyholders' Councils at the Divisional headquarters. Each of these Councils consists of three nominated members representing the policyholders residing in the areas served by the Divisional Office concerned. The Councils are required to meet at least twice a year. The Councils were constituted for the first time in 1965. During the last two years the number of meetings of these Councils varied from two to eight. The Councils' functions are advisory and the subjects referred to them by the Divisional Managers include the following :

(1) Service to policyholders;

(2) Outstanding claims;

(3) Opening of new Branch Office/Sub-Office/Development Centre;

(4) Loans under OYH Scheme—cases rejected and/or granted loans;

(5) Progress of new business in the Division;

(6) Progress of general insurance business in the Division;

(7) Publicity activity;

(8) Important building activities.

11. The Working Group has pointed out that the functioning of these Councils is not known well to the policyholders and has suggested that the Councils' activities should be well publicised among the policyholders who may then bring up before them their difficulties. The best way of establishing a vital link between the policyholders and the Councils would be to get the members of the Council elected by the policyholders. A Policyholders' Association may be organised for each Division. Every policyholder should *ipso facto* be a member of the Association. The Policyholders' Association should not involve expenditure in the nature of travelling allowance, etc. to the Corporation.

(e) *Headquarters Organisation* :

(i) *Continuance of a single Corporation* :

12. Before we proceed to deal with the set-up at the headquarters, we shall consider the question whether it is necessary to replace the existing Corporation by a number of regional corporations. The protagonists of the idea of multiple corporations contend that a single monopolistic body is able to conceal and get away with its inefficiency in a manner which it could not afford to do if it has to compete with other enterprises in selling its services. The policyholder bears the brunt of this inefficiency by paying too heavy a price. The supporters of the single corporation, on the other hand, maintain that splitting up of the existing Corporation into several independent units will create more disadvantages than advantages. It would entail the setting up of parallel organisations at all levels thereby resulting in wasteful expenditure. Further, competition will bring in its train all its accompanying vices as rate-war rebating, attempts at making quick gains through risky investments, etc.—the very evils which nationalisation sought to eradicate.

13. The Commission has considered the various arguments in regard to single Corporation *versus* regional or multiple Corporations and is of the view that the basic objective, whether of a single Corporation or multiple Corporations, should be economy and efficiency. Monopolies have certain unhealthy characteristics and even public monopolies are not free from them. The Estimates Committee suggested in 1960 a *via media* that the Corporation should have a federal structure with semi-autonomous zonal units. The Government's reply to the Estimates Committee which was accepted by the latter stated that the Zones were already functioning

as semi-autonomous units to a substantial extent and the question of delegating the largest possible powers to the various offices of the Corporation is constantly under review. However, the Committee on public Undertakings (1965) felt that if the standard of efficiency in the Corporation was to be improved with better service to the policyholders and the Corporation was to expand its business on a massive scale its present Zones must be constituted into completely independent Corporations. The Committee on Public Undertakings' recommendation is still under examination by Government. Apparently, the Government finds it difficult to implement the recommendation.

14. Competition may have certain undesirable features but on the whole it compels economy and efficiency. Competition has been the core of progress in most areas of human endeavour. We, therefore, do not underrate the healthy aspects of competition. Competition between Regional Corporations operating in their respective regions will not, however, mean competition for the same market. In their case competition would imply competition in providing service at the lowest cost-level. If economy and efficiency could be achieved without splitting the Corporation the objectives which the Parliamentary Committees had in view will be achieved. The Working Group is of the view that deficiencies in the Corporation's working are not due to its monopolistic or monolithic nature. They say that what the Life Insurance Corporation needs to-day is a structural and functional overhaul as recommended and not a fragmentation. The decentralisation of functions and powers to the Branch Offices so as to make them function as satellite insurance companies of the parent Corporation as proposed by the Group would lead to efficiency and economy in management.

15. The establishment of multiple Corporations will involve enormous costs and wasteful duplication of expenditure as each Corporation will have its own paraphernalia of Chairman, Board of Directors, Managing Directors, Central Office—all in the Parkinsonian style. Besides this there will be a necessity for coordinating the activities of these Corporations at the Central level. On a balance of considerations, therefore, we have come to the conclusion that the Life Insurance Corporation should continue as a single Corporation and achieve economy and efficiency by implementing our recommendations for reorganisation. It should also simultaneously introduce competitive spirit among the Branches and Divisions in efficient service to policyholders and reduction in expense ratio.

(ii) *Set-up of the Corporation*

16. The Corporation consists of 15 members including the Chairman. They are all appointed by the Government. The Chairman is the chief executive and a full-time member. Under the Life Insurance Corporation Act, 1956, two committees are set up to assist the Corporation, namely,

the Executive Committee and the Investment Committee. The former consists entirely of the members of the Corporation and its strength does not exceed five. The latter Committee which advises the Corporation in matters relating to investment of funds consists of not more than seven members of whom at least three should be members of the Corporation. In addition to these Committees required to be set up under the Life Insurance Corporation Act, there are three more committees, Service and Budget Committee, Buildings Committee and Public Relations Committee which are set up by the Corporation itself. The Working Group in commenting on the constitution of the Board has found that no qualifications or experience have been prescribed for the membership of the Corporation and has emphasised the need for an organisation of the size of the Life Insurance Corporation to have functional members working full time. We have, in our report on Public Sector Undertakings, recommended functional Directors, at the highest level. We would reiterate that view and recommend that for the Life Insurance Corporation also there should be functional members working continuously at the task of directing the affairs of the Corporation. The number of such full-time members including the Chairman need not exceed five. They should be specialists in various fields of management of Life Insurance business. Work may be so distributed that individual members may deal with Development, Investment, Personnel and Actuarial matters. While appointing functional Members preference should be given to the officers of the Corporation who have the requisite qualifications and whose performance has been outstanding. The system of appointments should be in accordance with the basic principle that a person from the lowest ranks can rise to the top if he has acquired the necessary qualifications and if his performance has been outstanding. In addition to the functional members the Working Group has suggested the appointment of two representatives of Policyholders' Association and seven Government nominees who will be experts in the field of agriculture, industry, finance and banking and insurance or made their mark in professions like law, accountancy, management, acturial science, etc. We are separately suggesting representations to policyholders through the institution of a General Council. Therefore, we do not think it necessary to appoint representatives of policyholders on the Corporation. We recommend that apart from the functional members, the Corporation should have as members—

(a) not more than two officials representing the Government;

(b) one representative of the Reserve Bank of India; and

(c) four part-time members from outside the Government with established reputation in the fields of industrial, commercial, or financial enterprise or in administration or in trade union organisation.

The tenure of the part-time members should be five years with eligibility for appointment for a maximum of two terms.

17. The Chairmen of the Corporation have so far been drawn from general administrators. The Working Group has pointed out that their tenure of office has been usually short and they have been merely birds of passage. The Chief Executive of the Corporation should be a person of long experience in the field and he must have a committed career and stake in the promotion of life insurance by the Corporation. We are therefore, of opinion that the practice of appointing officers from the Administrative Services as Chairman must be discontinued. The chairmanship must be earmarked for one of the functional Members who proves his calibre or for one from outside the Corporation who is an outstanding personality in the insurance field. Likewise, the officers of the Corporation must have stake in the prosperity of the corporation as well as incentive of promotion to the highest places namely, Membership and Chairmanship of the Corporation. The road to the top must be open to every deserving employee. Cadre systems and hierarchical rigidities should not be allowed to shut out the prospects of the deserving.

(iii) *General Council*

18. The Life Insurance Corporation is a giant organisation. Its assets as on 31st March, 1968 amounted to over Rs. 1,400 corores. The expenses of management during the year amounted to Rs. 59 crores inclusive of commission which accounted for Rs. 18 crores. The magnitude of the financial operations of the Corporation is thus comparable to that of some State Governments. Therefore, the finances of the Corporation need continuous and careful vigilance. The Corporation is accountable to Parliament but it has hardly enough time to discuss the finances and budget of the Corporation or its Annual Report. The Committee on Public Undertakings of Parliament periodically examines the affairs of Public Sector Undertakings. The examination of the L.I.C. was done by the Committee on Public Undertakings in 1964-65. Earlier in 1960-61, the Estimates Committee examined the Corporation's estimates. While Parliament and its Committee on Public Undertakings will continue to exercise their control over the Corporation, there is an imperative need for an in-built agency at least to discuss and deliberate upon the Budget, the policies and programmes and performance of the Corporation regularly. We have to emphasise that the Corporation is the trustee of the moneys of the policyholders. So far, the policyholders have had no say in its working and have suffered to a considerable extent as indicated by the Working Group. It has, therefore, suggested the constitution of a General Council and demarcated its functions. While we accept the idea of a General Council, we do not agree with the composition suggested by the Working Group. In our view the General Council should consist of—

(i) Members of the Board of the Life Insurance Corporation;

(ii) one representative of the Policyholders' Association from each Division;

(iii) five representatives of the Life Insurance Agents Federation;

(iv) five nominated members who are experts in industrial, commercial, financial or administrative fields.

The total number of members will be about 58.

Our scheme does not provide for the representatives of officers in the Council as suggested by the Working Group nor does it provide for representation for employees. The functional members, who are officers of the Corporation will be in the Council *ex-officio*. Therefore, separate representation for officers is unnecessary. We do not agree to the representation of Employees' Association on the Council as the unions are mostly pre-occupied with their salaries, allowances and service prospects. Participation of employees in management is a wider question which we will be dealing with in our report on Personnel Administration.

19. As regards the functions of the General Council, it should not deal with personnel matters like appointments, transfers, promotions, discipline, salary structure, etc. The Agents' representatives should not raise or discuss questions relating to their own commission, allowances or remuneration. It will be purely deliberative and advisory body without any executive functions. It will not be concerned with the day-to-day administration of the Corporation. It will meet twice a year and will consider reports, prepared by the Corporation on the various aspect of its work and evaluate the performance of the Corporation.

Administrative Tribunal—not recommended

20. The Working Group has suggested the constitution of a Standing Tribunal which will deal with disputes between the Policyholders and the Corporation as well as those between the employees and agents of the Corporation. As regards the disputes between the policyholders and the Corporation, the Commission's Study Team on Administrative Tribunals has agreed with the Corporation that in view of (i) the very small number of cases filed by the claimants in various courts all over India against the Corporation; (ii) the fact that the work which the civil courts are at present doing in this behalf is generally satisfactory to all concerned; and (iii) the fact that neither the claimants nor the Corporation want a change in the existing machinery, the setting up of an Administrative Tribunal for insurance claims is neither necessary nor desirable. We agree with the Study Team. As regards the disputes between the employees and the Corporation the existing machinery which is similar to the one available in all industrial undertakings, should be sufficient. A special type of tribunal meant only for insurance employees cannot be justified. The disputes between the Agents and the Corporation will not by themselves require a Tribunal.

21. Under Section 47A of the Insurance Act, claimants may at their option refer disputes regarding claims on life policies up to Rs. 2,000 to the Controller of Insurance for decision. The Study Team on Administrative Tribunals feels that many claimants are not aware of this facility. It therefore, suggests that when such claims are repudiated, special attention of the claimants should be drawn to their rights under Section 47A of the Insurance Act. The field officers should visit them and render requisite help to the claimants to take advantage of the provisions of Section 47A. We agree. Further, we recommended that the limit of the insured amount prescribed in Section 47A may be abolished so that all disputes irrespective of pecuniary limits regarding settlement of claims could, at the option of the claimant, be referred to the Controller of Insurance for his decision.

B. Improving the Financial return on investment in Life Insurance

22. Dealing with the premium rates, the Working Group points out that they are dependent on the (1) mortality of insured lives; (2) the interest earned on the Life Fund; and (3) the expenses of management. Over the years the mortality rate has been falling continuously throughout the world because of the strides made in hygiene, sanitation, medicine, etc. The rate is more marked in developing countries like India. The interest earned on the Life Fund of the Corporation has registered an improvement. It has gone up from 4.58% in 1957 to 5.76% in 1966-67. In spite of these favourable factors, no reduction has been made in the premium rates after 1956. This is in striking contrast to the substantial reductions in premium rates effected by the U.K. Insurance Companies. The rate of bonus has also not been significantly increased. If life insurance has to make the progress expected of it, the Corporation should not depend entirely on the 'insurance' aspect to provide the impetus for the growth of its business. It should also make the financial returns to the policyholder reasonably attractive. The premium rates should be reduced and bonus should be increased. Besides, the expenses are also capable of being reduced. The restrictions under Section 27A of the Insurance Act, 1938 as applied to the L.I.C. regarding its investments should be relaxed so that the Corporation could earn a higher yield on investments. This will enable the Corporation to augment its income and to further reduce premium rates and increase its bonus. The Working Group is of the opinion that on the whole there is a substantial scope for reduction in the rates of premium which can safely be to the extent of 25% of the present rate.

23. While we agree that the yield aspect of the investments should not be ignored, and the Corporation should, therefore, endeavour to make its policies more attractive by reducing the premium rates and increasing the bonus, we are not in a position to comment upon the quantum thereof.

We would suggest that the Committee of Actuaries which is going into the question of rates be asked to expedite its report and action taken to make suitable reductions in the premium rates and to increasing the bonus, rates on the basis of the report. We would, however, like to say that any reduction in premium should not lead to a feeling that the older policyholders have been discriminated against. One way to avoid such a feeling would be to give an increase in the bonus to all rather than reduce the premium rates for the future policyholders. As against this it has been argued that a prospective policyholder is more likely to be impressed by a reduced premium rate than by the possibility of earning a higher bonus. It is better that future premium rates are reduced and the old policyholders given a differential bonus, *i.e.*, a bonus at a rate higher than that applicable to the new policyholders. While this will benefit the holders of old with-profit policies, the without-profit policyholders will not derive any benefit. Another alternative would be to increase the sum assured to the old policyholders by a suitable amount, when the premium rates for the new policyholders are reduced. These matters and the question of increasing the surrender values could be examined and a decision taken. Incidentally, the enhancement of surrender values, besides providing a fair return to one who is obliged to surrender his policy, has a vital bearing on the policy loans provided by the Corporation. Keeping the surreder value too low adversely affects the quantum of loans which can be obtained on pledging the policies by those who are in dire need. We also agree with the Working Group that the policy loans should be made available with the same speed, simplicity and facility as withdrawal of a bank deposit. Further, loans could be disbursed on the basis of a simple assignment of policy to the Corporation and without the execution of loan bonds.

24. National savings are the prime factor of economic development in a country. The nationalisation of life insurance was conceived in a genuine spirit of service to the people and was indeed a mile-stone on the road the country had chosen in order to reach its goal of a socialistic pattern of society. In the implementation of the development plans, acceleration of the rate of investment and development by widening and deepening all possible channels of public savings particularly life insurance was an imperative necessity. We are happy to note that the Corporation is playing its role in the mobilisation of public savings which will become increasingly important in years to come with increased business. The small savings of the common man invested in life insurance have, however, to be handled in a spirit of trusteeship which is indeed the corner-stone of life insurance. The concept of trusteeship was emphasised by the Finance Minister at the time of nationalisation. The huge funds which the Corporation commands, belong to the policyholders and not to the Government or the tax-payer. We agree with the Working Group that the Corporation does not seem to be quite conscious of its responsibility to act in the spirit of a trustee for the policyholders and

that even within the statutory limitations the Corporation had scope, consistent with the economic and investment climate in the country, to rationalise, reshuffle and realign its investments so as to secure maximum possible yield for the policyholders. We feel that it is the moral responsibility of the Government to ensure that the life fund earns the maximum possible yield consistent with safety and security of capital.

25. The Corporation has been heavily investing in Central and State Governments securities and loans and deposits to/or guaranteed by Government. The Corporation's investments as on 31st March, 1968 in the public sector aggregated to 72·6% of its investments pertaining to life business even though statutorily the Corporation is expected to invest only 25% of its controlled fund in Government securities and a further sum equal to not less than 25% in Government securities or other approved securities (*i.e.*, 50% in all). This has resulted in an inadequate return on its investments. We recommend that if the Corporation is required to invest in the public sector over and above the statutory limit prescribed, it should be duly compensated for the loss of the entire income it would have earned if the excess investment had been made in more remunerative, and at the same time safe, assets.

26. The rupee has depreciated by about 50 per cent between 1955-56 and 1966-67. The depreciation in the value of the currency has affected the policyholders of the Corporation adversely and this factor acts as a disincentive to save through life insurance. Insurance companies abroad endeavour to compensate the policyholders against depreciation of their savings by paying higher bonuses, made possible by earning higher yields on their investments. We regret to note that no effective steps have been taken by the Corporation in this regard. We would, therefore, recommend that the Corporation should make earnest efforts to safeguard the policyholders against depreciation in the currency value.

27. The employees of the Corporation are agitating for their demands for increased salaries and allowances. The Employees' Association is even threatening to go on indefinite strike for enforcing their demands. The demands are on account of inflationary conditions prevalent in the country. We feel that the Corporation and the Government should correlate the twin problems of statisfaction to both the policyholders and the employees as it would be invidious to compensate the employees only to the detriment of the interests of the policyholders.

28. We have in the foregoing paragraphs dealt with certain broad issues, *e.g.*, the development of life insurance in rural areas, the reorganisation of the field agencies on the basis of areas, and making them service-*cum*-development oriented, maximum possible delegation of functions to the Branches, the abolition of Zonal Offices, the setting up of Policyholders' Associations in the Divisions the appointment of full-time functional members on the Corporation, arrangement for periodical appraisal of results through a General Council and the need for improving the financial return

to the policyholders on investments in insurance. We have not gone into the details relating to the expense ratio which is now under the consideration of a separate Committee set up by Government. We have also not considered matters like computerization, general insurance, foreign business, etc. We have not dealt with staff associations and Trade Union activities because these do not raise issues peculiar to the Life Insurance Corporation. We have already considered them to some extent in our report on Public Sector Undertakings and will have something more to say thereon in our report on Personnel Administration. Here, we have throughout been guided by only one consideration, namely, what should be done to spread the benefits of life insurance over as wide an area as possible. Our recommendations in this regard made in the foregoing paragraphs are summarised in the appendix. The implementation of these recommendations would require consultation between the Corporation and the Government, and possibly, the issue of written directives under Section 21 of the Life Insurance Corporation Act, 1956 on certain matters. Other recommendations would require amendment of the existing law. Thus, the appointment of full-time functional members in the Corporation may require an amendment of the Life Insurance Corporation Act, 1956. Similarly, the appointment of Special Agents for rural areas may require an amendment of the Insurance Act, 1938. We recommend that necessary action may be taken on the above lines at an early date.

Sd/-
K. Hanumanthaiya
Chairman

Sd/-
H. V. Kamath
Member

Sd/-
Debabrata Mookerjee
Member

Sd/-
T. N. Singh
Member

Sd/-
V. Shankar
Member

Sd/-
V. V. Chari
Secretary
New Delhi,
December 9, 1968.

APPENDIX

SUMMARY OF RECOMMENDATIONS

1. (a) There should be a vigorous campaign for popularising the concept of savings-cum-insurance.

(b) A special type of policy suited to the peculiar needs of the rural areas should be devised. It should provide for collection of premium at specified periods of the year and also collection of deposits in bumper years which could be set off against premia due in lean years.

(c) A Special Agent should be appointed to organise the business in a cluster of villages and his area of operation settled by the Branch. The scheme should not result in an increase in cost.

(d) The Corporation's O.Y.H. Scheme should be adapted to the needs of the rural areas. Policy loans should also be designed so as to cater to the needs of farmers for development of their farms and increasing industrial production.

2. Steps should be taken to eliminate the delays in settling claims. Interest at the rate of 6 per cent per annum (instead of at 3% as at present) should be paid by the Corporation on delayed payments upto 6 months and 9 per cent thereafter for the period in excess of 30 days from the date of maturity in the case of maturity claims and 60 days from the date of receipt of intimation of death in the case of claims made on the death of the policy-holder. In either case, the time taken by the claimants in complying with the necessary formalities should be left out of account.

3. The Corporation should have a well-trained and efficient Agency Force, each Agent working in a well-defined area. The Agent should propagate the message of insurance in the area allotted to him, secure new business and continue to provide the necessary services to the policyholders in that area. The Agent should receive training in a Model Office for a period of two or three months during which time he should get himself fully conversant with the relevant procedures and also get a good knowledge of the theoretical aspect of life insurance.

4. The existing Agents should be given the option to work as Area Agents in specified areas. They may also be given an option to work as "free agents" but only in the urban areas, with the stipulation that any policy sold by them should not be of less than a prescribed minimum value. If the free agent also provides the necessary service facilities to the policy-holder he could retain the whole of the renewal commission. If the Area Agent provides these services, half of the renewal commission should be paid to him.

5. In big cities, the areas in which the opportunities for selling insurance are far in excess of what can reasonably be left to be handled by a single Area Agent, may be declared as "free areas" in which the free agents can sell insurance without being subjected to the requirement that the policy should exceed, in value, a prescribed minimum. However, to ensure proper servicing in such "free areas" Area Agents for them should be drawn from a new cadre of Area Officers referred to in para 8, Chapter III.

6. (a) The Development Officer should be allotted an exclusive jurisdiction comprising a given number of Areas.

(b) In the rural areas, the Development Officers' headquarters should be located at an appropriate place within the Areas concerned.

(c) The functions of the Development Officers will be as described in para 6, Chapter III of the Report.

7. (a) There should be a Branch Office at every district headquarters and each Branch Office to function as a complete servicing and development unit and to work like a "satellite insurance company" with only certain functions of a central character reserved for the head office. The administrative procedures should be simplified so as to obviate references to the Central Office in regard to the functions developing on the Branch Office.

(b) With the servicing and routine functions transferred to the Branch Offices, the Divisional Office should devote its attention to the coordination of the activities of the Branches. Inspection by the Divisional Office and periodical reports to it by the Branches should ensure that the policies laid down by the Central Office are faithfully implemented and the organisation is functioning satisfactorily. The territorial jurisdiction of Divisions should as far as possible not extend beyond the State boundaries.

(c) The Zonal Offices should be abolished.

(d) The Central Office should confine itself to planning and development of business, research and surveys, investment of funds, valuation and personnel problems.

8. A new cadre of Area Officers whose pay and allowances will be identical with those of Assistants should be created.

9. The strength of each office should be fixed by the O & M Department of the Central Office in the light of reorganisation recommended so as to deploy the available personnel fully and effectively. Until this is done, there should be a ban on the recruitment of officers and staff.

10. Policyholders' Associations may be organised for each Division. The Associations should elect the members of the Policyholders Council in the Division.

11. There should only be a single Corporation as at present. It should achieve economy and efficiency by implementing our recommendations for reorganisation. It should also simultaneously introduce competitive spirit among the Branches and Divisions in efficient service to policyholders and reduction in expense ratio.

12. The Corporation should include:

(i) full-time functional members including the Chairman not more than five in number;

(ii) not more than two officials representing the Government;

(iii) one representative of the Reserve Bank of India; and

(iv) four part-time members from outside the Government with established reputation in the fields of industrial, commercial or financial enterprise, or in administration, or in trade union organisation.

The practice of appointing general administrators as Chairman must be discontinued. The chairmanship should be earmarked for the functional members or for one outside the Corporation who is an outstanding personality in the insurance field.

13. There should be a General Council consisting of—

(i) Members of the Corporation;

(ii) One representative of the Policyholders' Associations from each Division;

(iii) Five representatives of the Life Insurance Agents Federation; and

(iv) Five nominated members who are experts in industrial, commercial, financial or administrative fields.

The Council will be a purely deliberative and advisory body without any executive functions. It will meet twice a year and will consider reports prepared by the Corporation on the various aspects of its work and evaluate the performance of the Corporation.

14. The field officers should bring to the notice of the claimants the provisions of Section 47 A of the Insurance Act under which the claimants can at their option refer disputes to the Controller of Insurance. The limit of the insured amount prescribed in Section 47A should be abolished so that all disputes irrespective of pecuniary limits regarding settlement of claims could, at the option of the claimant, be referred to the Controller of Insurance for his decision.

15. The yield aspect of the investments should not be ignored and the Corporation should endeavour to make its policies more attractive by reducing the premium rates and increasing the bonus. Action on these matters

may be taken after the receipt of the report of the Committee of Actuaries which has been set up by the Corporation. In this connection suitable action should be taken for ensuring that old policyholders, are not discriminated against while reducing future premium rates.

16. The policy loans should be made available with the same speed, simplicity and facility as withdrawal of a bank deposit. Further, loans should be disbursed on the basis of a simple assignment of policy to the Corporation and without execution of loan bonds.

17. If the Corporation is required to invest in the public sector over and above the statutory limit prescribed it should be duly compensated for the loss of extra income which it would have earned if the investments had been made in more remunerative and at the same time safe assets.

18. The Corporation should make earnest efforts to safeguard the policyholders against depreciation in the currency value.

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