ECONOMIC REFORMS ON LIC – A CASE STUDY

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ABSTRACT

Insurance is a success story in India. In its infancy it was voluntary and co-operative. It is a very popular economic device of swapping a small certain cost against a large uncertain loss. It is a form of co-operation, through which all those who are subject to certain risks and losses pool their resources to compensate those who actually suffer losses. There are innumerable ways through which insurance mechanism helps the human society. By way of premium, the insurance process collects large amount of funds, which are gainfully employed in the development of the country. Mainly there are three types of insurance marine, fire and life. Among these life insurance is the most popular. It is a business of effecting contract of insurance upon human life. The contract assures payment of money to the dependent on the death of the insured person. The main aim of life insurance is to provide protection against the risks of human life.

Key words : Insurance, economic, swapping, risk.

1. INTRODUCTION

Insurance may be defined as economic system for reducing the uncertainly through pooling of losses; a legal method of transferring risk in a contract of indemnity; a business conducted for profit and providing jobs in an economy; a social device in which the losses of few are paid by many; or an actuarial system of applied mathematics. It is said that changes creates instability and that instability creates uncertainty. Uncertainty creates risk, the necessary urge for the emergence of insurance. The business of insurance is principally risk taking. It is a far older business than is sometimes realized. Insurance is as old as the civilization. It was present in the form of mutual help. Joint stock companies and corporation are the recent form of the insurance. Insurance is one of the most interesting transactions engaged in by people. Insurance may be defined with emphasis on its financial nature or with emphasis on its legal nature. If the subject of insurance is to be learned key terms must be defined carefully. These terms include “loss”, “Perils”, “hazard” and “risk”.

1. **Loss-** When you no longer have something or have less of something.
2. **Perils-** An event that can cause a financial loss, e.g. a fire or storm.
3. **Hazard-** Hazard is any factor that adds to the risk. Hazard causes the loss to take place. Thus, hazard is the cause, loss is the effect.
4. **Risk-** It may be defined as the possibility of adverse result flowing from any occurrence.

An insurance system accomplishes the redistribution of the cost of losses by collecting a premium payment from every participant in the system. In exchange for the payment of the premium, the insured receives a promise from the insurance system to be compensated in the event of a loss. In most insurance system only a small percentage of those insured suffer losses. Thus an insurance system redistributes the cost of losses from the unfortunate few members who experienced them to all the members of the insurance pool who have paid premiums. Insurance transaction may be categorized as life or non life transaction and there classifications are useful for both theoretical and regulatory reasons. Life insurance means every insurance upon the line of human being and every insurance appertaining there to. The business of life insurance shall be deemed to include the granting of endowment benefits; additional benefits in the event of death by accident or accidental means; additional benefits operating to safeguard the contract from lapse, or to provide a special surrender value, in the event of total and permanent disability of the insured; and optional modes of settlement of proceeds. Non life insurance covers property losses associated with such perils as fire, theft and windstorm. Legal liability including workers compensation, claims is another distinct area of non life insurance. Life insurance transaction covers human life contingencies, death, accident and illness and non life. The clarity of distinction between life and non life insurance is blurred in the area of accident coverage which includes industrial accident and non industrial accident.

1.1. Evolution of Life Insurance

The first insurers of life were the marine insurance underwriters who started issuing life insurance policies on the life of master and crew of the ship, and the merchants. The early insurance contracts took the nature of policies for a short period only. The underwriters issued annuities and pension for a fixed period or for life to provide relief to widows on the death of their husbands. The first life insurance policy was issued on 18th June 1583, on the life of William Gibbons for a period of 12 month. It was in the eighteenth century, societies began to be formed for issuing life insurance policies. Among such societies the Amicable Society (1705), the Equitable Life Assurance Society (1762), the West Minister Society (1792) was the important societies. The premium rates were varied in view of reputation and the health condition of the insured. During the early years of nineteenth century, a large number of life insurance companies were formed in India. Some of these companies preferred to amalgamate their business with other companies and a good number failed to function effectively. In order to stabilize and strengthen the insurance business, Life Insurance Companies Act, 1923 was passed and later amended it in 1946, 1958 and 1967.

1.2. Life Insurance in India

Life insurance in its current form came in India from United Kingdom (UK) with the establishment of a British firm, Oriental Life Insurance Company in 1818 followed by Bombay Life Assurance Company in 1823, the Madras Equitable Life Insurance Society in 1829 and Oriental Life Assurance Company in 1874. Prior to 1871, Indian lives were treated as substandard and charged an extra premium of 15 percent to 20 percent. Bombay Mutual Life Assurance Society, an Indian insurer that came into existence in 1871, was the first to cover Indian lives at normal rate. The Indian Life Assurance Companies Act, 1923 was the first statutory measure to regulate life insurance business.

Later, in 1928 the Indian Insurance Companies Act was enacted, inter alia, to enable the government to collect statistical information about life and non-life insurance business transacted in India by Indian and foreign insurers, including the provident insurance societies. In order to protect the interest of insuring public, earlier legislation was consolidated and amended by Insurance Act, 1938 with comprehensive provisions for detailed and effective control over the activities of insurers. In turn to administer the aforesaid legislation, an insurance wing was established and attached first with the Ministry of Commerce and then Ministry of Finance. This ministry was administratively responsible for policy matters pertaining to insurance. The actuarial and operational matters relating to the insurance industry were looked after by an attached office in Shimla, headed first by Actuary to the Government of India, then by superintendent of Insurance and finally by the Controller of Insurance. The act was amended in 1950, making far- reaching changes such as requirement of equity capital for companies, carrying on life insurance business, ceilings on shareholdings, stricter control on investment of life insurance companies, submission of periodical returns relating to investments and such other information to the Controller as he may call for, appointments of administrators for mismanaged companies, ceilings on expenses of management and agency commission, incorporation of the Insurance Association of India and formation of councils and committees thereof.

2. STATEMENT OF THE PROBLEM

Before conducting any research whether it is social, economic, political, commercial or scientific the research has to decide the problem to be investigated. This is termed as problem formulation. The present study is exploratory in nature. LIC being one of the largest financial institutions of India has been contributing significantly towards the socio-economic development of India. After a considerable period of hibernation, the insurance industry has entered into a new era of rapid expansion, and the reform pound. A profound change there in the passes of the IRDA has initiated this process that leads to positive signals to the word. The journey from private sector to nationalization and back, to the entry of private insurers has being quite and eventful one and makes an interesting story. The present research is an attempt to analyze the developments & issues that are responsible for the emerging trends in the life insurance corporation of India.

It can be seen that insurance in India has had a long and chequered history. It had its roots in the British regime and continued with the practices developed then; keeping pace with the changing times is a major challenge for the industry. On the one hand, the industry grew enormously, but on the other, its spread was limited to certain areas and to certain sections. With the result that a large mass of people remains bereft of insurance cover. In the absence of effective control, certain malpractices crept into the business which was, therefore, nationalized. But even in the nationalized set-up, certain shortcomings cropped up which persuaded the govt. to favour liberalization and introduction of competition.

In India, where the state sector had become the mainstay of the economy, this process was unfortunately confined mostly to the manufacturing sector. Some changes no doubt were introduced in two sub-segments of the services sector, viz, the banking and stock markets, but precious little in insurance. Naturally, there was general expectation that in the insurance industry too, competition would be promoted, if full privatization was not possible. The report of the Committee on Reforms in the Insurance sector initiated the debate in 1994 with regard to the reforms in that sector. After its recommendations were accepted by the Govt. in principle, change became imperative and implied structural reforms, change in procedures and practices and most importantly, attitudinal change, disturbance in established inter-relationships among different players, and change in the structure of power centers. For the public sector, these became sensitive issue and involved questions of delegation of authority, dismantling of artificial control, barriers etc. However, even if change meant offending some vested interests, whichever instruments were likely to produce the desired result, were the ones which India also had to adopt. Deregulation, globalization and privatization are the routes that were found to have been successful in many parts of the world. Accordingly, India too, has opted for these routes. In life insurance although there was no element of compulsion to buy insurance, whoever needed it had only one supplier to fall back upon. Therefore, the market network of Indian insurers though extensive, remained weak in terms of efforts.With the insurance industry in India shedding its monopolistic character, its market dynamics are changing fast.

2. METHODOLOGY

The study is based on secondary data obtained through scanning of available literature on the subject from various libraries and institutes. Various magazines, newspapers, journals etc. were consulted. Interviews and group discussions with knowledgeable people in this field. The relevant data from various sources has been collected updated report has been compiled.

3. OBJECTIVES

The present study is an attempt to analyze contributions of LIC for socio economic development in India in the era of economic reform. The dimensions of these broad objectives are:

- To examine the growth and diversity of LIC during the period of study.
- To assess the overall working and performance of LIC and to study the contribution of LIC to social sector development in India.
- To examine the role of agents in mobilizing funds for LIC particularly in the rural sector and study the important provisions of IRDA Act in view of the socio- economic development of the people.

This work presents and account of the development of the past and recent years, the prevailing situation and the likely scenario in terms of potential and possible growth of LIC.

4. SCOPE OF THE STUDY

The scope of the study covers the role of LIC to develop the components of social sectors like education, health, electricity, water supply development etc, in India. The role of LIC in the economic development like, csapital formation, contribution to GDP, investment pattern etc has also been covered. In addition the analysis of the growth, development, investment pattern and various activities of LIC also come within the scope of the work.

5. REVIEW OF LITERATURE

Anurag (2000) suggested that life insurance products could become source of long-term contractual savings. ***Anuroop Singh*** (2000) pointed out that "Experience in Life Insurance business in other markets has shown that actual investment in a three to five year span is normally at least twice the initial equity". ***Meder*** (2001) observed that deregulation will make the insurance market too competitive, resulting in rates that may not be sustainable. With regards to regulation of insurance sector ***Ansari*** (2000) observed that the regulatory approach being charted out is forward looking consultative, consistent and inline with international best practices. ***Sovan Kumar Patnaik*** (2007) observed that through the investment the LIC has been providing solid support to social sector activities like housing, electrification, drinking water etc.

6. PRODUCTS DIVERSIFICATION BY LIC

Product diversification is essential to meet the varying needs, changing preferences and rising aspirations of the customers. Realizing the importance of product diversification LIC has introduced various insurance plans so as to increase its business multifold. Money back polices have increased to the level of Rs.20000 crore. It is prominent assurance policy because of its advantages of investment. The life insurance products can be classified into two groups- packaged and non-packaged. LIC has been introducing new plans almost every year. However, all these fall under one category, packaged plans. That is, the benefits under each plan are pre-defined and the customer has to choose that plan that is closest to his requirements. Whether or not he will be able to make the right choice will depend on the patience and ability of the agent to explain clearly all the different plans that are available. If the agent lacks this ability, the customer may end up with a plan that does not fully meet his requirements. Like LIC, the companies in other countries too sell packaged plans with pre-defined benefits. At the same time, they have introduced plans that allow the customer to choose his requirements. The life insurance products can also be classified in a different way-participating and non- participating (also known as with profit and without profit). Participating policies are like equity stocks. Costlier, but eligible for a share in the companies profits. Non- participating polices are like preference shares. Cheaper, but not eligible to participate in the profits of the company.

The premium rates under non-participating policies will be substantially lower than those under the participating ones. Under both participating and non-participating policies, the sum assured is guaranteed. Additional premium is charged under participating policies with a promise that in case the company performs well, a substantial portion of the profits earned will be given to these policyholders in the form of bonus. However, the bonus portion is not guaranteed. A company will be considered solvent as long as it is able to meet its commitment to pay the sum assured, even if it is not able to declare any bonus under its participating policies.

Soon after the insurance sector is opened and the new companies commence their operations, the Indian market may witness the introduction of non-participating plans with competitive premium rates and also flexible products with multiple options. LIC may not be able to introduce the flexible products immediately because of logistical difficulties. It can however preempt the new entrants by cutting the premium rates under its non-participating plans. But, a better strategy will be to wait for the new entrants to publish their products and premium rates and then reduce its premium rates under non-participating plans to a level lower than that of the lowest. The best bet for the new companies will therefore be to concentrate on flexible and innovative products and avoid direct comparison or confrontation with LIC.

The life insurance policies can be divided on the basis of:

A. Duration of policy
B. Method of premium payments
C. Participation in profit
D. Number of persons insured
E. Method of payment of claim amounts
F. Non-conventional policies

The Life Insurance Corporation of India has introduced several non- conventional policies to meet the requirements of the population. The conventional policies have the main attributes of production at early death or living too long; but majority of the population is interested mainly in investment.

7. IMPACT OF ECONOMIC REFORMS ON LIFE INSURANCE

The government of India in 1993 had set up a high powered committee headed by R.N. Malhotra former Governor RBI, to examine the structure of the insurance industry and recommend changes to make it more efficient and competitive keeping in view structural changes in other parts of the financial system of the economy.

The committee submitted its report in January 1994 recommending that private insurance be allowed to coexist along with Govt. companies like LIC and GIC companies. This recommendation had been prompted by several factors such as need for greater and deeper insurance coverage in the economy and a much greater scale of insurance sector is at least partly driven by fiscal necessity of tapping the big reserves of savings in the economy. Committee's recommendations were as follows:-

i. Raising the capital base of LIC and GIC up to Rs 200 cr. half retained by the govt. and rest sold to the public at large with suitable reservations for employees.

ii. Private sector be granted permission to enter insurance industry with a minimum paid up capital of Rs. 100 cr.

iii. Foreign insurance companies are allowed to enter by floating an Indian companies preferably joint venture with Indian partners.

iv. Steps to be initiated to setup a strong and effected insurance regulatory in the form of statutory autonomous board on the lines of SEBI.

Table

Pvt. Life Insurance Companies with Foreign Partners

S. No.	Name	Name of Indian Partner	Name of Foreign Insurance Co.	Country
1.	ICICI Prudential Life Insurance Co. td.	I.C.I.C.I	Prudential	U.K.
2.	H.D.F.C Standard Life Insurance Co. Ltd.	H.D.F.C	Standard Life	U.K.
3.	Birla Sun Life Insurance Co. Ltd.	Aditya Birla Group	Sunlife	Canada
4.	Om Kotak Mahindra Life Insurance Co. Ltd.	Kotak Mahindra	Old mutual	South Africa
5.	Max- AIG Life Insurance Co. Ltd.	Max India	Old New York Life	U.S.A.
6.	Tata AIG Life Insurance Co. Ltd.	Tata Group	A.I.G	U.S.A.
7.	S.B.I Life Insurance Co. Ltd.	State Bank of India	Cardiff	France
8.	ALIANZ Bajaj Life Insurance Co. Ltd.	Bajaj Auto	Allianz	German
9.	ING- VYSYA Life Insurance Co. Ltd.	Vysya Bank	ING Group GMR Group	Netherlands
10.	AVIVA a Life Insurance Co. Ltd.	Daubour India	C.G No. O	U.K.
11.	AMP Sanmar Assurance Co. Ltd.	Sanmar Group	Amp	Australia
12.	Met Life Insurance Co. Ltd.	M.Palljonji Co. life ltd.	Pvt. Matro Policita J. and Bank Ltd.	U.S.A.

Source: Life Insurance Agents Guide, 1998

8. LIMITATIONS

The main problem faced by the researcher was the scantiness of reliable information, even in regard to conditions in India. Since the field is changing so rapidly, it is difficult to keep the information up to date. However, an effort has been made to compile and present the latest official information to the extent it was available. Due to the time lag in publishing official data and at times because of the questionable reliability of other sources of information, some inaccuracies or ambiguities may have crept in.

9. CONCLUSION

In India systematic insurance business has been basically a 20th century development. After independence, the imbalance in the activities of several companies of foreign origin and private sector of India has been noticed. In response to the discrimination and unorganized conduct of the agencies and to raise much funds needed for rapid industrialization and self reliance, the LIC of India was formed in 1956. The government of India brought together over 200 odd private life insurance and provident fund societies under one nationalized monopoly corporation to take up life insurance business.

The growth of LIC's business has been spectacular. LIC has brought out from time to varied insurance products, keeping in view the social and economic needs of people of this country. LIC launches the products, which address the differing needs of children, women, old age requirements, heath care etc. For welfare of children LIC launches various policies such as Komal Jeevan, Bal Vidya, Jeevan Kishore, Jeevan Sukanya, Jeevan Chhaya etc. All these safeguard the educational interest of children, which is vital component of social sector. For handicapped dependents LIC offer Jeevan Aadhar and Jeevan Vishwas, which help them against, their health disadvantages. Growing importance of women in the economic activities both at the family and business level has led to certain positive response from the LIC. In this context the corporation has launched Jeevan Bharati. Since women represent and under privileged section of the Indian society, this provision of LIC is an attempt to promote their social and economic status.

In order to provide benefits against various kinds of health risks, LIC offers Asha Deep, Jeevan Asha Plans. The human beings need to live long after retirement so as to enjoy the fruits of their working life. This requirement is met in a healthy society, where people make careful planning during their work career. The LIC has rendered a great service by creating provisions that offer security to the senior citizens of the nation. For protecting against the problems of old age LIC offers various pension plans such as Nava Prabhat Plan, Varistha Pension Bima Yojana, Jeevan Dhara, New Jeevan Akshay etc. LIC has also acquired a significant presence in the rural sector.

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