E.C. No. 229

ESTIMATES COMMITTEE
1960-61

HUNDRED AND THIRTY-FOURTH REPORT

(SECOND LOK SABHA)

MINISTRY OF FINANCE
(Department of Economic Affairs)

THE LIFE INSURANCE CORPORATION OF INDIA, BOMBAY

LOK SABHA SECRETARIAT
NEW DELHI
April, 1961
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CONTENTS

		Page
	Composition of the Committee	(v)
	Introduction	(vii)
I.	INTRODUCTORY	1
II.	ORGANISATION :	
	A. Monolithic Structure	3
	B. Tiers of Administration in the Zone	5
	C. Zonal Units in each State	6
	D. Jurisdiction of Divisions	6
	E. Corporation and its Committees	7
	F. Members of the Corporation/Zonal Boards	7
	G. Fees for attending meetings	8
	H. Inspection Organisation	8
	I. Employees' and Agents' Relations Committees	9
	J. Central Office	10
	(i) No. of Executive and Managing Directors	10
	(ii) Posts of Financial Adviser, Executive Director (Accounts) & Chief Internal Auditor	10
	K. Creation of Higher Posts	11
	L. Location of Central Office	12
III.	GOVERNMENT CONTROL	13
IV.	BUSINESS :	
	A. New Business	15
	(i) Indian Business	15
	(ii) Foreign Business	15
	B. Future Plans	16
	C. Targets	16
	D. Total Business in Force	17
	E. Rush of Business towards the end of the year	19
	F. Rural Business	21
	G. Plans of Insurance	23
	(i) Group Insurance Scheme	24
	(ii) Non-medical policies	24
	(iii) With and without profit policies	25
	H. Payment of Bonus to non-participating policyholders	25
	I. Rates of Premia	26
	J. Lapses	27
	(i) Delay in submission of returns	28
	K. State Insurance Schemes	28
	L. Other suggestions	29
V.	FINANCE AND ACCOUNTS :	
	A. Actuarial Valuation	30
	(i) First Valuation	30
	(ii) Second Valuation	31

		Page
	B. Differential Bonuses	31
	C. Compensation to Erstwhile Insurers	32
	D. Bankers of the Corporation	33
	E. Cash in hand	33
	F. Call Deposits	34
	G. Expense Ratio	35
	H. Auditors	36
	I. Annual Reports of the Corporation	36
	J. Revenue Account.	37
VI.	INVESTMENTS :	
	A. Life Fund and Investments	38
	B. Application of statutory requirements to LIC	39
	C. Guiding Principles of Investment Policy	40
	D. Distribution of Investments	41
	E. Investments in Public Sector	44
	F. Functioning of the Investment Committee	44
	G. Performance of LIC *vis-a-vis* Objectives of Investment Policy	47
	(*i*) Advancement of Social Objectives	47
	(*ii*) Diversification of Investments not achieved	47
	(*iii*) LIC not to indulge in speculation.	51
	H. Assessment of present investment policy	51
	I. Objectives re-assessed	54
VII.	STAFF MATTERS :	
	A. Number of employees	57
	B. Salaries of Officers	60
	C. Financial assistance for defence in legal proceedings	60
	D. Field Officers	62
	E. AGENTS :	63
	(*i*) Number of agents	63
	(*ii*) Benami agencies	64
	F. System of rebating	65
	G. Delay in payment of commission	65
	H. Nomination by Agents for hereditary renewal commission	65
	I. Employment of Scheduled Castes/Tribes	66
	J. Miscellaneous	66
	(*i*) Partnerships as Agents	66
	(*ii*) Panchayats as Agents	66
VIII.	SERVICE TO POLICYHOLDERS	
	A. Premium Notices	68
	B. Place of Payment of Premia	69
	C. Deduction of premia at source	69
	D. Grant of Loans	70
	(*i*) Procedure	70
	(*ii*) Surrender value	71
	E. Settlement of claims	71
	F. General	73

		Page
IX.	MISCELLANEOUS	
	A. Buildings	75
	B. Loans on Mortgages of Property	76
	C. Insurance Year Books	77
X.	SUBSIDIARIES OF THE CORPORATION	78
APPENDICES :		
I.	Organisational set up of the LIC	79
II.	Functions of the Corporation and its Zonal, Divisional and Branch/ Sub-Offices	80
III.	List of Members of the LIC	90
IV.	Members of Employees' and Agents' Relations Committees .	91
V.	Organisation of Central Office of the LIC	93
VI.	Directions issued by Govt. to the LIC	94
VII.	Particulars of foreign offices of LIC and business secured by them	96
VIII.	Particulars of urban and rural business completed in the years 1957, 1958 and 1959	97
IX.	Lapse ratio for leading Indian and non-Indian insurers . .	98
X.	List of Bankers of the LIC	99
XI.	Statement showing the overall and renewal expense ratio of the Corporation Zone-wise	103
XII.	Ministry of Home Affairs O.M. No. 45/5/53-Ests (A) dated 8-1-1959	105
XIII.	Duties of Field Officers of the Corporation	109
XIV.	No. of Agents promoted as Field Officers during 1958 & 1959 .	110
XV.	Table showing the surrender value of LIC Policies and policies of a few erstwhile insurers	111
XVI.	Report on the inspection of various Offices of the Corporation placed before the Executive Committee of the Corporation on 14-11-1960	112
XVII.	Scheme for granting of loans on mortgage of property . .	116
XVIII.	Particulars of subsidiaries of the LIC	117
XIX.	Summary of conclusions and recommendations	119
XX.	Analysis of recommendations contained in the Report . . .	137

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1960-61

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Shri M. C. Chawla—*Under Secretary.*

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*Elected w.e.f. 25th November, 1960, *vice* Shri Dinesh Singh resigned.

INTRODUCTION

I, the Chairman, Estimates Committee having been authorised by the Committee to submit the Report on their behalf, present this Hundred and Thirty-Fourth Report on the Ministry of Finance (Department of Economic Affairs)—Life Insurance Corporation of India, Bombay.

2. The estimates relating to the Ministry of Finance—Life Insurance Corporation of India—were examined in detail by the Sub-Committee of the Estimates Committee on Public Undertakings which took the evidence of the representatives of the Life Insurance Corporation from 29th November to 3rd Decmber, 1960 and of the representatives of the Ministry of Finance on 19th, 20th and 21st December, 1960 and 16th January, 1961. The Report was adopted by the Sub-Committee on 7th April, 1961 and finally approved by the whole Committee on 10th April, 1961.

3. A statement showing an analysis of the recommendations contained in this Report is also appended (Appendix XX).

4. The Committee wish to express their thanks to the officers of the Ministry of Finance (Department of Economic Affairs) and the Life Insurance Corporation of India for placing before them the material and information that they wanted in connection with the examination of the estimates. They also wish to thank Shri K. G. Rao, President, Life Insurance Agents' Association of India, Madras; Shri G. L. Dhingra, New Delhi; Shri A. Subbiah, Madras; Shri M. M. Ahuja, Delhi; Shri S. S. Ali, President, Insurance Underwriters' Association of India, Calcutta; Shri V. Parthasarathi, Hyderabad and Prof. K. B. Madhava, Consulting Actuary, Madras for giving evidence and making valuable suggestions to the Committee.

NEW DELHI;
14th April, 1961
Chaitra 24, 1883 (*S*).

H. C. DASAPPA,
Chairman,
Estimates Committee.

I

INTRODUCTORY

The history of life insurance in India can be said to have started from the failure in 1870 of two British life offices, the European and the Albert, which had built up extensive business in India. This led to the establishment of the Bombay Mutual (1871) and the Oriental (in 1874). A number of other companies were formed in course of time and prior to nationalisation the life insurance business was being carried on by 243 different units, both Indian and foreign.

The circumstances and considerations which led to the decision for nationalisation were discussed in detail in Parliament during the discussions on the Life Insurance Corporation Bill. The reasons for nationalisation incorporated in the statement of Objects and Reasons of the LIC Bill, 1956, were:

> "To ensure absolute security to the policyholder in the matter of his life insurance protection, to spread insurance much more widely and in particular to the rural areas, and as a further step in the direction of more effective mobilisation of public savings, Government have decided to nationalise life insurance business in India."

2. The first step towards nationalisation was taken on the 19th January, 1956 by the promulgation of the Life Insurance (Emergency Provisions) Ordinance, 1956 whereby, pending the passing of a Bill to nationalise such business, the management of the life insurance business in India was vested in the Central Government. To replace that Ordinance, the Life Insurance (Emergency Provisions) Bill was introduced in the Lok Sabha on the 17th February, 1956. The Life Insurance Corporation Bill, which laid down the permanent arrangements for nationalisation, was introduced in the Lok Sabha on the 19th February 1956 and came into force from 1st July, 1956. The Life Insurance Corporation of India came into existence on 1st September, 1956.

Task of Integration.

3. As a result of nationalisation, the controlled business of 243 different units which had total assets of about Rs. 411 crores, life fund amounting to Rs. 380.61 crores, over 50 lakh policies assuring a total sum of more than Rs. 1,250 crores, nearly 27,000 salaried employees and 216 branch

and sub-offices was integrated. The task of integration of 243 units and their re-organisation was indeed gigantic and by no means an easy one. This is reported to have been completed and on the 31st December, 1959 the Corporation had total assets of about Rs. 552 crores, life fund amounting to Rs. 493 crores, 69.36 lakh policies assuring a total sum of Rs. 1964 crores, 37,341 employees and 345 branch and sub-offices.

II

ORGANISATION

4. The organisation of the Corporation is broadly laid down in Section 18 of the Life Insurance Corporation Act, 1956. At present it consists of a Central Office at Bombay and five Zonal Offices (Northern, Southern, Central), Eastern and Western) with Head Offices at Delhi, Madras, Kanpur, Calcutta and Bombay respectively. There are number of Divisional and Branch Offices under each Zone. A chart of the existing organisation is given at Appendix I. Set—up.

A. Monolithic Structure

5. The present organisation of the Corporation has been characterised in some quarters as monopolistic and monolithic. Even when the LIC Bill, 1956 was under the consideration of Parliament it was suggested by certain Members that instead of one, 4 or 5 Corporations should be set up as the establishment of a single Corporation would impair flexibility and also present problems of management. Further, no norms would be available to judge its performance. The then Minister of Finance replied to these criticisms as follows:— Suggestions in Parliament.

> "....We feel that to start with we should have only one autonomous Corporation with Zonal Organisations and if we find that it does not work satisfactorily then it would be open to us to change over from it to a number of autonomous Corporations. This process would be easier than the reverse process that is to say to proceed from several autonomous Corporations to one monopoly Corporation."

6. Since then, the present structure of the Corporation has continued to be the subject of criticism in and outside the House and its splitting up into a number of corporations has been suggested more than once. Speaking on the Chagla Commission Report on the 20th February 1958, the Prime Minister said in the Lok Sabha:

> "Some Members have suggested that it might have been desirable or it might be desirable in the future for this huge organisation to be split up into three or four. It is a matter which may be considered. If that is more advantageous, it should be done. We should not hesitate to do it."

Views of Krishna Menon Committee.

7. In their Report on Parliamentary Supervision over State Undertakings, the Sub-Committee of the Congress Party in Parliament (Krishna Menon Committee) also stated that:—

> "The L.I.C. would, in our view, function more gainfully and effectively if it were not all one unit, but consisted of several which would develop their own character, create healthy competition in performance and results. Such a step would also help to effect economies, given opportunities for more talent to become utilised in positions of higher responsibility, etc."

Earlie views of the Estimates Committee.

8. In their 80th Report (Second Lok Sabha) on the Forms and Organisation of public undertakings the Committee stated as under:—

> "The Committee....agree with the view that the pattern should be to utilize the existing organisations to take up new activities in the line instead of creation of new bodies for the purpose.... *But this does not mean that where a line of activity has the character of being or becoming huge and monopolistic and is not of strategic significance more than one unit should not be set up for the purpose.*"

Suggestions made to the Committee.

9. A number of suggestions were made before the Committee regarding changes necessary in the present organisational set-up of the Corporation. One suggestion was that the Corporation should be split up into a number of autonomous corporations each operating all over the country. Another suggestion was that the Corporation should be split up into semi-autonomous Zonal Corporations with defined exclusive jurisdiction. The Chairman of the Corporation informed the Committee that if the new business of the Corporation in a year exceeded Rs. 1,000 crores, it might become necessary to split it up into one or more separate bodies. This target is expected to be reached by 1963. *It is, therefore, high time to review the present organisational set-up and decide on the pattern which would best meet the requirements of the growing business of the Corporation.*

Views of the Committee.

10. *It is to some extent true that in the case of a monopolistic and monolithic enterprise like the Life Insurance Corporation, no comparative standards for measuring efficiency and performance are readily available. In the absence of such competition, perhaps defects cannot also be easily located or removed. The suggestion that the*

Corporation should be split up into a number of independent corporations, all operating throughout the country has, however, certain obvious drawbacks. Such an arrangement would entail the setting up of parallel organisations at all levels entailing considerable avoidable expenditure.

The second suggestion, which contemplates a federal structure with semi-autonomous zonal units, has a number of desirable features. It will not entail duplication of organisation. On the other hand the grant of more autonomy in the writing of business, payment of claims, grant of loans, servicing etc., will encourage initiative and can be expected to result in increased efficiency. Such delegation of functions is also likely to require a smaller Central Organisation which need be concerned only with policy matters, overall supervision, co-ordination, rates of premia, higher recruitment, postings and transfers, training, inspection, etc. An element of competition between the different semi-autonomous Zonal Units could thus be introduced. The figures of new business, management expenses, overall and renewal expense ratios, profit and loss, etc. could be worked out for each Zone and published separately in the Annual Reports of these Units to enable their efficiency to be judged. The Committee recommend that the matter may be examined in the light of the observations made above.

It will be seen that in this connection the Committee have not included investments among the activities suggested for the semi-autonomous units. On this, as will be seen later, separate recommendations are made in Chapter VI.

B. Tiers of Administration in the Zone

11. There are at present four tiers of administration in the Corporation, *viz.* Branch/Sub-offices, Divisional Offices, Zonal Offices and the Central Office. The functions of each of them are indicated in Appendix II. *It would appear that there is considerable duplication of functions not only between the Divisional Offices and the Zonal Offices but also between the Zonal Offices and the Central Office.* The semi-autonomous zonal units suggested in paragraph 10 would eliminate any overlapping of functions between the Central and the zonal offices. As regards the organisation in the zones, it was suggested that a Zonal Office of the Corporation should be set up in each State to directly look after the work of the Branches under it and the present

Superfluous tiers.

Divisional Offices abolished. The Committee also note that the Finance Minister (Shri T. T. Krishnamachari) observed in the Lok Sabha in 1957 that:

> "....there are certain superfluous tiers in the administration (of LIC) which require to be eliminated. There should be direct contact between the Branch Officers, who are the real producers of business and the Central Office which is responsible for the fomulation of policy and other intermediary offices should be only of a supervisory character."

The Chairman of the Corporation agreed during evidence that after the L.I.C. had completed its training programme for its officers and staff it would be possible to work with a Zonal Office in each State looking after all the Branch Offices directly. The representative of the Ministry also stated that as time went on and matters improved it would be desirable to bring about a reduction in tiers. *It is quite clear that at least one of the two tiers in a Zone is superfluous and could be eliminated.*

C. Zonal Units in each State

Direct contact with Branch Offices.

12. At present each Zonal Unit of the Corporation covers two to four States with an area of 2 to 3 lakh square miles and a population ranging from 4 to 9½ crores approximately. It has been represented to the Committee that the present area of each zone is rather large for easy management. In paragraph 10, the Committee have recommended the setting up of semi-autonomous Zonal Units. The Committee are not aware whether administrative and financial considerations would justify or warrant creation of such a semi-autonomous unit in each State immediately. *They expect that in the years to come the rising tempo of business would justify the creation of zonal units in at least most of the States, if not all. The Committee suggest that the feasibility of doing so may be kept in mind when a re-organisation on the basis of the recommendation for creating semi-autonomous zonal units is to be considered. Moreover, if such a unit is set up in each State it should be easier for such Offices to deal with the Branch Offices directly without an intermediate Divisional Office, which could then be done away with.*

D. Jurisdiction of Divisions

Need for demarcation.

13. The Committee were informed that the jurisdiction of the Divisional Offices of the Corporation had not been

defined as required under Section 49(2) of the L.I.C. Act, 1956 and that in certain cases it extended to more than one State. *The Committee suggest that the jurisdiction of Branch and supervisory offices may be demarcated in such a way as not to fall in more than one State except for very special reasons.*

E. Corporation and its Committees

14. The affairs of the Corporation are managed by the 15 members appointed by the Central Government, one of whom is appointed as the Chairman. The names of the Members of the Corporation as on 1st September, 1960 are given in Appendix III. The work of the Corporation is conducted through four Committees, namely the Executive Committee, the Investment Committee, the Services and Budget Committee and the Public Relations Committee. At the zonal level, Zonal Advisory Boards and the Employees' and Agents' Relations Committees have been constituted to advise the Zonal Managers.

F. Members of the Corporation/Zonal Boards

Qualifications not laid down.

15. No qualifications for Members have been laid down in the L.I.C. Act. The Committee were, however, informed that the criteria for appointment of members was that they should have some standing, administrative ability and a necessary background in order to bring to bear their experience and balanced judgement on matters which came up before them. Insurance experience was not necessary, although some of the members were stated to have been previously associated with the erstwhile insurers. Similarly, knowledge of insurance business was not insisted on while nominating persons to the Zonal Advisory Boards. It is also seen that no woman member has been appointed on the Corporation so far.

Examination of composition, powers and functions suggested.

16. *Should there be decentralisation of functions of the Central Office and semi-autonomous zonal units are created, as envisaged in paragraph* 10 *above, then the composition, powers and functions of the Members of the Corporation as well as the Zonal Advisory Boards would require examination and the Zonal Advisory Boards would have to be strengthened by the addition of people having knowledge of insurance business. The Committee trust that these matters would be examined by Government at the appropriate time. As an immediate measure, Government may endeavour to appoint more members with experience of life insurance work.*

G. Fees for attending meetings

Present rates.

17. At present the non-official members of the Corporation are paid fees for attending meetings of the Corporation and its Committees at the following rates, in addition to the travelling and daily allowances:—

(a) for meetings of the Corporation—Rs. 100 for each meeting; and

(b) for meetings of any Committee constituted by the Corporation—Rs. 25 for each meeting.

The Committee were informed by the representative of the Ministry that these fees were fixed on an *ad hoc* basis and the low fees for the meetings of the Executive Committee were fixed as a measure of economy because it was felt that the meetings of the Corporation were less frequent than those of the Executive Committee. They, however, note that the Executive Committee held 27 and 20 meetings during the years 1957-58 and 1958-59 respectively as against 17 and 15 meetings of the Corporation held during the same period.

Retionale necess ary.

18. *The Committee find that the fees paid to the Members for attending the meetings of the Boards of Directors etc. differ from one undertaking to another. They feel that there should be some rationale for fixing such fees for the meetings of different bodies in all the public undertakings.*

H. Inspection Organisation

19. The central office of the Corporation has an Inspection Wing entrusted with periodical inspections of the various offices of the Corporation. The Inspection Organisation has local staff at the Zonal Offices also. The Inspecting Officers work in four groups, which have their headquarters at Bombay, Calcutta, Delhi and Madras.

Inspection of each office once every year.

20. Regulation 47 of the LIC Regulations, 1959 provides that 'every office of the Corporation shall be inspected at least once a year.' The representative of the Corporation stated during evidence that they had found that it was not possible to inspect every office and the Corporation were examining the question of increasing the strength of the Inspectorate. *The Committee consider that an inspection of every office should be carried out at least once every year, as provided in the L.I.C. Regulations.*

Special attention to servicing of policies etc.

21. The Corporation has prepared questionnaires for each Department of the Branch Office to help the Inspecting Officers in carrying out the inspection efficiently. Similar questionnaires for Divisional and Zonal Offices were stated

to be under preparation. *Copies of the inspection reports furnished to the Committee indicate that servicing of policies in such offices leaves room for considerable improvement. This matter has been dealt with in paragraphs 164 and 165. The Committee have elsewhere suggested the abolition of the Divisional Offices when servicing will become the responsibility of the branch offices. Till such time that the recommendation is implemented, the Committee feel that the inspection organisation should pay special attention to the servicing of policies and payment of claims during their periodical inspection of the Divisional Offices.*

I. Employees' and Agents' Relations Committees

22. Employees' and Agents' Relations Committees have been constituted in each zone to advise the Zonal Managers on matters relating to the welfare of the employees and agents of the Corporation or which are likely to promote and secure amity and good relations between them and the Corporation. A list of the members of the Committees as on 1st September, 1960 is given in Appendix IV.

23. It was brought to the notice of the Committee that none of the Agents' Associations were represented on these Committees. Agents were nominated in their individual capacity. Further, the meetings of these Committees were also not held regularly. The Chairman of the Corporation informed the Committee that since the Agents' Unions did not exist in all places the former practice was for the Zonal Managers to nominate some Agents to serve on the Committee from their knowledge of the Agents working in the Zone. He presumed that after the Unions had been formed in certain places, they were being consulted. He promised to ask the Zonal Managers to consult the Unions before making nominations when the Committees were reconstituted. **Agent's Association not represented.**

24. The Committee were informed that the meetings of these Committees were held once a quarter and in one zone where those were not being held, the Chairman of the Corporation had told the Zonal Manager that the meetings should be held every quarter regularly. The number of meetings held in each Zone during the last 3 years as furnished to the Committee is given below:— **Meetings held.**

Year	Northern	Central	Eastern	Southern	Western
1957	..	1	1	..	2
1958	4	1	..	..	8
1959	2	..	..	..	4

25. *It is evident that the Committees are not meeting regularly in all the Zones. In the Southern Zone no meetings have been held for 3 years and in Eastern Zone only one meeting has been held for 3 years. These are statutory committees which it is expected will be taken a little more seriously. The Committee trust that necessary action would be taken to ensure that the Agents' Associations are adequately represented on these Committees and their meetings are held regularly.*

J. Central Office

(i) *No. of Executive and Managing Directors*

26. A chart showing the organisation of the Central Office of the Corporation is given in Appendix V. There are two Managing Directors, four Executive Directors and a Zonal Manager in the Central Office in addition to the Secretaries to look after each Department. The Chairman of the Corporation stated during evidence that the Executive Directors, more or less, corresponded to Secretaries to Government and the Secretaries, who worked under them, were like Joint Secretaries. In justification for having so many highly-paid Officers at the Central Office, he stated that the Corporation had to handle tremendous problems of setting up an organisation from over 240 distinct companies, including categorisation of officers, and frame rules and regulations for the working of the staff in the various offices. Each Director had sufficient work and unless they were assisted by Senior Officers it would not have been possible for them to discharge their responsibilities. *The Committee feel that such a hierarchical system of administration may not be quite suitable for the public undertakings. Probably the existence of a large number of managerial staff belonging to the erstwhile insurers at the time of nationalisation, who had to be absorbed, might have influenced, to some extent, the present set-up. They consider that with the stabilisation of working methods—quite apart from the decentralisation suggested in paragraph* 10 *above—there should be enough scope for reduction in the top posts in the L.I.C. particularly in the Central Office.*

(ii) *Posts of F.A., Executive Director (A/Cs.) and Chief Internal Auditor*

27. The Corporation has a Financial Adviser, an Executive Director (Accounts) and a Chief Internal Auditor for, more or less, similar functions. In a note furnished to the Committee, the Corporation stated that the Executive Director (Accounts) at the Central Office was necessary for co-ordination, giving advice to the various offices, com-

pilation of consolidated accounts for audit and for the annual reports and for income-tax matters. The Chief Internal Auditor was stated to be incharge of Internal Audit Department which was necessary to ensure better check and efficiency. The Financial Adviser, who was a recent addition to the Central set-up, advised on expenditure proposals coming up before the Chairman and the Committees and the Board of the Corporation and dealt with various problems relating to financial delegation, staff regulations, pay scales, etc.

Necessity of continuing three separate posts to be examined.

28. *It appears that the functions of the three Officers are to a large extent allied and are in fact being performed by a single officer in the Railways and, to some extent, in the Defence Accounts Organisation. The Committee recommended that the justification for the continuation of these three separate posts in the Corporation may be examined with a view to reduce the number.*

K. Creation of Higher Posts

No Govt. control.

29. The Committee were informed that Government had no powers over the creation of and appointment to any posts in the L.I.C. They find that in the case of all Government companies and of statutory corporations, like Oil and Natural Gas Commission, Employees' State Insurance Corporation, Khadi and Village Industries Commission, prior approval of Government is necessary for creating and making appointment to posts carrying a pay beyond the prescribed limits ranging between Rs. 500 to Rs. 2,000 p.m.* *The Committee are of opinion that there should be uniformity in all public undertakings in this respect and recommend the desirability of Government issuing a Direction to the Corporation under Sec.* 21 *of the L.I.C. Act,* 1956, *requiring it to seek approval of Government for creation of posts carrying pay over certain limit. They would also refer to the views expressed in paragraph* 48 *of the Report of the Sub-Committee of the Congress Party in Parliament on Parliamentary Supervision over State Undertakings that 'appointments carrying monthly salary of Rs.* 2,000 *and above should be made by Government'. In this connection, reference is also invited to paragraph* 132 *of the Report.*

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* The limit in the case of Oil and Natural Gas Commission is Rs. 2,000 and it is Rs. 500 in the case of both the Employees' State Insurance Corporation and Khadi and Village Industries Commission.

L. Location of Central Office

Reason for location at Bombay.

30. The Central Office of the Corporation is located at Bombay. The main considerations which weighed with the Central Government in locating it at Bombay were:—

(i) the need for closest touch with the security and share market of Bombay for administration of its funds;

(ii) the need for closest liaison with the Reserve Bank of India since both dealt with large-scale funds and large-scale investments; and

(iii) it was administratively most convenient to locate the Central Office at Bombay since the bulk of its staff was to come from there.

Desirability of shifting to a more suitable place be examined.

31. It has been represented to the Committee that the advantages for investment obtained from the present location are to some extent outweighed by the risks of influence that the proximity to such a security and share market might have on the Corporation's activities. In view of the Committee's recommendations on investments in Chapter VI of the Report, the first consideration would cease to apply. As for the second reason in regard to the need for the closest liaison with the Reserve Bank, there does not seem to be much validity in the same as the Reserve Bank is not even represented on the Investment Committee. *Whatever justification there may have been for locating it in Bombay originally when the head offices of most of the erstwhile insurers situated in Bombay had to be integrated, now that it has been done, the need for its continued location there loses much of its significance. Moreover, with the creation of semi-autonomous Zonal Units recommended at paragraph 10 of the Report, it would be administratively convenient for the Central Office of the LIC to be located at a more central place from where the work of co-ordination and overall supervision may be discharged more conveniently. The Committee recommend that Government may examine the desirability of shifting the Central Office of the LIC from Bombay to a more suitable place.*

III

GOVERNMENT CONTROL

Powers of Govt. to issue Directions.

32. Section 21 of the L.I.C. Act, 1956 empowers Government to issue directions to the Corporation in writing in matters of policy involving public interest. The Committee were furnished with copies of two directions issued by Government to the Corporation which are reproduced at Appendix VI.

Directions issued.

33. During evidence the Chairman of the Corporation stated that those were the only directions issued by Government. When referred to a statement made by the Minister of Finance in the Lok Sabha on the 18th April, 1960 in the course of discussion on the Demands for Grants relating to the Ministry of Finance when he said "I have told the LIC to take a serious note of what Shri Subbiah has said and, to the extent practicable, to review their procedures to make them foolproof so that there is no occasion for having such allegations against them", he stated that this was a suggestion and not a direction. He agreed that there was no provision in the LIC Act other than Sec. 21 under which a suggestion could be made. Subsequently, the Chairman of the LIC stated that the question of relationship of Government and a statutory corporation of the nature of LIC was a very important one. The statute might provide for the issue of a direction in accordance with the specific provisions made in it but it was his personal opinion that it was not quite proper for the Government to issue a direction in every case. The Government might make a suggestion to the Corporation for consideration. If the particular suggestion was not acceptable to the Corporation, Government might accept the position or, if they thought otherwise, proceed to issue a direction. Sometimes the Government might ask the Corporation to do certain things by issuing an official letter or even make a suggestion in a demi-official letter. He felt that in such cases the Corporation would have freedom to make a representation to Government if it felt that the suggestion could not be carried out. If Government were convinced with those reasons, the question of issuing a direction did not arise. The question of a formal direction under Sec. 21 of the L.I.C. Act came at the last stage. Only orders specifically issued under Sec. 21 of the Act and worded as such were treated as directions.

Distinction between suggestions and instructions for compliance.

34. *In administering a public undertaking there has necessarily to be a large measure of consultation between Government and the undertaking concerned. It is also perhaps inevitable that such consultation would include a number of suggestions from the Government to the undertaking. But a clear distinction has to be drawn between suggestions made for consideration by the undertaking and suggestions which are really in the nature of instructions to be complied with.* The Committee were furnished with copies of letters exchanged between the Government and the L.I.C. regarding cases where suggestions were made for examination or for compliance. They find that at least in two cases certain instructions were issued by Government regarding specific investments to be made by the LIC and the policy to be followed by it while making investments which, in the Committee's opinion, were for compliance by the Corporation and not for consideration.

Views of Government.

35. The Committee also find from copies of certain notings furnished to them that the following views were recorded by the Secretary to the Ministry of Finance (Deptt. of Economic Affairs) on 21st May, 1960 in connection with underwriting of shares by the LIC:

> "....If FM agrees with this view, I propose to write to Shri Gopalkrishnan and tell him that this is the Govt.'s view on the subject and that he should place it before his Board. If the Board adopt the Government view, the matter will end there, otherwise, the Board will have to give us more cogent reasons for going in for underwriting. If they do so, Govt. will either accept their view or issue a directive."

The views were accepted by the Finance Minister.

View of the Committee.

36. *The Committee are of opinion that the views of the Government set out in the preceding paragraph lay down the correct principles which should regulate the relationship between an undertaking and the administrative Ministry concerned. When a suggestion is made for consideration it is open to the undertaking to accept it or not. When, however, the Government issues instructions which are for implementation and not merely for examination, such instructions should appropriately be issued as directions. The Committee suggest that it would be desirable for Government to lay down these principles clearly for guiding the relationship between the public undertakings and concerned Ministries. Any directions issued should also be published in the Annual Reports of the Undertakings as recommended by the Committee in paragraph 26 of their 86th Report (2nd Lok Sabha).*

IV

BUSINESS

37. The business of the Corporation is required to be carried on in accordance with the provisions of Section 6 of the Life Insurance Corporation Act, 1956. Its principal object is to carry on life insurance business, in and outside India, in such a way that it is developed to the best advantage of the community. The Corporation has also been given powers to carry on capital redemption business, and annuity and re-insurance business relating to life insurance.

A. New Business

38. The comparative figures of new business transacted during the year preceding nationalisation and each of the years 1956 to 1960 are given below:—

Year	IN INDIA No. of policies	Sum assured (Crores of Rupees)	Average sum assured per policy Rs.	OUT OF INDIA No. of policies	Sum assured (Crores of Rs.)	Average sum assured per policy Rs.
1955	7,96,030	240.51	3,021	35,461	20·33	5,733
1956	5,49,401	187.69	3,416	17,956	12.59	7,011
1957	8,10,738	277.67	3,424	5,055	5.40	10,682
1958	9,54,771	339.06	3,551	5,399	5.62	10,409
1959	11,43,387	419.70	3,671	7,912	9.47	11,969
1960*						

(i) *Indian Business*:

39. It would be seen that between the period 31-12-55 and 31-12-59 the number of policies issued by the Corporation in India had increased by 43·6% and the sum assured by nearly 75%. The average sum assured had also increased by 21·5% during the same period.

(ii) *Foreign Business*:

40. A statement showing the break-up of new foreign business written by the Corporation in each country in the years 1957, 1958 and 1959 is given in Appendix VII. As

*At the time of factual verification the figures for 1960 were stated to be as follows:—

IN INDIA No. of policies	Sum assured Crores of Rs.	Average sum assured per policy Rs.	OUT OF INDIA No. of policies	Sum assured Crores of Rs.	Average sum assured per policy Rs.
12,49,821	487·84	3,903	7,736	9·70	12,539

to the reasons for decline in the foreign business of the Corporation as compared to pre-nationalisation figures, it was stated that about 50% of its business came from Burma, Pakistan and Ceylon, where the Corporation decided to discontinue writing new business. Further, till about July, 1956, it was doubtful whether the proposed Corporation would undertake to transact new business in foreign countries. This led to a number of good workers joining the foreign companies and the Corporation was faced with a considerably depleted development force when it decided to write business in foreign countries. The Corporation is stated to have since rehabilitated itself in most of the countries. Its foreign business is also gradually improving.

B. Future Plan

Tentative Five-Year Plan.

41. The Corporation has drawn up a tentative Five-Year Plan of phased development of business covering the period 1959—63 with a view to reach by 1963 an annual new business target of Rs. 1,000 crores. Annual targets of new business were also fixed for the years 1957 and 1958. The targets fixed each year for new business upto 1963 and new business actually written upto 1960 are given in the table below:—

Year	New Business target	New Business written	Excess or Decrease over target
		(Crores of rupees)	
1957	260	283·07	+23·07
1958	325	344·68	+19·68
Five-Year Plan			
1959	415	429·17	+14·17
1960	525	*460·06	—64·94
1961	655	—	—
1962	820	—	—
1963	1000	—	—

C. Targets

42. The Committee were informed that the targets were fixed on an *ad-hoc* basis, keeping in view past performance, strength and quality of field force available and potentiality for life insurance business in the country. No precise statistical data had been collected for this purpose. Steps were being taken to build up necessary statistics

Fixed on *Ad-hoc* basis.

*S.Q. No. 1062 answered in Lok Sabha on 23-3-61. At the time of factual verification on 13th April, 1961 it was stated that in 1960 the new business completed was Rs. 497.54 crores and the figure given in reply to S.Q. No. 1062 in the Lok Sabha on 23-3-61 was provisional figure. The deficit over the target in 1960 would thus work out to Rs. 27.46 crores.

through the field officers in various areas. These would form the basis for fixing the future targets. *The Committee consider that one of the ways to do so would be by collection of statistics of potential business through field officers by means of properly devised proforma.*

43. During the discussion on the First Annual Report of the Corporation in the Lok Sabha on the 6th August, 1959, the Finance Minister (Shri Morarji Desai) stated as follows:— **Views of the Minister.**

> "I have even told the L.I.C. that even though the work is better, I am not quite satisfied. I should like to have it in a greater volume and we should like to reach the figure of Rs. 1,000 crores in work as early as possible. They have an idea of doing it within five years. Well, it is good ambition for them but I would say that it can be even bettered."

The Committee are glad to note that the Corporation exceeded the targets of new business during the first three years of its working but they fail to understand why there has been a shortfall of about Rs. 65 crores in the year 1960, i.e. over 12% of the target of Rs. 525 crores. The target of increase from 1960 to 1961 is Rs. 130 crores, from 1961 to 1962 Rs. 165 crores and from 1962 to 1963 it is Rs. 180 crores. This on an average for the three years works out to Rs. 158 crores per year. The actual increase for the previous three years 1957 to 1960 has been Rs. 59 crores a year on an average, that is nearly a third of the anticipated average increase in the next 3 years. Unless the Corporation improves on its present performance in securing new business by about 3 times, the target of business fixed for 1963 cannot be fulfilled. The likelihood of the Life Insurance Corporation even bettering this target, as indicated in the speech of the Finance Minister seems rather doubtful. The Committee hope that the target of new business under the Five-Year Development Plan will not have to be substantially revised and suitable steps will be taken to reach it after analysing the reasons for shortfall in 1960 and overcoming them. **Shortfall during 1960.**

D. Total Business in Force

44. The total business of the Corporation in force on 31st December, 1959 was Rs. 1,964 crores under 69·36 lakh policies. Out of this, Rs. 1,862 crores under 66·80 lakh policies was the business in India and Rs. 102 crores under 2·56 lakh policies was the business out of India.

The following table gives the business in force at the end of each of the years 1955 to 1960:—

Year	IN INDIA		OUT OF INDIA		TOTAL	
	No. of policies (in Lakhs)	Sum assured and bonuses (Crores of Rs.)	No. of policies (In lakhs)	Sum assured and bonuses (Crores of Rs.)	No. of policies (In lakhs)	Sum assured and bonuses (Crores of Rs.)
1955 .	45·16	1,128	2·76	92	47·92	1,220
1956 .	(Please see note below)					
1957 .	54·18	1,374	2·65	99	56·83	1,473
1958 .	59·74	1,584	2·60	98	62·34	1,682
1959 .	66·80	1,862	2·56	102	69·36	1,964
1960 .	Not available					

NOTE.—As the first accounting period of the Corporation covered the 16 months from 1st September, 1956 to 31st December, 1957 the Corporation did not compile the figures in respect of total business in force on 31st December, 1956.

Ratio of Business in force to national income.

45. The Committee understand that one index of the extent of the life insurance protection provided in a country is the ratio of life insurance ownership to national income. This ratio for a few countries in 1958 is given below:—

Country	Ratio of life insurance to national income
Canada	157%
U.S.A.	135%
New Zealand	94%
U.K.	63%
India	13%

Even if allowance is made for the lower margin of savings available to the prospective assured for life insurance in the country, it would appear that there are vast sources which are yet to be tapped.

Mobilisation of savings of the people.

46. Referring to the objective of mobilising the savings of the people contemplated at the time of nationalisation of life insurance, the Chairman of the Corporation informed the Committee that this could be said to have been achieved if the Corporation had a total business of Rs. 10,000 crores in force. He further stated that if the

target of Rs. 1,000 crores of new business was achieved by 1963, the Corporation could hope to reach the total business of over Rs. 6,000 crores in 1966. *The Corporation did not, however, seem to be aware of a higher goal set by the Minister of Finance (Shri C. D. Deshmukh) in his speech in the Lok Sabha in* 1956 *when he said*:

> "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. 1,200 crores to Rs. 8,000 crores. . . .in the course of next ten years. (While) I have very little doubt that the nationalised life insurance wil be able not only to achieve it but exceed it. . . ."

47. *The Committee trust that the Corporation would plan its future programme after taking into account the various targets of performance indicated before Parliament from time to time and the vast potential of life insurance which is obviously there. They hope that Government also will keep a continuous watch over the actual performance of the Corporation so that it may not fall behind the targets and that the objectives of nationalisation are amply fulfilled.*

E. **Rush of Business towards the end of the year**

48. The figures of new business written in the last two months of the year, *viz. November and December,* during each of the last three years are given below:—

Year	Month	Sum assured (Crores of Rs.)		Total business in the year (Crores of Rs.)	Percentage of (2) to (3)
	(1)	(2)		(3)	(4)
1957	November	19·23			
	December	82·36	=101·59	282·07	36
1958	November	26 86			
	December	147·63	=174·49	344·68	50
1959	November	33·96			
	December	189·94	=223·90	429·17	52

Position in the U.S.A.

49. The following table gives the percentage distribution of new business secured by the LIC during the year 1959, according to month of completion with comparative figures for the U.S.A.:—

	L.I.C.	U.S. Companies
	%	%
January	0·5	6·9
February	2·5	7·4
March	4·1	8·5
April	4·7	8·3
May	5·1	8·1
June	5·7	8·8
July	6·0	7·9
August	6·1	7·9
September	6·5	7·7
October	6·4	8·4
November	8·0	8·8
December	44·4	11·3

Reasons.

50. It would be seen that the over concentration of a major portion of the new business in the last months of the year in the LIC is in striking contrast to the corresponding distribution in the U.S.A. This rush of business towards the end of the year is said to be mainly due to the field staff trying to complete its quota of annual business in the last two months as their increment or continuation of agency depends on it. The Committee were informed that the Corporation was taking steps to spread the business more evenly by holding competitions between the Field Officers and Agents on the basis of business securred during the early months of the year. The Corporation had also issued instructions that if a Field Officer was able to complete a certain percentage of business by the end of August he will get an increment even though his outturn for the year as a whole did not warrant it.

51. It was agreed to by the Chairman, LIC that the present concentration of business towards the end of the year was not desirable and imposed a severe strain on the organisation. Besides, there was greater likelihood of unsound business being written during rush period resulting in a higher lapse ratio and consequently in higher expenses.

52. *The Committee are of opinion that the situation demands much more effective steps to be taken than hitherto. One way of doing so would be to fix the targets for the field staff on a quarterly basis instead of the present annual targets. They suggest that in order to encourage the field staff to pay more attention to the soundness of business procured, prizes may be awarded on the basis of the business which continues to be in force two years after its introduction instead of the present practice of awarding such prizes on the volume of business procured during the year.* Suggestion of the Committee.

53. *They further suggest that lapses from the business written in the last quarter of the year should be worked out separately for each month and published in the Annual Reports of the Corporation. It would also be desirable for the LIC to give in the Annual Reports figures of new business written during each month of the year zone-wise as indicated in paragraph 49 above.*

F. Rural Business

54. One of the declared objectives of nationalisation was to spread insurance in rural areas. The Committee were informed that the Corporation had taken the following steps to organise insurance business in rural areas:— Steps taken.

(i) Opening of more branches and sub-offices in mofussil centres;

(ii) Posting of Field Officers;

(iii) Appointing of local agents;

(iv) Enlisting cooperation of Panchayats and co-operative societies;

(v) Providing premium collection facilities through co-operatives;

(vi) Introduction of non-medical schemes where no medical examination facilities exist, subject to a maximum of Rs. 2,000 on single life;

(vii) Providing all Divisional Offices with jeeps to enable field officers to secure and service business; and

(viii) Making the population insurance-conscious through participation in fairs, exhibitions and with the help of publicity vans.

Further, the Field Officers worked in close collaboration with the Officers-in-charge of Block Panchayat Samities of State Governments.

Progress.

55. As regards the progress made in rural areas it was stated that a proper classification of rural business had not been made. This could be done only on the basis of residence of the policy-holder which involved tremendous amount of extra work and cost since the Corporation issued more than a million policies every year. The Corporation classified the business procured through branches located in cities with a population of one lakh or more as urban and from branches at other centres as rural. The volume of business secured from areas classified as rural on this basis for the years 1957, 1958 and 1959 is shown below:—

Year	*Total new business (Crores of Rs.	*Urban new business (Crores of Rs.)	Percentage of (3) to (2)	*Rural new business (Crores of Rs.)	Percentage of (5) to (2)
1	2	3	4	5	6
1957 .	276·50	174·36	63	102·14	37
1958	337·45	209·05	62	128·40	38
1959 . .	417·88	238·29	57	179·59	43

Zone-wise details of rural business on the basis of the same classification are shown in Appendix VIII. *The above classification of rural areas adopted by the Corporation cannot obviously indicate the real progress of insurance in rural areas.*

56. The Committee were informed by a large number of non-official witnesses that the Corporation had not made any significant progress in the matter of rural insurance. The Chairman of the Corporation admitted to the Committee that it had not been possible to penetrate in rural areas in the Eastern and Central Zones to the same extent as in the Southern Zone and stated that steps were being taken to correct the imbalance by posting additional Field Officers, etc. *Since the spreading of insurance to the rural areas is one of the primary objectives of the Corporation, the Committee recommend that efforts may be made to increase such business more effectively than has been done so far.*

*This does not include figures of the foreign and Janata Business.

57. The Committee understand that from 1960 the Corporation has changed the previous basis and is now compiling figures of insurance business written from areas having a population of 20,000 and below as rural. The figures according to this classification are not yet available. *The Committee feel that it would be hardly realistic to view all areas having a population upto 20,000 as rural.* The Chairman of the Corporation also informed the Committee that they were re-examining the basis of compiling these statistics. *The Committee understand that for purposes of census the areas having a population of 5,000 and below are viewed as rural. They suggest that the same definition may be adopted by the Corporation and figures of rural business may be compiled and published separately in the Annual Reports of the Corporation. They do not appreciate different standards to be applied for determining what are rural areas for different purposes.* Definition of rural areas.

G. Plans of Insurance

58. The distribution of new business written by the Corporation during the last two years, according to plans of insurance, is given below:—

Plans of Insurance	1958		1959	
	*Sum assured (Crores of Rs.)	Percentage	*Sum assured (Crores of Rs.)	Percentage
Whole life assurances	26·93	7·98	35·38	8·47
Endowment assurances	234·29	69·43	270·62	64·79
Joint Life assurances	32·70	9·69	47·53	11·38
Children's assurances	17·14	5·08	27·94	6·69
Miscellaneous	26·39	7·82	36·22	8·67
	337·45	100·00	417·69	100·00

*Excluding Foreign & Janata Business.

(i) *Group Insurance Scheme*:

59. The Corporation introduced a Group Insurance Scheme late in the year 1957. The details of business written under this scheme during the last two years are given below:—

Zone		1958		1959	
		No. of lives	Sum assured (In thousands)	No. of lives	Sum assured (In thousands)
Northern	. .	..	..	29	50
Central .	. .	..	..	..	..
Eastern .	. .	109	608	259	5,589
Southern	. .	97	267	29	1,128
Western	. .	..	..	2,201	13,807
		206	875	2,518	20,574

60. As would be seen from the above table, the business under the Group Insurance Scheme works out to less than 0·5% of the total annual business of the Corporation during 1959. The Committee understand that this plan of insurance is very popular in Western countries and in U.S.A. the ratio of Group Insurance business to the total business in force was about 33% in 1958. The Chairman of the Corporation informed the Committee that no separate targets had been fixed for group insurance and no special steps to sell this type of insurance had been taken. *As group insurance practically rules out lapses and makes for lower expenses the Committee suggest that special efforts should be made by the Corporation to popularise this Scheme, particularly in the industrial undertakings, both in the public and private sectors.*

(ii) *Non-medical policies*:

61. As stated in paragraph 54, the LIC has introduced non-medical policies upto a maximum of Rs. 2,000 on single life where no medical examination facilities exist. The Committee were informed during evidence that such schemes were prevalent in other countries also where maximum amount upto which such policies could be issued, was being increased gradually. They also understand that the Corporation introduced non-medical scheme for select classes with a comparatively lighter mortality experience. The limit for this business, which till recently was Rs. 3,000 has been raised to Rs. 5,000. *The Committee hope that the scheme will be successful. They need hardly stress that*

the success of such a scheme would depend on the careful selection of lives so as to avoid, or at any rate minimise, fraud or anti-selection.

(iii) *With and without profit Policies.*

62. The Corporation issues two kinds of policies, one with and the other without profit. Technically, these are called participating and non-participating policies. It was represented before the Committee that in the context of nationalised insurance there was no justification for the perpetuation of the distinction between participating and non-participating policies. Participating policies were popularised by competing insurance companies who used the promise of higher bonuses to push up their business. By eliminating participating policies, the Corporation would be able to provide increased coverage to the consumer at the same premium.

63. The Chairman of the Corporation told the Committee that the choice of policies depended on consumer's preference and although the participating policies accounted for about 80% of the business of the Corporation it did not want to deny insurance to 20% of its clients who wanted higher coverage for a lower rate of premium. Further, if two types of policies were replaced by one single policy it might affect business.

H. Payment of bonus to non-participating policyholders

64. The premium rates of LIC for 'With-profit' (participating) endowment policies include an addition sufficient to provide a reversionary bonus of Rs. 8 per thousand sum assured per annum. In effect, however, a bonus of Rs. 14 per thousand sum assured was allotted in 1957 valuation due to favourable experience in the matter of mortality, interest and expenses. The valuation as at 31st December 1959 is in process and a declaration of bonus as a result of that valuation will be made after the results are ready. It was represented to the Committee that the aggregate valuation surplus included not only the profits exigible from the participating policies but comprised the contributions of non-participating policies as well. The surplus contributed by the non-participating policies was thus employed for the payment of increased bonuses to participating policyholders on a scale which their own exclusive assets did not warrant. It was, therefore, suggested that this should be used appropriately for the benefit of non-participating policyholders also to some extent. When the Committee discussed this matter with the Chairman, LIC,

he stated that 'with profit' policyholders paid higher premium on the understanding that any profit at the time of valuation would be passed on to them in the form of bonus. On the other hand, the contract with the 'without profit' policyholder was for the policy amount only and nothing more. As such it was not possible to deviate from the terms of the contract. *While the Committee do not want to go into the technicalities of the legal position stressed by the Chairman of the LIC, they feel that the matter has to be looked into from the point of view of equity also. Since the higher premia paid by a with-profit endowment policyholder is determined on the basis of a bonus of Rs.* 8 *on each thousand of the sum assured, the policyholder can expect a higher return upto a reasonable limit. If the profits go beyond this limit, the Committee consider that there is certainly a case in equity for a portion of the profits being passed on to the non-participating policyholders, at least ex-gratia. The Committee hope that the matter will be examined by Government from this angle.*

I. Rates of Premia

Review suggested.

65. The rates of premia for policies issued by the LIC were based on the rates offered by Oriental Government Security Life Assurance Company immediately before nationalisation. Actually, the rates of LIC are Rs. 1 less per thousand sum assured than the rates of the Oriental Government Security Life Assurance Company. The "Oriental" rates had been determined on the basis of actuarial investigations conducted between the period 1925—35. The basic elements that enter into the computation of premium rates are the rate of mortality, yield from investments and expenses of an insurer. The experience of the Corporation in these matters has been very favourable. *The Committee feel that in the nationalised set up, the premium rates should not be any higher than are warranted by strict actuarial considerations. The continuation of old rates by the Corporation therefore calls for reconsideration. One of the tests of the successful working of the Corporation is the long-term reduction it can effect in its expenses and consequent reduction in the rates of premia.* Government in reply to S.Q. No. 1062 on 23rd March, 1961 stated in the Lok Sabha that LIC will examine the question of reduction of premium rates in due course. *The Committee consider that time has come for such an examination. They recommend that a committee of experts consisting of the Controller of Insurance, representatives of the Corporation and independent actuaries may be set up to review the rates of premia offered at present by the Corporation.*

J. Lapses

66. The following table gives the lapse ratio* of the Indian Insurers during the year preceding nationalisation and of the L.I.C. from the year 1956 onwards: Declining Trend.

Year of Lapse	*Lapse ratio*
1955	7·6%
1956	9·1%
1957	6·4%
1958	5·1%

The lapse ratios for the years 1954 and 1955 in respect of the leading Indian and non-Indian insurers are given in Appendix IX. *It will be seen that in 1955, the lowest ratio of a non-Indian Insurer was* 0·4% (*Sun Life of Canada*), *the next lowest was* 2% (*Norwich Union*). *Among Indian Insurers the lowest ratio in the same year was* 4·4% (*Bombay Mutual*).

67. "The best method of studying the phenomenon of lapses is to take the new business done during a particular year and follow it during the next few years and see how much of it lapsed in the same calendar year, how much in the next and so on. This was the method followed by the Controller of Insurance in presenting the statistics of lapses (of erstwhile insurers) in successive issues of the Insurance Year Book". The following table gives such an analysis for business of the erstwhile Insurers and the Corporation "in India" since nationalisation:— Lapses according to 'mean duration'.

Year of new Business'	Mean duration (calendar year of lapse minus calendar year of entry)				
	0 Year	1 year	2 year	3 year	Total (2) plus (3) plus (4) plus (5)
	Net lapse ratio %	Net lapse ratio %	Net lapse ratio %	Net lapse ratio %	
1	2	3	4	5	6
1952 . .	6·4	24·9	8·2	2·6	42·1
1953 . .	6·2	25·9	8·9	3·7	44·7
1954 . .	4·9	20·3	8·3	3·3	36·8
1955 . .	5·2	23·8	9·6	1·9	40.5
1956 . .	7·9	17·7	4·8	..	..
1957 . .	2·2	16·7	..	..	..
1958 . .	1·2	..	..	..	..

*The ratio of sum assured lapsed *less* sum assured revived in a year to the mean business in force during the year is called the lapse ratio.

68. *The Committee are glad to note that there has been an improvement in the lapse ratio of the business written by the Corporation since 1957. In para 52 they have suggested that concerted efforts should be made to spread the business of the Corporation evenly throughout the year. This may further reduce lapses. The Committee trust that every effort would be made to bring the lapses to the level of the erstwhile best managed Indian and foreign insurers.*

(i) *Delay in submission of Returns*

69. The Committee were informed by the Controller of Insurance that information in forms DD, DDD and DDDD, which was required to be submitted along with the audited accounts had not been submitted by the Corporation in respect of 1959 till December, 1960 and in the absence of this information, it had not been possible for him to check the fiutures of lapses given in the above table. *The Committee would refer to their remarks in paragraph 77 and trust that in future the Corporation would furnish such information in time.*

K. State Insurance Schemes

Compulsory insurance for Central Government Servants.

70. A number of State Governments* have compulsory life insurance schemes for their own employees. No such scheme has been yet introduced for the Central Government employees or those serving in public undertakings. In reply to an enquiry on the desirability of introducing such a scheme, the Committee were informed by the Ministry of Finance that a compulsory scheme for Government servants could be introduced only as a condition of service which was primarily the concern of the Ministry of Home Affairs.

71. *One of the desired effects of life insurance is an increased provision of social security. If this is to be achieved, it does not appear desirable to leave out of consideration the possibility of introducing compulsory life insurance to Central Government employees whose total number runs to about 20 lakhs**. There is no reason why it cannot be done by the Central Government when it has been possible for a number of State Governments to do so. The Committee consider that the matter calls for co-ordinated examination by Government at a high level. One of the requirements of such a scheme would be the deduction of premia at source. This has been dealt with in paragraph 155 of the Report.*

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*Andhra Pradesh, Kerala, Mysore, Madhya Pradesh, Uttat Pradesh, Rajasthan and Jammu & Kashmir.

**On 30-6-59, it was 19.64 lakhs (Census of Central Government Employees CSO).

L. Other Suggestions

72. The Committee would like to make the following other suggestions for the consideration of the Corporation:

(i) *Statistics relating to the first insurance policies* and sum assured thereunder in urban and rural areas, which are being compiled by the Corporation separately from* 1960 *and onwards should be published in the annual reports of the Corporation;*

(ii) *Statistics relating to the policies classified into*

(a) Rs. 501-1000

(b) Rs. 1,001-2,000

(c) Rs. 2,001-3,000

(d) Rs. 3,001-5,000

(e) Rs. 5,001-10,000

(f) Rs. 10,001-100,000

(g) Rs. 100,001 and above

should be included in the annual reports of the Corporation;

(iii) *Lapse ratio for the year under report should be compiled in time for inclusion in the relevant annual report of the Corporation;*

(iv) *It should be ensured that the age of proponents is admitted and the assignments are made by policyholders within a period of* 12 *months from the date of issue of the insurance policies;*

(v) *The desirability of making cash payment for the amount of bonus declared or in the alternative allowing the bonus amount to be utilised towards payment of premium might be considered; and*

(vi) *The Corporation should keep in touch with the latest plans of insurance available to the policyholders in other countries with a view to introducing them here.*

These were discussed with the representative of the Corporation who appeared to be inclined to accept them.

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*First insurance means a policy of life insurance taken by a person who does not have any previous life insurance covering his life.

V

FINANCE AND ACCOUNTS

A. Actuarial Valuation

73. Section 26 of the LIC Act, 1956 provides that the Corporation shall once at least in every two years cause an investigation to be made by actuaries into the financial condition of its business, including a valuation of its liabilities and submit a report of the actuaries to the Central Government.

74. Under Section 28 of the Act, 95 per cent of the surplus emerging as a result of the biennial actuarial valuation of the Corporation is allocated to or reserved for its policyholders and the balance of 5 per cent is allocated to the Central Government. A sum of Rs. 1.45 crores has been assessed as Government's due on this account in respect of first valuation (as on 31st December, 1957). Of this, a sum of Rs. 1.31 crores was paid to Government during the year 1959.

(i) *First Valuation*

Presentation of Report to Parliament without settling the objections of Controller of Insurance.

75. The report of the first valuation as at 31st December, 1957 was presented to Parliament on 5th August 1959, *i.e.*, 19 months after the period to which it related. Even this report was not final as the objections raised by the Controller of Insurance on the values of some of the assets as well as adjustments to the Life Fund had not been settled. Explaining the reasons for presenting the Report to Parliament before settling the objections of the Controller of Insurance, the representative of the Corporation informed the Committee that they did not want to delay the presentation of the Report to Parliament which was enjoined by the provisions of the LIC Act and the variations, which were not likely to materially affect the position, could be carried out in the subsequent valuation. *The Committee consider that normally only final reports which depict a true and complete picture should be presented to Parliament. In this case they feel that it should have been at least indicated for the information of Parliament that the valuation though provisional was not expected to vary materially. This was not done.*

76. The Committee understand that bonus warrants as a result of valuation as at 31st December, 1957 have not so far been issued to the policyholders. *They consider the delay regrettable all the more because the bulk of Government share has been already paid.* **Bonus warrants not issued.**

(ii) *Second Valuation*

77. As regards the second valuation as at 31st December, 1959, the Committee understand that the Corporation has not so far furnished the valuation returns to the Controller of Insurance. Under Section 15 of the Insurance Act, 1938, as applied to the Corporation these were required to be submitted within a period of 9 months, *i.e.*, by 30th September, 1960. The representatives of the Corporation and the Ministry stated during evidence that the work of valuation was held up pending the finalisation of a scheme of differential bonuses in the manner suggested by Government. This had taken a little time and the valuation was expected to be completed by the middle of 1961. *In this connection, it is to be noted that the Corporation did not even approach the Central Government for extension of the period of submission of returns which could only be given upto a period not exceeding three months thus making a total of 12 months. Even this maximum period has been exceeded and yet the returns have not been furnished to the Controller of Insurance. It may be noted that failure of the Corporation to furnish returns in time to the Controller of Insurance attracts penalties under Section 102 of the Insurance Act. The Committee feel that it is essential for public undertakings to comply strictly with the provisions of the various statutes applicable to them.* **Delay in submission of returns.**

78. *The Committee also suggest that a time limit should be fixed for finalisation of valuation reports and their submission to Parliament.* **Time-limit suggested.**

79. At present the work of actuarial valuation is carried out by the actuaries employed by the Corporation. *An actuary should have a quasi-judicial status and in fairness to the policyholders be free from any control or influence of the Corporation or the Central Government. The Committee suggest that the Corporation may examine the desirability of associating one or more experienced independent actuaries in carrying out the valuation.* **Association of independent Actuaries.**

B. **Differential Bonuses**

80. Section 49(2)(k) of the Life Insurance Act, 1956 confers on the Corporation the power to make regulations providing for the classification of policies, whether issued by

the Corporation or by any insurer whose controlled business has been transferred to and vested in the Corporation for the purpose of declaring differential bonuses. The Committee were informed that no regulations had been so far framed in respect of this matter pending finalisation of the scheme of differential bonuses which was being discussed with the Controller of Insurance and Government at every stage. *The Committee hope that early action will be taken to finalise the scheme and frame regulations for the classification of policies.*

Allocation of Bonus to policy-holders of Group V companies.

81. In the first Valuation Report the erstwhile insurers have been classified under five groups on the basis of the reserves brought by them into the Corporation. The policy-holders of the insurers under the first four groups are entitled to bonuses at different rates according to the reserve strength of their insurers. The policyholders of Group V companies do not get any bonus at all. It was represented to the Committee that since the policyholders of Group V companies also contributed to the profit of the Corporation to some extent they should be allocated some share in the future bonuses and it was not desirable to perpetuate the present classification. This classification did not take into account the advantages resulting from integration, better management of the Corporation and greater yield on its investments. The Committee were informed by the representative of the Corporation that in the scheme of differential bonuses now under preparation the anticipated advantages of 'superior management' and 'wise investment policy' of the LIC had been taken into account in the valuation of liabilities of erstwhile insurers. As such, there was a good chance of insurers now classified under Group V being lifted to a higher category in the subsequent valuations. *While the Committee appreciate that the rate of bonus may have to vary on the basis of the assets of each erstwhile insurer, they hope that the results of better management and working of the Corporation would enable some bonus being paid in future to the policyholders of Group V companies.*

C. Compensation to Erstwhile Insurers

82. The Committee understand that out of 236 insurers who were entitled to management compensation, 222 had been offered compensation by 20th July, 1960 and 185 of them had actually been paid. Acquisition compensation had been determined in the case of 206 out of 244 insurers and paid to 18 by the same date. The determination of acquisition compensation was stated to be nearly complete in further 20 cases. The main reasons for compensation not

having been offered to some insurers was that certain securities were missing or there were serious irregularities in the accounts. *The Committee trust that the settlement of compensation in all the outstanding cases would be finalised as early as possible.*

D. Bankers of the Corporation

83. At present, the Corporation banks with as many as 132 Banks, list reproduced in Appendix X. The Committee were informed during evidence that the Corporation had its operating accounts with 52 Banks while it had only premium collection accounts with the others. The total number of its operating and premium collection accounts in different branches of these Banks was stated to be about 15,000. **Present number.**

84. *There does not seem to be adequate justification for maintaining operating accounts with 52 different Banks which involves greater accounting effort. Further, there is the risk, howsoever slight, of some of the Banks proving unsound. Since Government has guaranteed the payment of sum assured to all policyholders, it seems desirable that, wherever possible, the Corporation should keep its money with the State Bank of India. This would require only one Central Operating Account being maintained and arrangements could be arrived at for the encashment of cheques issued by the different offices of the Corporation upto specified amounts from the Central Account. This would also reduce the present accounting effort.* The representative of the Ministry agreed during evidence that the State Bank of India should be utilized to the maximum extent possible. *The Committee recommend that the Corporation may examine the desirability of changing the present practice of banking with a large number of banks and of having as far as possible its operating account with the State Bank of India alone.* **Committee's suggestion.**

E. Cash in Hand

85. The balances of the Corporation in Current and Deposit Accounts at the end of each of the last three years are given below:— **Large balances in Current Account.**

Date	Current Account (Crores of Rs.)	Deposit A/C (Call deposits) (Crores of (Rs.)
31-12-57	15·45	5·60
31-12-58	15·46	2·84
31-12-59	17·42	7·25

Reasons. 86. As to the reasons for keeping large balances in the Current Accounts, the representative of the Corporation stated during evidence that that was a normal feature because a very large number of proposals were introduced in the last month of the year when about Rs. 5 crores were collected as premia. The Committee called for the figures of the payments to and withdrawals from Bank Accounts for expenses other than investments during the months of January, February and March 1960 which are given below:—

	Payments into Bank Accounts	Withdrawals from Bank Accounts	Balance
	(Crores of Rupees)		
January, 60 . . .	16·36	13·18	3·18
February, 60 . .	13·39	10·66	2·73
March, 60 . . .	11·70	7·04	4·66

87. During the period 1st September 1956 to 31st December 1959, the investments of the Corporation amounted to Rs. 108 crores. During the year 1959, these amounted to Rs. 35 crores. On an average the amount required for investments every month would come to about Rs. 3 crores. As the table above indicates, the average monthly balance during the first three months of 1960 was about Rs. 3½ crores after meeting all expenses other than investments. *If this pattern persisted in earlier months, as is likely, it would appear that the monthly surplus funds would have been adequate for investments. The large balances in current accounts at the end of the year, as indicated in paragraph 85 could, therefore, have been invested gainfully in call deposits.*

F. Call Deposits

88. At present, the call deposits of the Corporation are kept with 26 Banks. The Committee have recommended in paragraph 84 that the Corporation should utilise the State Bank of India as its Bankers to the maximum extent possible. *They would suggest that the Corporation may examine the desirability of keeping its call deposits also with the State Bank of India as far as possible. They would further suggest that the cash position of the Corporation should be examined at least twice a week in order to ensure that surplus money in its current account is transferred to call deposits, pending its regular investment.*

G. Expense Ratio

89. The figures of overall and renewal expense ratios of the Indian Insurers in the year preceding nationalisation and those of the Corporation for the last three years are given below. The overall expense ratio of U.S. companies for the same years is also shown in the last column*.

Year	Life Insurance Corporation				U.S. Companies
	Business in India		Foreign Business		
	Overall exp. Ratio	Renewal exp. Ratio	Overall exp. Ratio	Renewal exp. Ratio	Overall exp. Ratio
	%	%	%	%	%
1955 .	31·8	17·3		..	22
1956-57	27·3	15·89		..	23·3 (1957)
1958 . . .	29·2	15·46	19·3	21·3	23·4
1959 . . .	28·7	12·92	15·0	14·85	23·1

A statement showing the overall expense ratio and renewal expense ratio of the Corporation zone-wise during the years 1956-57 and 1958 is given in Appendix XI.

90. *The Committee are glad to note that the renewal expense ratio of the Corporation has been progressively coming down. However, it has not yet reached the level of best managed insurers viz.,* 9·1 *per cent in the case of New India in* 1954. *The Committee hope that with improved management, the Corporation would not only reach but improve on the renewal expense ratio attained by the leading erstwhile insurance companies in the country.*

91. *The Committee also consider that for a monopoly organisation like the LIC the limit of* 15 *per cent in respect of the renewal expense ratio provided for under the Insurance Act,* 1938 *is probably on the high side.* The then Minister of Finance (Shri C. D. Deshmukh) informed the Lok Sabha in 1956 that 15 per cent was "rather a high limit". The representative of the Ministry also told the Committee during evidence that the Corporation should attempt to bring it down to 8 or 9 per cent. *They would suggest that Govern-* **Limit for Renewal Expenses.**

*The Committee understand that it is not customary in the U.S.A. to work out renewal expense ratio and publish it or even to publish statistics which would enable such ratios to be calculated.

ment may review the possibility of bringing down the present prescribed limit of 15 per cent. suitably.

H. Auditors

Reduction in number suggested.

92. Under Section 25 of the LIC Act, 1956 the accounts of the Corporation are audited by the auditors appointed by the Corporation with the previous approval of the Central Government. The accounts of the Corporation are at present audited by 12 auditors. The representative of the Ministry told the Committee during evidence that the present arrangement was working all right. It, however, appears that Government wrote to the Corporation on 26th May 1960 that with the appointment of as many as 12 auditors, the responsibilities got diffused and suggested that there should be one auditor for each zone and one extra auditor for Bombay who, along with the Zonal Auditor, should audit the consolidated accounts of the Corporation. This does not seem to have been agreed to by the Corporation. *The Committee are inclined to agree with the stand taken by Government and there is no reason why the LIC should not have accepted the suggestion. At any rate it should be acted upon in future.*

I. Annual Reports of the Corporations

Form of Annual Report

93. Rule 17 of the LIC Rules, 1956 provides that the annual report to be submitted by the Corporation to the Central Government under Section 27 of the Act regarding its activities shall be in such form as the Central Government may, from time to time, direct and shall, *inter alia,* contain particulars in respect of the following matters namely:—

(a) the extent of the new business;

(b) the total amount of business in force;

(c) the total amount of claims;

(d) nature of investment; and

(e) the accounts.

94. Section 27 of the LIC Act, 1956 provides that the report shall also give an account of the activities, if any, which are likely to be undertaken by the Corporation in the next financial year. The Committee have suggested at appropriate places that the following additional information should be given in the annual reports of the Corporation so as to make them more informative and useful:—

(1) Overall and renewal expense ratios for each zone (Para 10);

(2) Management expenses for each zone (Para 10);

(3) Figures of business written during each month of the year, zone-wise (Para 53);

(4) Figures of rural business (Para 57);

(5) First insurance policies written in each zone (Para 72);

(6) Break-up of policies according to their value (Para 72);

(7) Lapses from business written in the last quarter of the year, separately for each month (Para 53);

(8) Details of outstanding claims, their value and period for which they are outstanding, together with the reasons for non-settlement (Para 163); and

(9) Complaints received from policyholders, zone-wise (Para 166);

They trust that the details of activities likely to be taken up in subsequent years would also be incorporated in the Reports from 1960 *onwards. In this connection, they would also refer to the recommendations contained in the* 20*th Report of the Estimates Committee* (2*nd Lok Sabha*) *for the preparation of performance-cum-programme statements by the Public Undertakings and suggest that the LIC should also take necessary action in the matter.*

J. Revenue Account

Summarised statement to be included.

95. The revenue account of the Corporation is at present prepared in the form contained in the Insurance Act, 1938. No summarised position of its working during a year showing the excess of income over expenditure at a glance is given in the Reports as is done by the Insurance Companies in the USA. The representative of the Corporation agreed during evidence to include a summarised statement in future in the annual reports of the Corporation. *The Committee hope that a beginning would be made in this regard from this year.*

VI

INVESTMENTS

Purpose of investments.

96. The periodical payments of premia by its policy holders go to build up what is known as the Life Fund of a Life Insurance Company. The Life Fund may be said to be held in trust on behalf of the policy holders. By judicious investment of the amounts lying in the Life Fund a life insurance company gets the resources which together with the premium income enables it to meet its expenses of management, liabilities on account of claims etc. and after meeting such charges, would leave a surplus to yield a satisfactory bonus to the profit-sharing policy holders. These requirements call for an investment policy which can assure a steady and secure return on the funds invested adequate to meet the liabilities of the insurers. An injudicious policy of investment might lead to a situation in which it would be difficult to meet the claims of the insured persons.

Statutory requirements.

97. With the growth of life insurance, Governments of a number of countries have been requiring the insurers to invest a portion of their Life Funds in Government and guilt-edged securities. In India, the Insurance Act of 1938 prescribed for the first time such a condition. Under Section 27 of this Act, life companies were required to invest a minimum of 25% of their funds in Government securities; a further 25% was required to be invested in Approved Securities *i.e.* generally Securities guaranteed by the Central or Provincial/State Governments. Thus 50% of the investment was to be in Government or guilt-edged securities. Of the remaining 50% of investible funds, a minimum of 35 per cent could be invested in approved investments which include besides approved securities, mortgages, immovable property, policy loans etc., investments in Joint Stock Companies which had been paying dividend regularly for a number of years. Investment of the balance, 15%, was left to the discretion of the life insurance companies. These statutory requirements were not properly observed by certain of the companies. One of the reasons for nationalisation of life insurance was that there were among the erstwhile insurers some who did not follow a sound policy and whose investments did not always adequately safeguard the interests of the policy holders.

A. Life Fund and Investments

Magnitude.

98. The table below indicates the magnitude of the total life fund of all the erstwhile insurers and the total amount of investments out of the Life Fund by them immediately prior

to nationalisation and the corresponding figures upto 1959 after the L.I.C. came into being:

Year	Life Fund	Invest-ments	Percentage of Invest-ment to Life Fund
	(Crores of Rupees)		
1-9-1956 (at the time of nationalisation)	380·61	348·68	91·6
1957	409·55	381·90	93
1958	447·81	420·94	94
1959	495·29	455·98	92
1960		Not available.	

Increase anticipated during 3rd Plan period.

99. Under the L.I.C.'s management the Life Fund has increased by more than Rs. 115 crores since nationalisation, a rise of 30 per cent. The investments stand proportionately at about Rs. 108 crores more than the pre-nationalisation figure, a rise of 31 per cent. During the Third Plan period the Corporation expects to increase its investible funds by Rs. 450 crores, at a rate of Rs. 80 to 90 crores per year, more than a cent per cent rise over the average rate of investment of Rs. 35 crores a year during the years 1957 to 1959. If this rate is achieved the Life Fund of the Corporation at the end of the Third Plan is likely to be about Rs. 1000 crores and the investments approximately at Rs. 900 crores. *The necessity for the exercise of the greatest care and wisdom in the investment of such large sums needs no emphasis.*

B. Application of Statutory Requirements to L.I.C.

Setting up of Investment Board proposed.

100. On nationalisation, Government did not immediately apply Section 27A of the Insurance Act, 1938 to the L.I.C. An Investment Committee to guide the Corporation in making its investments was constituted under Section 19(2) of the LIC Act. It was stated that the Corporation would be actually following the principles laid down in the 1938 Act in respect of its investments till the matter was further examined.

In 1957 Government introduced a bill in the Lok Sabha providing for an Investment Board. The Board was to consist of the Governor of the Reserve Bank as Chairman, the Chairman of the Central Board of the State Bank and the Chairman of the Corporation as Members. In effect, this bill contemplated taking away the work of investment from the Corporation and entrusting that function to a separate body on which the Corporation would have been represented by its Chairman. Before the bill was further proceeded with, the Mundhra episode and the enquiry into that by Mr. Justice Chagla intervened. Considerable discussions took place consequently in Parliament regarding the policy and procedure to be followed by the Corporation in respect of its investments. The Bill proposing the constitution of an Investment Board was not proceeded with. Instead, in August, 1958 Section 27A of the Insurance Act was applied to the LIC with slight modifications*. Thus, since 1958 the L.I.C. is more or less under the same statutory obligations in regard to its investments as the erstwhile insurers. In making its investments it is guided by the Investment Committee which is subject to the broad supervision of the main body of the Corporation.

C. Guiding principles of Investment Policy

101. Apart from the requirements prescribed in 1958 by the application of Section 27A of the Insurance Act, a number of principles which would govern the policy to be followed by the Corporation in making investments were stated by the Finance Minister in Lok Sabha in 1956 and 1958. In 1956, while speaking on the L.I.C. Bill in the Lok Sabha the Finance Minister said:—

(i) "The Corporation will be guided by the advice given to it by the Investment Committee which will be constituted for the purpose and on which there may be, besides the members of the Corporation, others who have expert knowledge of the subject. It is our intention to indicate in a broad manner what type of investment the Corporation should avoid and which particular types of investments it should view with favour. The investment in ventures established in pursuance of the Plan would be given preference over others and the investment policy would be governed in the main by the major considerations such as the interest of the policyholders and the interest of development envisaged in the 2nd Five Year Plan and subsequent plans."

(ii) "I would like to tell the spokesmen of the private sector, industrialists and others that it is not Government's intention to divert the flow of funds

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*The modified provisions enable the maximum limit of holdings of the Corporation in the ordinary shares of the Companies to be raised from 10% to 30% of the subscribed ordinary capital (with a further provision for exceeding this limit with the prior approval of the Central Government). These also enable Government to require the LIC not to invest its funds in any investment specified by it or where it has any existing investment to realise them within a time to be specified.

that is, large dimensions of the present funds—to the public sector to a greater degree than at present. Now, it is my endeavour to see that at least as much money as is available today is made available for investments in the private sector."

102. In 1958, the Finance Minister (Shri Morarji Desai) said:—

(i) The Corporation will never lose sight of the fact that as the single largest investor in India, it has to keep before it the interests of the community as a whole. It will therefore invest in ventures which further the social advancement of the country.

(ii) It will take no parochial view. Its funds are drawn from all over India and they will as far as practicable considerations allow, be invested for the good of the entire country. Thus, there shall be a studied diversification of its investible funds which is an essential requirement of any insurer, particularly the sole insurer of a country; and

(iii) There is not the slightest intention that the L.I.C. should indulge in speculation and thus take advantage of temporary fluctuations in market prices. It must necessarily invest on a long-term basis.

103. *As the foregoing paragraphs would indicate, any examination of the investments by the Corporation has to be with reference to the following matters*:

1. Whether the Statutory requirements are being adequately observed.
2. The functioning of the Investment Committee.
3. The extent to which the general policies mentioned at paras 101 and 102 above regulating investments by the Corporation have been so far complied with.
4. In what manner the policies referred to at 3 above could be complied with and the interest of the nation better served.

D. Distribution of Investments

104. The following table shows the distribution of investments taken over by the Corporation on the day of nationalisation, the distribution of the investments made

since then upto the end of 1959 and the break-up of the total investments as on 31st December, 1959:—

Nature of Investments	Distribution of investments on 1-9-56 (Total Rs. 341 crores)	Distribution of investment made from 1-9-56 to 31-12-59 (Rs. 108 crores)	Break-up of total investments on 31-12-59 (Rs. 449 crores)
	%	%	%
A.1. Central Government Securities	50·1	38·2	47·3
2. State Government Securities .	9·9	28·7	14·4
3. Approved securities . . .	8·9	9·0	8·9
Total of 1, 2 & 3 .	68·9	75·9	70·6
B.4. Debentures and shares .	17·2	21·8	18·3
5. Land & House Property . .	5·6	3·6	5·1
6. Mortgage Loans	4·4	—4·2	2·3
7. Foreign Securities . . .	3·9	—2·0	2·5
8. Housing Loans	..	4·9	1·2

105. The following points regarding the pattern of investments by the LIC during the period 1-9-56 and 31-12-59 emerge from a perusal of the above table:

1. Investment in the Central Government Securities has gone down in the three years following nationalisation by 11.9%.
2. Investment in State Government Securities has gone up by 18.8% during the same period.
3. Taking Central, State Government and Approved Securities together the increase in terms of percentage during the same period would be 7% from 68.9% on 1.9.56 to 75.9 on 31.12.59.
4. Investments in debentures and shares have gone up during the 3 years following nationalisation by 4.6%.

Objective of investments in private sector—development of industries.

106. The Corporation's investments in debentures and shares in the three years following nationalisation constituted 21.8% of the total investments made by it during the period. The proportion of such investments to the total investments of erstwhile insurers was 17.2%. It was urged by representatives of the Corporation and the Ministry before the Committee that these investments were being made and should continue to be made in fulfilment of the promise given

in the Parliament at the time of nationalisation that the private sector should continue to get what it was getting.

Reading the assurances held out by the Finance Minister in regard to making investments available to the private sector, it is clear that the intention was more to help the development of industries in the private sector than in going to the share market and merely dealing in stocks and shares. It has to be accepted that intention of the assurance could obviously be to provide aid for the development of new industries or expansion of existing ones.

107. The following table shows the distribution of investments made by the Corporation during the year 1959 in shares and debentures of Joint Stock Companies:—

	Debentures	Preference shares	Ordinary shares	Total	% age to total
		(lakhs of Rs.)			
(a) In shares and debentures of newly floated companies	Nil.	9·78	7·37	17·15	2·4
(b) In new shares/debentures floated by existing companies . . .	46·30	66·64	92·63	205·58	29·1
(c) In shares/debentures of existing companies other than the amount covered by (b) above . . .	8·57	1,03·78	3,69·39	481·75	68·5
Total Rs.	54·87	1,80·20	4,69·39	704·48	

Development of new industries not achieved

108. *It would be seen that out of an amount of Rs. 7.04 crores invested in 1959 in shares and debentures, Rs. 4.81 crores, i.e. 68.5% was in shares already in the market. Only Rs. 17.15 lakhs, i.e. 2.4% was invested in the shares and debentures of newly floated companies while a little over 29% was invested in the shares/debentures floated by existing companies presumably for expansion or modernisation.*

109. *Purchase of shares already in the market can be hardly held to serve the purpose of aiding the development of new industries or expansion of existing ones. They would mostly go to the benefit of the persons who are already possessed of such shares, very likely for speculation. That the LIC could buy only Rs. 17.15 lakh worth of shares/debentures of newly floated companies and Rs. 205.58 lakh worth of shares|debentures floated by existing companies during 1959 would indicate the inherent limitations of LIC's role in achieving the above purpose. The fact that other*

public undertakings like the Industrial Finance Corporattion, Industrial Credit & Investment Corporation of India and State Industrial Finance Corporations, which could finance new industries on a developmental basis have come into operation would seem to make the role originally contemplated for the LIC in this respect somewhat superfluous.*

E. Investments in Public Sector

110. It appears from Appendix III (Statement 1) of the Annual Report of the Corporation for 1959 that 78% of the investments of the Corporation go to the Public Sector. It is, however, seen that public sector is taken to include not only the Central and State Government securities but also approved securities issued by private firms like Kalinga Tubes Ltd. and Municipal Loans. In this connection, it is interesting to note what the Chairman of the Corporation said recently about the extent to which L.I.C.'s investments go to the public and private sectors:

> "The distinction between the public and private sectors is, however, losing some of its validity as the funds advanced to the public sector are often utilised for the benefit of private sector undertakings or private individuals. For example, the Corporation's investments in the Industrial Finance Corporation and the various State Financial Corporations are utilised by these institutions for the purposes of financing industries in the private sector. Similarly the housing loans advanced by the L.I.C. to State Governments are used by them for disbursement to their employees as well as other private persons for construction of houses."

It is thus evident that some part of LIC's investments in the public sector finds its way to the private sector.

F. Functioning of the Investment Committee

Complaints made before the Committee.

111. A number of complaints were made before the Committee regarding the composition and functioning of the Investment Committee. The more important of them are discussed below:—

Composition of the Investment Committee.

(1) *Different regions of the country were not equally represented on the Committee.*

Out of six members of the Committee excluding the Chairman of the Corporation, three are permanently resident at Bombay and one each at Calcutta, Madras and Delhi. The Chairman of the Corporation agreed that the

* The Industrial Finance Corporation, set up in 1948, was in 1960 authorised to subscribe to the stock or shares of any individual concern.

composition of the Committee should be more representative of the different regions to avoid the possibilities of its decisions being influenced by any particular region and stated that the Corporation had been trying to get representatives from different regions but it had not succeeded in finding suitable persons. One of the complaints made before the Committee was that disproportionate representation of particular regions on the Investment Committee resulted in investments not being properly diversified. The Committee have discussed the concentration of investments in a few regions in para 112.

(2) *The procedure for the working of the Investment Committee had not been laid down as required under Regulation* 23(ii) *of the LIC Regulations,* 1959. **Procedure of Working.**

(i) The representative of the Corporation stated that this had been left to be decided by the Investment Committee itself which was observing proper procedure though it had not been laid down in writing at one place. *It would have been desirable to have had the various minutes relating to the procedure duly collected and made readily available for the members of the Investment Committee.*

(ii) Before advising on investments the Committee took into account the financial records of the various companies. For this purpose, the office of the Corporation prepared background notes, including financial analysis with regard to new ventures where the advice of the Investment Committee was required on specified investments. Besides, there were a large number of last moment offers received from various stock exchange brokers. These offers were also put up for consideration by the Committee even if there was no time to prepare notes on them because such offers were usually made on certain conditions and were open upto a specified time. This was stated to be the normal manner in which brokers offered their shares.

(iii) In between the meetings of the Investment Committee offers were also made by brokers. These were placed before the Investment Committe on whose advice investments were made in specifically authorised securities, shares and debentures. They were distributed among approved brokers on an equitable basis. These were called time-limit orders. The plea of Chairman of the Corporation was that if the Corporation restricted its investments to limit orders and ignored last hour transactions, most of its funds might remain idle.

(iv) According to the approved rules and procedure, under instructions from the Chairman the Director of Investments could make between two successive meetings of the Investment Committee, investments up to a maximum limit of Rs. 50 lakhs in respect of Government and approved securities, Rs. 5 lakhs in respect of debentures and Rs. 5 lakhs in respect of ordinary and preference shares together, provided that investment in no single scrip was of a size larger than Rs. 2½ lakhs in the case of debentures and Rs. 1 lakh in the case of preference and ordinary shares. The Executive Director (Investments) was also given standing authority to make, under instructions from the Chairman, investments in foreign countries to the extent of Rs. 25 lakhs in the aggregate in between two successive meetings of the Committee, subject to certain conditions. In order to prevent the time of the Investment Committee being taken up in considering trifling offers, individual offers received for consideration by the Investment Committee involving an investment of Rs. 50,000 or more were considered by the Committee while those less than Rs. 50,000 were disposed of by the Executive Director (Investments) under instructions from the Chairman. If a company issued suitable shares and there was a time-limit for applying for those shares and the Investment Committee was due to meet only after seven or ten days, the local members of the Committee were informally consulted on phone and investments were made irrespective of the amount involved in anticipation of its advice. Thereafter, the matter was put up to the Committee for ratification.

Circulation of agenda papers.

(v) It was alleged before the Committee that papers relating to the items on the agenda of the meetings of the Investment Committee, which approved investments to the tune of Rs. 2 to 3 crores at every meeting lasting for about 2 to 3 hours, were not sent to the members sufficiently in advance so as to enable them to study the same before the meetings. The Chairman of the Corporation stated that a large portion of its investments were in Government or approved securities and the investments in stock exchange debentures or shares, approved at a meeting, worked out to Rs. 37 or Rs. 40 lakhs on an average. As to the reasons for not circulating the papers in advance, the Committee were informed that during the earlier period the Investment Department did not have adequate staff to deal with the rapidly growing work of the Department. The position was subsequently remedied by recruiting and training the requisite additional staff. In respect of the meetings held during the period 1st January 1960 to 17th December 1960, 97% of the items on agenda were circulated in advance to local members and 91% to outstation members as against only 81% and 62% between the period 1st September 1958 and 15th June 1959 respectively. The agenda papers were stated to be circulated to the Members about a week before the date of the meeting, except in urgent cases. The local members (resident in Bombay) rceived these papers one day earlier.

(3) *No procedure for appointment of brokers has been laid down.* Appointment of Brokers.

The Sub-Committee were informed that initially a list of approved brokers was drawn up on the advice of the Investment Committee. The rules provided that additional names might be added to it from time to time. In 1958 the Committee desired that a procedure might be laid down for the purpose and the Director-in-charge should make certain specific enquiries and give details when any proposal was brought before it. This procedure was being observed at present and particulars about the standing of the brokers, their clients, bankers, etc. were ascertained before making a recommendation to the Committee for adding to the list of approved brokers. It also transpired that apart from the approved brokers, there were other brokers who were members of the stock exchanges and made their offers which were also considered by the Investment Committee. The Reserve Bank is not consulted by the Corporation in the selection of approved brokers.

G. Performance of L.I.C. *vis-a-vis* objectives of investment policy

112. The performance of the LIC with regard to the objectives of investment policy to be followed by it, referred to in para 102 in which the statement of the Minister of Finance has been quoted, is discussed below:—

(i) *Advancement of Social Objectives*

As regards its investments for the purpose of advancing social objectives, the Chairman, LIC stated that though it was a commercial body, yet it had to function within the objectives of the State Policy which clearly envisaged investments in schemes conducive to social advancement, consistent with the interest of policyholders. No definite proportion for such investments had been fixed but its investments in schemes such as loans for housing, which amounted to about 10% of its surplus investible fund in a particular year could be considered as contributing to social advancement.

(ii) *Diversification of Investments not achieved*

The Committee were informed that the distribution of investments of the previous insurers was unequal. The funds already invested and inherited by the Corporation were substantial and as such investments of new funds could not for some years to come make a significant difference to the distribution of investments among the various States and regions. Further, the industrial and economic development of the various States and regions was uneven and opportunities for investments therein were correspondingly unequal. The Chairman of the Corporation stated that so far as stock exchange investments were concerned, the Corporation purchased from all stock exchanges to the extent there were opportunities and it made special efforts to invest in regions where the investments were less. Roughly the proportion of LIC's investments were stated to be 50%, 30%, 15% and 5% in Bombay, Calcutta, Madras and Delhi respectively. In addition, the Corporation made large subscriptions to the State loans of regions where there were no industries.

The table on pages 49-50 shows the distribution of investments of the Corporation in the various States as on 31st December 1957 and 31st December 1959 excluding investments in Central Government Securities and a few other Securities:—

(In lakhs of Rs.)

S. No.	State	As on 31-12-57					As on 31-12-59					
		State Government Securities	Approved Securities	Debentures and Shares of Jt. Stock Companies.*	Total investments in the State mentioned in Col. 2	Percentage to the total investments in States	State Government Securities	Approved Securities	Municipal Securities not included in Col. 9	Shares and Debentures of Cos. whose works or factories are situated in the States	Total investments in the States	Percentage to the total investments in States
		Book Value	Book Value	Book Value	Book Value		Book Value	Book Value	Book Value	Book Value	Book Value	
1	2	3	4	5	6	7	8	9	10	11	12	13
1	Andhra . .	2,30·78	2,00·79	1,52.48	5,84·05	4·17	4,47·47	1,97·70	8·38	1,85·55	8,39·10	4·69
2	Assam . .	..	9·50	99·26	1,08·76	0·78	47.67	34·37	..	1,02·46	1,84·50	1·03
3	Bihar . .	1,47·52	7·55	7,02·26	8,57·33	6·12	2,86·64	17·41	..	8,58·19	11,62·24	6·49
4	Bombay (Maharashtra & Gujarat)	4,97·45	14,17·78	25,87·53	45,02·76	32·17	6,76.06	16,40·71	71·84	31,39·41	55,28·02	30·87
5	Delhi State (City)	..	..	91·83	91·83	0·66	..	..	9.95	96·39	1,06·34	0·60
6	Kerala . .	26·17	29·49	98·90	1,54·56	1·10	1,34.01	97·91	..	1,31·10	3,63·02	2·03
7	Madhya Pradesh	1,95·37	45·76	73·05	3,14·18	2·24	2,48·66	31·02	..	1,10·09	3,89·77	2·18
8	Madras . .	8,84·07	1,41·51	2,43·71	12,69·29	9·07	10,75·35	2,14·74	..	3,23·91	16,14.00	9·02
9	Maysore . .	3,80.64	64.50	99.28	5,44.42	3.89	5,05.00	78.91	6.22	1,32.40	7,22.53	4.00
10	Orissa . .	86·85	42·01	73·51	2,02·37	1·45	2,79·37	69·57	..	78·41	4,27·35	2·39
11	Punjab . .	30.58	10.23	52.78	93.59	0.67	75.91	20.08	52.54	1,48.53	0.83	
12	Rajasthan . .	48.98	8.05	6.91	63.94	0.46	2,27.44	8.05	..	8.09	2,43.58	1.36
13	Uttar Pradesh .	11,42.98	9.40	2,84.65	14,37.03	10.26	15,60.04	20.22	..	2,86.67	18,66.93	10.43
14	West Bengal .	5,33·93	9,23·02	23,17·39	37,74·34	26·96	9,01·99	8,24·16	..	25,85·93	43,12·08	24·08
	TOTAL	42,05·32	29,09·59	68,83·54	1,39,98.45	100·00	64,65·61	32,54·85	96·39	80,91·14	1,79,07·99	100·00

*This shows distribution of the Investments (in Debentures, Preference Shares and Ordinary Shares) among various Industries and among the States in which the principal factories or works of the various Companies are situated.

Investments not included in the above Statement :

	31-12-57		31-12-59	
Central Government Securities	1,85,55·36	54·80	2,12,18·38	51·77
Other Approved Securities (in Statutory Corporations)	3,42·95	1·02	6,35·30	1·55
Hyderabad State Loans (Old)	47·38	0·14	..	
Investments concerned with Factories out of India	30·23	0·09	66·66	0·16
Foreign investments	8,84·23	2·61	11,54·09	2·82
TOTAL . . .	1,98,60·15	58·66	2,30,74·43	56·30
Investments included in the above Statement .	1,39,98·45	41·34	1,79,07·99	43·70
GRAND TOTAL .	3,38,58·60	100·00	4,09,82·42	100·00

It would be seen that during the two years 1958 *and* 1959 *the pattern of investments has not materially changed even after the policy of diversification of investments was laid down by Government. It is interesting to note that out of about Rs.* 12 *crores invested in the shares and debentures of companies during the two years, Rs.* 5·52 *crores* (*over* 45%) *have gone to Bombay, Rs.* 2.69 *crores* (*about* 22%) *to West Bengal and all other States together got only about Rs.* 4 *crores* (33%). *Similarly out of an investment of Rs.* 4.42 *crores in approved securities during the same period, Rs.* 2.95 *crores have been invested in Bombay alone.*

(iii) *LIC not to indulge in speculation*

It was represented to the Committee that the purchases of shares by the Corporation were at times of a speculative nature. It was difficult to make a choice of the right type of stock and shares and avoid charges of favouritism. Further, the large scale transactions by LIC on the stock market were likely to have a speculative effect and if the Corporation were to sell any shares in the open market it was likely to be of incalculable harm to the concern whose shares were thus sold.

The Chairman of the Corporation informed the Committee that it could not completely ignore the stock exchanges because of the assurance given by the Finance Minister at the time of nationalisation that the LIC would continue to invest in the private sector undertakings. As regards the Finance Minister's statement that the Corporation should not indulge in speculation, it was stated that the Corporation was making investments and was not speculating. It purchased investments not for the purpose of selling but holding them. Their investments for capital appreciation did not amount to speculation. In very rare cases where the book value of the shares was very low and the market had rigged up the price to an extremely high level as a result of speculative activity, they could cash on it in the interest of policy-holders by selling the shares. But the Corporation ignored normal and temporary fluctuations in prices such as were due to labour trouble, lock-out or some other special cases like paucity of raw materials. The Chairman of the Corporation ultimately agreed that at times the operations of LIC in the stock market might lead to speculation on the part of the brokers but that could not be prevented.

H. Assessment of present investment policy

113. *The Committee have considered very carefully the policy which should be followed by the L.I.C. in regard to* **Security of Investments and return.**

investment. The first consideration has to be security of investments for which Government has a direct responsibility. Under Section 37 of the LIC Act, the Government is the guarantor for all payments of sum assured in respect of policies written by the Corporation or taken over by the LIC from erstwhile insurers. The other requirement is adequacy of return to meet all liabilities. At present nearly 71% of the Corporation's investments are in Government and approved securities. The net return that the Corporation is getting from its investments is 3.4% excluding refund of income tax. By and large, both the considerations of security and adequacy are therefore met.*

Objectives of nationalisation.

114. *But there are other considerations declared at the time of discussion on LIC Bill, 1956 and in 1958 in Parliament, which have also to be fulfilled if the objectives of nationalisation are to be adequately discharged.*

Social Advancement.

First is the goal that the LIC "will invest in ventures which further the social advancement of the country." The objective is so large and comprehensive that it is the Government as a whole rather than LIC which can hope to achieve it. This is a responsibility which it is hardly possible for the LIC to carry out, charged as it is with the duty of business-like investment of its funds in the interests of policyholders. There can be no question of the Corporation furthering this goal by making purchases of Government securities for, to the extent that the LIC funds are invested in the Government securities, the responsibility passes on to the Government. If it were to further the objective of social advancement through other investments it can hardly do so without resorting to selective purchase of stocks and shares. Whether this could be done satisfying the requirements of security and steady return is itself rather doubtful. But even so, it will be difficult to avoid the criticism that it may be discriminatory and result in speculation. It is interesting to note that in the matter of investments in housing loans, which the Corporation claimed as its major contribution to the goal of social advancement the Central and the State Governments come largely into the picture.

Diversification of investment.

115. *Then there is the question of diversification of investments geographically and industry-wise which has not yet been achieved as indicated in para 112. The limited contribution that the LIC can make towards diversification is obviously possible through investments in stocks and shares. In making such investments through the stock exchange it has again to look to a secure and steady return. That would mean that in the interest of its policyholders it*

*The net yield including refund of income-tax amounted to 4.08%.

has to invest generally in established and sound concerns. Its scope to encourage establishment of new industries in an effort to repair existing regional imbalances can hardly go hand in hand with its primary duty to the policyholders in making sound investments of the Life Fund.

116. *On the other hand there is a real danger that LIC's purchases in the share market may lead directly or indirectly to speculative activities. The Committee have referred earlier to the representations made before them to the effect and the admission of the Chairman, LIC that their operations in share market though not speculative in themselves may be the cause of speculation. There is at least one case relating to a mining concern where the availability of ore was not substantial. There as a result of LIC's purchases, the shares showed a rise and then firmed up during the third month and it was later found that the dividends fell. It is admitted that substantial purchases by LIC cannot be kept secret and they are bound to have a bullish effect on the market. The Committee are not sure whether a close investigation may not bring any other such cases to light.* **Speculation inherent.**

117. *Thus, the Committee feel that the Corporation's investments in shares and debentures fulfil little of the objectives of social advancement, diversification and avoidance of speculation. Another idea has been mooted that the investments of LIC might be available to stabilise the share market from time to time. In this connection, the following portion from the Report of the Chagla Commission which examined this aspect, is pertinent:*

> "Assuming that the transaction was entered into not to relieve Mundhra of his financial difficulties but to stabilise the market and remove the drag on it as suggested by Mr. Patel, even so the investment has been made for an extraneous purpose and not solely in the interest of the policyholders. It is obligatory upon the the Corporation to consider every investment on its own merits and to decide whether it is sound and prudent investment. It is only when Government has issued a directive in writing under Section 21 that it would be incumbent upon the Corporation to carry out that directive, even though in its opinion the investment may not be a sound one from the point of view of the yield which it might give or the security of the capital."

Investments in stocks and shares lead to allegations and aspersions which though might not be justified in most cases yet may do little to increase the prestige of the Corporation. This is not desirable. A nationalised body such as the LIC should be like Caesar's wife, above all suspicion.

I. Objectives re-assessed

118. *The Committee do not consider such a state of affairs happy. They have given anxious thought to the best course in the present circumstances. They would invite a reference to the statement made by the Finance Minister (Shri C. D. Deshmukh) in Lok Sabha in* 1956 *quoted earlier in the report which runs as follows:—*

> "The investment in ventures established in pursuance of the plan would be given preference over others and the investment policy would be governed in the main by the major considerations such as the interest of the policy-holders, interest of development envisaged in the Second Five Year Plan and subsequent Plans".

119. *As regards the other assurances regarding social advancement, given from time to time, it has been shown in the preceding paragraphs how such a role is more suitable to the Government than to the LIC and little has been achieved materially by the latter in these respects. So far as providing continuance of funds to the private sector goes, not much has been or could be done to fulfil the real purpose of this assurance. Moreover, with the emergence of new financing agencies in the public sector, the necessity of entrusting these functions to LIC has also largely disappeared.*

Primary objectives of L.I. C.

120. *The primary objectives of the investment of LIC which are capable of realisation by it would thus appear to be the two mentioned by the Finance Minister in* 1956, *viz.:—*

(1) *Safeguarding interest of the policy-holders;* and

(2) *Consistent with* (1) *above to provide funds to help the developments envisaged in the plans.*

Investment responsibility with LIC or without.

121. At present the Corporation gets a return of about 3½% net, excluding refund of income-tax, on its investments as a whole. The Chairman of the Corporation told the Committee that the Corporation could meet its liabilities on a return of 3% on its investments. It is worth noting

that when it was put to him whether it would be not desirable for the Government to take over the entire investible funds of the LIC at a rate of interest pre-determined periodically so as to give the Corporation an adequate return, leaving it free to concentrate on business and servicing, he said that personally he saw no objection to the suggestion. He added: "The only thing is that a reasonable rate of interest will have to be assured to the Corporation. We will be rid of a lot of bother".

The representative of the Ministry did not however think that such a step would be desirable. He felt that an arrangement of this nature would tend to make the operations of the LIC static and keep down the bonuses. Also the promise of making funds available to the private sector and other assurances given in the Parliament would not be fulfilled. When it was pointed out that as against an estimated profit of Rs. 8 per thousand contemplated in the present structure of premium rates, the LIC was giving a bonus of Rs. 14 per thousand and that the bonuses had to have some reasonable proportion to the estimates on the basis of which the premium rates were fixed, if such profit sharing was not to degenerate into speculation it was agreed that a periodical pre-determined rate could take care of this aspect. He however said that such a scheme would in a sense mortgage the future of the policyholders. He added:

> "L.I.C. should be kept on its toes with regard to investments, servicing and everything else. Let it answer fully for everything. If it fails, it should be censured. But merely taking away duties from it may not necessarily help to improve its efficiency."

LIC funds to contribute to Plan Programmes.

122. *The reasons given by the representative of the Ministry do not commend themselves to the Committee who are inclined to agree with the Chairman of the L.I.C. They cannot also agree with the view of the representative of the Ministry that divestment of LIC from investment will not lead to increased efficiency of the Corporation. Apart from security and adequacy of return, the prime propose of LIC's investments should be the furtherance of the Five Year Plans. The Third Plan has a deficit of Rs.* 550 *crores. The estimated addition to life fund during the Third Plan period is Rs.* 450 *crores. Even assuming that all the investments in the Government and approved securities go for the Plan programmes, on the present basis of the investment pattern* (70%) *of the LIC about Rs.* 135 *crores would not be available for the Plan. It is also difficult for the LIC in*

purchasing Central and State Government and approved securities to determine which of the securities would go to help the plan programmes. The best judge for that purpose obviously would be Government.

Committee's recommendation.

The Committee feel that it would be in the interest of the country and the Plan programme for the Government itself to take over the entire investible funds of the LIC as an unfunded debt. The interest payable by Government could be pre-determined periodically in consultation with the Corporation to give an adequate return to meet the Corporation's liabilities. It should not be difficult for Government to pay an interest @ 3% deemed to be sufficient by Chairman, LIC or for a matter of that even something more. Such an arrangement would provide in the Third Five-Year Plan period an estimated amount of Rs. 135 crores in addition to a sum of Rs. 315 crores approximately which could be utilised by Government to the best advantage for the development plans. The various requirements of diversification, development, social advancement and furtherance of the interests of the community as a whole could be better served by Government with the help of the funds provided by the LIC for the Plan than could be done by the Corporation itself. Government could likewise provide funds for the development of new industries or expansion of existing ones contemplated evidently for the private sector under the Plan. Such investments could be made through other financing agencies in the Public sector, taking into account the size of investments made by the LIC for this purpose in the past and the allocations in the Plan.

A very important factor to be borne in mind is that with the passage of time the business will increase to such an enormous extent that the LIC, whose main purpose is to procure insurance business and render service may not be able also to devote sufficient time and care for assuring the most advantageous investment of the large funds without detriment to its main work. If the Corporation is freed from the controversial and distracting work of investment it can find all the time and energy necessary which the growing business and servicing would demand. The Committee recommend that the desirability of changing the present policy of investment of the LIC on the above lines may be examined by Government. The measure suggested will not only relieve the LIC of the job of investments and increase its efficiency but will also enable the Government to better realise the objectives of nationalisation.

VII

STAFF MATTERS

A. Number of Employees

123. On the 31st December 1957, the total staff of the Corporation numbered 30,768. By 31st December 1959, this had risen to 37,341. A statement showing their number under various categories as at the end of each of the last three years is given below:—

Category	December 1957		December 1958				December 1959			
	No.	Gross salary	No.	%age rise over (1)	Gross salary	%age rise over (2)	No.	%age rise over (1)	Gross salary	%age rise over (2)
	1	2	3	4	5	6	7	8	9	10
					(Lakhs of rupees)					
Class I Officers	1,038	9·20	1,432	37·9	12·21	32·7	1,479	42·5	12·82	39
Field Officers	5,222	13·13	4,830	—7·5	15·27	16·3	5,188	—0·6	17·53	33
Supervisory and Clerical Staff	19,588	40.22	22,994	17·3	47·64	18·4	24,652	25·8	50·68	26·5
Subordinate Staff	4,920	4·75	5,544	12·7	5·49	15·6	6,022	22·4	5·85	23·1
	30,768	67·30	34,800	13·1	80·61	19·8	37,341	21·3	86·88	29

Increase of staff.

124. The overall increase in staff during the 3 years period 1957—59 has been over 21% and the increase in expenditure about 29%. The increase in Class I Officers has been most marked being over 43% in number and over 39% in expenditure. In respect of supervisory and clerical staff the increase has been over 25% in number and over 26% in expenditure during the same period.

125. As regards the basis for determining the requirements of additional staff the Committee were informed that the Corporation had undertaken a job-time study in a few selected offices. As a result of that study and also after a study of practical working of some of the leading insurers before nationalisation, a "workable formula" had been arrived at, which took into account such criteria as the number of proposals received, no. of policies issued, the

number of policies being serviced; etc. In this connection, the Committee note that the Minister of Finance (Shri C. D. Deshmukh) told the Lok Sabha at the time of consideration of the Life Insurance Corporation Bill 1956 as follows:—

> "The Corporation will not really need the large number of employees it would be inheriting from the various insurance companies....I am aware how anxious Members are that nationalisation should not result in unemployment and it was for this reason that I had given a categorical assurance that there would be no retrenchment. The best solution is to expand the business and thus find real work for all. We are confident that we shall be able to do so in due course."

126. *It was thus expected that such expansion as was anticipated would be served largely by the surplus staff that there was already but that did not mature.*

127. The Chairman of the Corporation stated during evidence that the increase in the number of employees was partly for looking after the increasing volume of business in force and partly for dealing with the increase in new business from year to year. The increase in the number of Class I Officers was explained as being due to the opening of new offices, appointment of junior officers in the Divisional Offices for servicing the expanding business, etc. The following table* shows the relationship of the staff employed in the various zones to the number of policies and the business in force:—

Zone	Total No. of policies on 1-1-60 (lakhs)	Total business in force on 1-1-60 (Crores of Rs.)	Staff employed on 1-1-60 (No.)	No. of persons employed per lakh of policies	No. of persons employed per crore of total business in force
Central . .	3·00	119·1	3,970	1323	33·3
Eastern . .	16·98	453·3	10,492	618	23·0
Northern . .	5·50	186·7	4,260	761	23·0
Southern . .	13·77	339·1	7,634	554	23·0
Western .	27·45	763·5	10,158	370	13·3

*At the time of factual verification it was stated that the business in force zone-wise had been given on the basis of the Divisional Office or Integrated Head Office which had issued the policy or which was servicing the policy now, while atleast a part of the staff required to service the policy would also be working in Branch Offices which might be located in other zones. Consequently it was not correct to compare the business in force in each zone as given in the above table with the staff in that zone.

128. *The figures given in the Table are rather revealing. It will be seen that there is no fixed ratio between the number of policies or the business in force to the staff employed in different zones. The differences between the position in the Western Zone and the others are very marked—the Eastern, Northern and Southern being nearly twice as much as the Western and the Central two and a half times as much.*

The following table which gives the amount of new business written in each zone during the last 3 years and the number of Field Officers employed also shows certain disparities:—

Zone	1958			1959			1960		
	New Business (crores)	F.Os. on 31-3-58	No. of F.Os. per crore of New Business	New Business (crores)	F.Os. on 31-3-59	No. of F.Os. per crore of New Business	New Business (crores)*	F.Os. on 31-3-60	No. of F.Os. per crore of New Business
Northern	42·89	417	9·7	54·09	571	10·6	62·40	711	11·4
Central	43·62	778	17·8	54·48	733	13·4	57·27	796	13·8
Eastern	78·78	2069	26·2	96·15	1727	17·9	86·86	1713	19·6
Southern	89·96	1106	12·3	113·01	1094	9·7	107·41	1149	10·6
Western	82·20	751	9·1	99·96	810	8·1	97·48	992	10·1

129. *The ratio of field officers to the new business done is lowest in Western Zone and highest in Eastern Zone being almost twice as much.*

130. The Chairman of the Corporation informed the Committee that the disparities in the matter of employment of staff in different zones were due to the comparative efficiency which was being gradually improved by training them and by improving upon the methods of work. As regards the number of Field Officers, he admitted that there was concentration of these officers in cities like Calcutta, Bombay and Madras.

Views of the Committee.

131. *While some additional staff might have been required to look after the increased business of the Corporation, the Committee find it difficult to appreciate the justification for such a large increase in the number of employees within a period of two years, particularly in view of the statement of the Minister of Finance quoted in*

*At the time of factual verification on 13.4.61, the final figures of new business written in 1960 and the corresponding ratio were stated to be as under:—

Zone	New Business (Crores)	No. of Field officers per Crore of new business
Northern	72.93	9.7
Central	63.50	12.5
Eastern	113.28	15.1
Southern	122.85	9.4
Western	113.46	8.7

para 125 above. They consider that the real test of economy and efficiency of the Corporation would be to increase the business without a corresponding increase in its operational cost. In any case, the Committee feel that once the Corporation has established its network of organisation it should be possible to exercise more economy in the number of staff employed and the existing organisation should be able to take care of additional business to a large extent. They recommend that the staff position of the different zones in the various categories may be constantly reviewed with reference to the workloads which should be uniform for all Zones and efforts made henceforth to secure additional business without a corresponding increase in staff The immediate attempt should be to approximate the ratio of the strength in the other zones to that of the Western Zone at least and see to the elimination of the wide disparities between the zones.

B. Salaries of Officers

132. From the information furnished to the Committee regarding the suggestions/advice given by the Ministry to the LIC, it is seen that in July, 1959 Government suggested to the Corporation a re-examination of salaries of certain of its officers, which appeared to Government to be incommensurate with the total emoluments drawn by those officers prior to nationalisation. The Corporation considered the matter and decided that it would not be practicable or desirable to revise their salaries. *The Committee are not aware of the reasons which led the Corporation to take the above decision. In their opinion, the salaries of officers in the Corporation should not be so fixed as to bear no reasonable proportion to the salaries drawn by them for discharge of similar duties prior to nationalisation. Such a treatment may create dis-satisfaction among others not equally fortunate. The Committee suggest an examination by Government of such cases if not for the purpose of disturbing the existing order at least as a guidance for the future, though the cases that may arise hereafter may not be many.*

C. Financial assistance for Defence in legal proceedings

Defamation case against an Officer of the Corporation.

133. It came to the notice of the Committee that a defamation case had recently been filed by an employee of the Corporation against one of its Zonal Managers. The Executive Committee of the Corporation decided that the Corporation should defend the Zonal Manager as, according to the charge-sheet, the alleged incidents had taken place during the course of his official duties. The trying Court acquitted the Officer of two of the three charges brought against him but convicted him in respect of the third charge

and sentenced him to a fine of Rs. 555 or in default to undergo rigorous imprisonment for three months. The officer has now gone up in appeal.

Expenses for defence borne by Corporation in the first instance.

134. The Committee were informed that the Corporation had decided that the costs in the lower Court and at the stage of first appeal may be borne by the Corporation in the first instance. If in the appeal the Officer was acquitted, the entire costs would be borne by the Corporation; in case the conviction was upheld, the Board would decide as to whether the Corporation should finance an appeal to the High Court and what part, if any, of the expenses incurred in the case would be borne by the Corporation. They were also informed that the lawyers engaged by the Zonal Manager in the lower Court had not submitted their final bills, but it was expected that the fees payable to the main Counsel, his juniors and out-of-pocket expenses would amount to about Rs. 16,250/-. Of this an amount of Rs. 2,156·93 nP. had been paid by the Corporation upto 4th February, 1961.

Principles laid down by Government.

135. The Government has laid down certain principles regarding the provision of legal and financial assistance to Government servants in such cases. A copy of the relevant order is reproduced in Appendix XII. The relevant portion of the order regarding the extent to which financial aid can be given by Government to an officer, who himself arranges for the conduct of his defence in the proceedings instituted against him by a private party in respect of matters connected with his official duties or position, reads as follows:—

> "If the Government servant proposes to conduct his defence in such proceedings himself, the question of re-imbursement of reasonable costs incurred by him for his defence may be considered in case the proceedings conclude in his favour. In determining the amount or costs to be so re-imbursed, Government will consider how far the Court has vindicated the acts of the Government servant. The conclusion of the proceedings in favour of the Government servant will not by itself justify re-imbursement.
>
> To enable the Government servant to meet the expenses of his defence, Govt. may sanction, at their discretion, an interest-free advance not exceeding Rs. 500/- or the Government Servant's substantive pay for three months, whichever is greater, after obtaining from the Govt. servant a bond. The amount advanced would

be subject to adjustment against the amount, if any, to be re-imbursed as above.

The Govt. servant may also be granted any advance from any Provident Fund to which he is a subscriber not exceeding three months' pay or one-half of the balance standing to his credit, whichever is less; this advance will be repayable in accordance with the rules of the Fund".

Views of the Committee.

136. *It wil be seen that the maximum amount that can be advanced to such an Officer would be three months' pay or Rs. 500/- whichever is greater, plus an advance from his Provident Fund, subject to the limit of three months' pay, or half the balance standing to his credit in his Provident Fund A/C, whichever is less. The liability incurred by the Corporation in this case is obviously far in excess of the financial assistance which a similar Government servant could have obtained in similar circumstances; nor is it contemplated to recover any portion of this expenditure. The Committee are firmly of the view that the principles and rules to be followed in this respect by the L.I.C. or any public undertaking in such a case should be the same as prescribed by Government for its Officers. A direction to this effect may be issued by Government to L.I.C. and to all other public undertakings.*

D. Field Officers

Qualifications.

137. Agents are ordinarily guided and assisted in their work by the Field Officers. The duties of the Field Officers are shown in Appendix XIII. The qualifications generally required of the Field Officers are:—

(1) Educational .. Matriculation

(2) Age .. 25 to 45

(3) General

Sufficient prestige, influence and aptitude for field work and overall competency to represent the Corporation as a field worker.

Recruitment from amongst successful agents suggested.

138. The representative of the Corporation told the Committee during evidence that in selecting Field Officers people with good agency work were given preference but such appointments were not restricted only to Agents since the Field Officers were required to have some other qualities, like management experience. The number of agents appointed as Field Officers during 1958 and 1959 in each Zone and their percentage to the total number of Field Officers appointed in these years are given in Appendix

XIV. *The Committee feel that since the field Officers are expected to guide, supervise and direct the activities of agents and to recruit, train and motivate them for insurance work, recruitment to this category of officers should as a rule be made from among successful whole-time agents of at least 5 years' standing. Such a provision might be attractive to good agents who after obtaining an assured renewal commission might feel encouraged to work as field officers.*

E. **Agents**

(i) *Number of Agents*

139. The business of the Corporation is procured through Agents who are licensed by the Controller of Insurance under Section 42 of the Insurance Act, 1938. An appointment letter giving the terms of appointment is issued to each Agent by the Corporation. Every agent has to complete a minimum business in a year *viz., Rs.* 40,000 in a place with a population of one lakh, and over Rs. 20,000 at all other places. If an agent fails to comply with these requirements for two consecutive years his agency stands automatically terminated.

140. The number of agents on the rolls of the Corporation and their average output of new business during the last 3 years are given below. The number of active* agents is shown in Col. 4 of the statement:—

	Total No. of Agents employed by the Corporation	Average output	Active
		Rs.	
31-12-1957	2,07,373	31,067	90,154
31-12-1958	2,30,604	37,494	94,270
31-12-1959	1,28,256	44,435	Figures not yet available.

141. The Committee were informed that, at present, the Corporation recruited agents from people who had some other vocation so that they were able to make a living. With a view to attracting the right type of persons for whole-time agency work, the Corporation had arranged to impart training to Agents. *No statistics of whole-time agents had, however, been compiled by it so far.* Part-time Agents.

*An active agent is one who has introduced at least one policy in the preceding financial year.

Average monthly earning of an agent.

142. As regards the average monthly income of an agent, the Corporation expressed its inability to furnish statistics. *The Committee find that during* 1959 *the Corporation paid a total commission of Rs.* 806·84 *lakhs to* 2,30,604 *agents. On this basis, the average income of an agent would work out to Rs.* 350 *per annum, without allowing for his working expenses for securing business. It follows from this that a large number of the agents get very low income and work part-time only. A few others, who might be whole time, may write a considerable amount of business and have a larger income. On the whole, the average remuneration that an agent can get is not sufficient to enable him to work whole-time.*

143. The Committee understand that in the U.S.A. only whole-time agents are employed by the Insurance Companies. These are trained for about two to three years before being allowed to work. *Part-time agents cannot devote themselves whole-heartedly to securing business; nor can they render efficient service to the policyholders. For better business and proper servicing it would be desirable to appoint more and more whole-time agents. There may be exceptions in the case of rural areas where part-time agents may have to continue for some time more as insurance business is not so widely spread and popular in such areas and the commission earned may not be sufficient. The Committee suggest that in order to attract young and energetic men to the insurance profession, the Corporation should consider restriction of the number of agents in urban areas and encouraging the appointment of whole-time professional agents.*

(ii) Benami *Agencies**

Elimination suggested.

144. It was represented to the Committee that there were a number of *benami* agents in the Corporation and that the evil of *benami* agencies was not only persisting but increasing. They were also informed by the Corporation that from its very inception it had taken definite steps to cancel *benami* and dummy agencies. Statistics of such agencies which were called for by the Committee have not yet been furnished. Benami *agents are obviously not desirable for they cannot fulfil the first obligation of an agent, viz., personalised service. Secondly,* Benami *agents cannot have the same urge to procure additional or sound business as a regular agent would have. There is also the likelihood*

*A benami agency is one where the canvassing and procurement of business is done by somebody other than the person in whose name the licence is held.

of their being used by the Field Officers of the Corporation for their own benefit. The Committee suggest that the Corporation may take effective steps to eliminat benami *agents.*

F. **System of Rebating:**

145. The Committee understand, and it was admitted by the Chairman of the Corporation, that the system of allowing rebates by the agents was still common. *They feel that if the first year's commission is spread over a period of first three to four years of the policy, it would not only reduce the evil of rebating but also help to ensure that the business secured is sound. Further, it would work as a discouragement in the case of inactive agents. The Committee note that in the U.S.A. many companies provide for a higher rate of renewal commission on the second and third year's premia. They suggest that the feasibility of spreading the payment of first year's commission over a period of 3 to 4 years may be examined.* **First year's commission to be spread.**

G. **Delay in payment of Commission:**

146. It was represented to the Committee that there were delays on the part of the Corporation in the payment of commission to the agents. The representative of Government told the Committee that the Government had also received such complaints and that they would impress upon the *L.I.C. to improve the position in this respect. The Committee trust that necessary action would be taken by Government to ensure expeditious payment of commission to agents.*

H. **Nominations by Agents for Hereditary Renewal Commission**

147. Under the Insurance Act, 1938 renewal commission is payable to the heirs of agents after their death. It was represented to the Committee that it was a difficult and costly process for the heirs of agents to secure and establish claims on such renewal commission and that the Insurance Act may be amended to enable the agents to nominate the beneficiaries to their renewal commission during their life-time. The representative of the Government informed the Committee during evidence that they had asked the Corporation to suggest a draft Notification under Sec. 43 (2) of the Act for the purpose. *The Committee hope that necessary action would be taken at an early date in the matter of permitting the agents to nominate the beneficiaries to their renewal commission.*

I. Employment of Scheduled Castes and Scheduled Tribes

148. The number of persons belonging to Scheduled Castes/Tribes employed by the Corporation on 31-12-59 was 584 as against its total strength of 37,340 employees. The Committee were informed that Government suggested to Corporation that the policy of reserving certain posts for candidates belonging to Scheduled Castes/Tribes may be followed by the latter. The Corporation decided to make relaxations only in respect of upper age limit and the application fee for scheduled castes employees, but did not agree to reserve a percentage of posts. *The Committee do not appreciate why it should not be possible for the Corporation to follow the general policy of Government in this regard. They suggest that Government may examine the desirability of issuing a direction prescribing the same reservation as has been made for Government Departments.*

J. Miscellaneous

(i) Partnerships as Agents.

149. At present agencies of the Corporation are not granted in the name of corporate bodies or partnerships in view of the provisions of Section 42 of the Insurance Act, 1938. *If an agent is only an individual, the continuity of service will be broken on his death or retirement. The Committee consider that, instead of one individual working as an agent, if two or more persons pool their resources, they could (as partnerships or cooperative venture) render continuous and better service to the policyholders. In view of these advantages, the Committee suggest that the feasibility of granting licences to cooperative bodies and partnerships might be considered.*

(ii) Panchayats as Agents.

150. The Commitee understand that the Union Ministry of Community Development and Co-operation has drawn up a Scheme for 'Rural Insurance through Panchayats' which will be implemented in co-operation with the Life Insurance Corporation of India. *Though the Committee called for the details of the Scheme on* 24-1-61, *these were not furnished by Government till the Report was finalised. They, however, find that the Scheme in question has been published in 'Kurukshetra' of* 26-1-61.

151. Under this scheme a nominee of the Panchayat is to be appointed as an *authorised insurance agent.* This nominee is to be given agency for *only one year* and the commission accruing on the policies in the first year would be shared by him and the Panchayat in the ratio of 1:3. For collection of premia and servicing of the policies in subsequent years the Panchayat will be paid 5% of the

annual premium during the life time of the policy. It has been represented to the Committee that the proposed arrangement of requiring the Panchayats to collect the premia and payment of service-*cum*-collection charges to them is not in conformity with the spirit of the Insurance Act, 1938. Further, personalised service to policyholders, which is claimed to be essential for insurance business and is available through regular agents, would also be wanting under the proposed arrangement. The representative of the Ministry informed the Committee that in this case the letter of the law had not been broken. *The Committee appreciate the various steps taken to encourage the spread of insurance in rural areas by utilising the agency of the Panchayats. In view of the doubts expressed about such measures not being in conformity with the provisions of the Insurance Act, it would be desirable to have the matter examined and, if necessary, action taken to modify the existing statutory provisions to remove any doubts in the matter.*

VIII

SERVICE TO POLICYHOLDERS

152. Service to policyholders covers every thing done or required to be done by the insurer in connection with the maintenance of a policy from the time it is issued till its final settlement normally by payment. Such servicing is continuous and varied and includes work relating to recording changes in addresses, answering enquiries, admission of age and registering of nominations of policyholders. The main items relating to servicing however fall under the following three groups:—

(1) Issue of premium notices to and collection of premia from policyholders;

(2) grant of loans on the security of policies; and

(3) settlement of maturity and death claims of policyholders.

These are dealt with in the succeeding paragraphs.

A. Premium Notices

153. Many complaints to the effect that premium notices were not issued by the Corporation regularly came to the notice of the Committee and they were fairly widespread. Further, when any premium was not paid in time copies of default notices were not endorsed to the Agents through whom the particular policy was issued so that the agent could follow it up. In certain other cases after having sent such default notices copies of revival notices were not sent to the agent concerned. Complaints also came to notice about the delay in the issue of premium receipts to policyholders in respect of premia deposited by them. The reports of the Inspecting Organisation of the L.I.C. also refer to delay in the issue of premium receipts and non-issue of default notices. The Chairman of the Corporation admitted during evidence that he had received complaints about non-receipt of premium notices and delay in the issue of receipts. Such complaints were investigated and appropriate action taken. *The Committee consider that investigation of individual complaints received, though certainly desirable, may not be enough remedy for the state of affairs that is indicated by the complaints made to them from many quarters. Further, not all such cases will be brought to the notice of the Corporation through written complaints.*

The ordinary man will judge the performance of the L.I.C. by the efficiency and promptness of service to the policy-holders. It is, therefore, essential that the Corporation should take special and effective step to improve its servicing so that there may be no room for any such complaints.

B. Place of Payment of Premia

154. At present payment of premia is accepted only at the Branch Office where the relevant policy records are maintained. The earlier practice of accepting premium in any of its offices has been discontinued. Explaining the reasons for the change in practice, the Chairman of the Corporation stated that a large number of complaints were made to the L.I.C. regarding non-receipt of premium receipts where premium had been paid. After investigation, it was found that the Branch Offices had to forward the amount of premium or intimate its receipt to the appropriate offices which took some time. Further, at the time of paying the premia, the policy-holders did not give complete details, *viz.*, policy number, address, mode of payment. This necessitated enquiries being made about these details. In order to avoid the complaints about non-receipt of premium receitps, the Corporation decided to ask the policy-holders to pay their premium at the office where their policy papers were maintained. *The Committee note that in the case of trunk call bills payment can be made in any post office. The representative of the Ministry also told the Committee that the above difficulty was not insurmountable. The withdrawal of this facility has caused much inconvenience and hardship to the policy-holders. They suggest that the feasibility of reverting to the earlier practice may be reconsidered.*

C. Deduction of Premia at Source

155. Collection of premia at source from the salaries of the insured Government servant is a facility which has undeniable advantages. It makes lapses almost impossible, reduces collection expenses and also is generally appreciated by the insured. Such a facility is provided under the Postal Life Insurance Scheme and certain State Insurance Departments but is not available to Government servants insured with the L.I.C. The Committee were informed during evidence that the Corporation had approached the Government of India for a similar concession but the proposal was turned down on the ground of accounting difficulties. *It*

appears to them that the difficulties of accounting stated to be the reason for not providing the facility are not insurmountable. They recommend that the matter may be considered by Government to enable deduction of premia at source to be made in respect of its employees and employees of the public undertakings insured with the L.I.C. Apart from the advantages pointed out earlier in this paragraph, this measure is certain to improve LIC's business. In this connection, they also invite attention to the recommendation of the Public Accounts Committee contained in paragraph 68 of their 34th Report (Second Lok Sabha) urging extension of the facility of deduction of premia from monthly salary of all the constituents of the L.I.C. The Committee also feel that it would be desirable to extend the same facility to employees of State Governments in due course who may insure with L.I.C.

D. Grant of Loans

(i) *Procedure*

Procedure complicated.

156. *The procedure for grant of loans to policy-holders seems to be far from simple.* The Branch Offices of the Corporation, which procure business are not authorised to grant loans to the policy-holders on the security of policies. Such applications have to be preferred to the Divisional Offices. Further the loans which carry an interest @ 6% cannot be repaid before a period of six months and even thereafter repayment is not accepted unless tendered in full. It was represented to the Committee that the procedure for grant of loans to the policy-holders was also very complicated and there were avoidable delays in the grant of loans. In this connection they were told that the erstwhile insurers of good standing sanctioned such loans within a few hours of the application. The Chairman of the Corporation agreed during evidence that he would examine the question of simplifying the procedure of grant of loans and making the surrender value of each policy available to the Branch concerned and authorising the same to grant such loans in most cases. He also stated that the procedure of not accepting the repayment of loans until after six months of their payment and in lump sum was wrong. *The Committee consider that delays in the grant of loans defeat the very object for which loans are applied for by the policy-holders. They trust that immediate attention would be paid to these matters and action taken to simplify the procedure for disposal of loan applications by empowering the Branches to grant loans upto a specific amount which should be disposed of within a time-limit to be fixed for the purpose. The Committee would further suggest that the desirability of charging a lower rate of interest on such loans may also*

be examined. It should also be possible for the LIC to accept repayment of loans (1) within 6 months of the loan giving a proportionate rebate of interest taken in advance and (2) in instalments the minimum of which may be prescribed.

157. It was represented to the Committee that at present the execution of a stamp bond for getting a loan from the L.I.C. involved heavy expenditure. It was suggested that the Corporation may grant such loans on the security of policy against a stamped receipt as was done by Banks. The Chairman of the Corporation explained that they were obtaining stamp bonds because of legal provisions. Further, the insurance companies were not allowed to do lending of money as was done by the Banks. *The L.I.C. should at least be able to extend the same facility to the policy-holders as is available to them from the Banks. The Committee, therefore, suggest that the feasibility of granting loans on the security of policies against stamped receipts may be examined.* **Loans against stamped receipts**

(ii) *Surrender Value*

158. A table showing the guaranteed surrender value for Rs. 1,000 sum assured applicable to Endowment Assurance with profit policies issued by the L.I.C. and Sunlife and Norwich Union prior to nationalisation is given in Appendix XV. It would be seen that the surrender values on the L.I.C. policies are extremely low. *Since the amount of loan to the policy-holder depends upon the surrender value, the Committee recommend that the matter may be examined so as to bring the surrender value of L.I.C. policies on par with the leading insurance companies abroad.*

E. Settlement of Claims

159. The Committee were informed that 73,082 claims of policy-holders (amounting to Rs. 14·04 crores) were outstanding on 1st January, 1960. An analysis of such claims according to the period for which these were outstanding is given below:—

(In crores of Rs.)

	By death		By Maturity		Total	
	No.	Amount	No.	Amount	No.	Amount
Outstanding for more than 12 months .	15,006	3·9	18,804	1·96	33,810	5·86
Outstanding for more than 6 months, but less than 12 months	4,094	1·14	4,559	0·58	8,653	1·72
Outstanding for more than 3 months, but less than 6 months	2,913	0·81	2,581	0·37	5,494	1·18
Outstanding for less than 3 months .	8,350	2·55	16,775	2·73	25,125	5·28
	30,363	8·40	42,719	5·64	73,082	14·04

Instructions issued by the Corp.

160. The Chairman of the Corporation informed the Committee that the Corporation had issued instructions that action to settle maturity claims should be initiated two months before the policy matured and the cheque should be sent to the policy-holders on the date of maturity. Many of the outstanding maturity claims mentioned in the above statement were paid-up policies the payees of which were not traceable at their old addresses. As regards death claims, he stated that the Corporation had issued instructions that if the death took place after two years after taking a policy the claim should be settled as early as possible. But if a death took place within two years of taking a policy an investigation was made into the causes of the death and it took some time to settle the claim, except in case of death by accident.

161. *The settlement of death claims may take a little more time than the maturity claims but the number of outstanding maturity claims also is very large. With their network of field officers and agents, it should not be difficult for the Corporation to trace the policy-holders of paid-up policies if action in that direction is initiated sufficiently in advance.* The representative of Government told the Committee that the position regarding outstanding claims made 'bad reading' and assured that Government would pursue the particular question more zealously.

Suggestions of the Committee.

162. *The Committee are glad that Government have promised to take necessary action in the matter. They feel that delay in the settlement of claims is very undesirable and results in unnecessary hardship to the claimants. Particularly, when Government has guaranteed the payment of sum assured to policy-holders, such delays also tend to expose Government itself to criticism. The Committee suggest that Government should call for periodical returns of outsanding claims and ensure that their settlement is not delayed. A time-limit may be laid for the settlement of both death and maturity claims. Investigations into early death claims about whose settlement there are many complaints may be specially conducted by senior officers.*

Interest on delayed settlement of claims.

163. In this connection, it has been suggested to the Committee, that apart from administrative measures, it would be desirable to levy an interest on delayed payment of claims, say after a period of three months. *This suggestion may be examined. The Committee also recommend that to enable a correct appreciation of the position of each zone, and from year to year, the figures of outstanding claims, classified into maturity and death claims zone-wise, their value, period for which they are outstanding etc. may be published in the Annual Reports of the Corporation.*

F. General

164. The Committee were told that the Corporation was laying more emphasis on the expansion of its business and adequate attention was not paid to the servicing aspect. The summary of findings of inspections made by the Inspection Organisation of the Corporation which was submitted to the Executive Committee of the Corporation on 14.11.60 (reproduced in Appendix XVI) reads as follows insofar as Policy-holders Servicing Departments are concerned:— Deterioration in Service.

Divisional Offices:

"The working of this department was very unsatisfactory in the earlier years. The effective functioning of the department itself started by about the middle of the year 1957 only. Paucity of Adrema and Accounting machines was one of the main reasons for the earlier difficulties experienced. In addition to this, the various registers required in the department had also been supplied very late to the Offices. There were heavy arrears in posting of premiums paid in the Policy Registers and in replying to letters. Investigation of claims was also very much protracted. The equipment required for filing was not at all adequate. In many of the offices the files were left on the floors in the absence of filing cabinets.

This is the department where the greatest improvement in working has been registered. The position of the machines has improved somewhat, even though it cannot be said to be very satisfactory even now. Most of the registers required have been supplied to the offices. The posting of collections in Policy Registers is not kept in arrears generally. However, the extent of arrears in replying to letters is still fairly large. The tempo of investigation of early claims has improved considerably. The position has also eased with regard to the supply of filing equipment.

Branch Offices:

Issue of lapse notices was totally absent in the initial stages in most of the offices. Follow-up of policy deposits was not attempted systematically. An unconscionably large amount of arrears was apparent in the unattended Deposit Receipts in almost all the offices.

The issue of lapse notices has now improved in many Branches. The following-up of amounts lying in deposit has registered a very satisfactory improvement in most of the offices now. A concerted drive for the adjustment of deposits is now in swing as a result of the instructions issued in this behalf by the Chairman. The extent of arrears in replies to letters etc., is, however, largest in this department, as compared to all the departments of the Branch Offices. Policy Index Cards are even now not being arranged alphabetically and uptodate in a large number of Branch Offices. Steps are being taken to remedy this situation."

Room for Improvement.

165. *It would thus be seen that the servicing leaves much to be desired. The representative of the Ministry agreed with the Committee that even if the targets have to be cut down a bit, it would be better to ensure servicing of the existing policies. The Committee consider that under the nationalised set up, the service offered by the Corporation should not only be as good as rendered by the erstwhile insurers but very much better. They suggest that effective steps should be taken to improve the position in this regard. One way of doing so may be to make the Branch Offices responsible for all types of services, for which they have no responsibility at present.*

Analysis of Complaints.

166. *The Committee would also suggest that an analysis of complaints received by the Corporation during a year from each Zone, should be published in its Annual Reports.*

IX

MISCELLANEOUS

A. Buildings

167. A statement showing the total number of buildings owned by the Corporation in each Zone as on 1st January, 1960 and their value is given below:—

(Value of lakhs of Rs.)

Zone	Built by previous Insurers		Construction started by previous insurers & completed by the Corporation		Constructed and completed by the Corporation		Total	
	No.	Value	No.	Value	No.	Value	No.	Value
Western .	169	626	9	76	1	12	179	714
Eastern .	82	508	1	39	..	..	83	547
Southern	159	189	2	73	..	..	161	262
Northern.	37	172	4	157	..	..	41	329
Central .	25	38	1	16	..	..	26	54
							490	1906

168. The table below shows the extent to which the buildings are used by the Corporation or are rented out:—

Zone	Completely used by Corporation	Partly used by Corporation and partly rented out.	Completely rented out.
Western . .	5	31	143
Eastern . .	12	33	38
Southern . .	17	20	124
Northern . .	15	..	26
Central . .	1	10	15
	50	94	346

Yield on Investment in Buildings.

169. The Committee were informed that, allowing for taxes, repairs, maintenance, management charges etc., but excluding depreciation, the net yield on the Corporation's properties (both buildings and lands) amounted to 4%. If depreciation at the rate of 2% per annum of the book value of buildings was added, the yield would come to 3% approximately. In the case of certain dilapidated buildings the return was lower. They were also informed that in certain places, *viz.*, Bombay, Poona and Delhi, although the Corporation owned its buildings, it had to take buildings on rents higher than what the Corporation was getting for its own buildings. This had to be done as in some cases the tenants, who were occupying the buildings prior to nationalisation, could not be evicted on account of the Rent Control Act. In some cases new offices had to be located at considerable distances from places where their own buildings were situated. Existing buildings could not be utilised in such cases.

Desirability of disposing of unwanted or surplus buildings to be examined.

170. The large number of buildings the Corporation owns at present, nearly 500, is mostly a legacy of the prenationalisation era. The amount of capital locked up in them represents more than nineteen crores of rupees. Of them nearly 350 buildings, or 70%, are rented out and only about 10% of the buildings are fully used by the Corporation. The balances, nearly a hundred or 20%, are partly used by the Corporation and partly rented out. *While the Corporation may have its own buildings to house its offices, wherever justified, it does not appear necessary to possess such a large number of buildings for renting out, particularly when the net return does not exceed 3% on the capital invested. The Committee recommend that the Corporation may examine the desirability of disposing of its unwanted or surplus buildings gradually for reasonable prices. Special efforts may be also made to gain occupation of the buildings rented out wherever it would be economical to use them for Corporation's own offices at present housed in rented buildings.*

B: Loans on Mortgages of Property

Investment inherited.

171. The Committee were informed that the Corporation inherited from the various insurers an investment of a little over Rs. 15 crores in loans on mortgages of property. It was found that a number of these loans had been granted on inadequate security or on properties the title to which was unsatisfactory. As such a number of loan defaults had occurred and legal and other action had to be taken. In view of this the Corporation decided, as a matter of policy, not to grant new loans on mortgages till the position was review of this the Corporation decided, as a matter of policy, tion decided in November, 1959 to grant loans on the security of the properties situated in the cities of Calcutta, Madras

and Bombay. Subsequently, the scheme has been extended to Delhi, Hyderabad, Ahmedabad and Bangalore. The main features of the scheme are given in Appendix XVII.

172. The Chairman of the Corporation informed the Committee that about Rs. 29 lakhs had been advanced under the scheme so far. As regards the reasons for restricting the scheme to few cities only, it was stated that the Corporation wanted to make a cautious beginning and to set up the nucleus of the appropriate administrative machinery for considering applications for such loans, valuation of the properties, etc. It also transpired during discussions that no powers for granting such loans had been delegated and the Executive Committee of the Corporation considered each application.

173. *Obviously the scheme, if it is to be continued, has to be extended to places other than the few important cities to which it is at present restricted. The Committee hope that the experience gained by Corporation so far would enable such a relaxation to be made. The Committee further suggest that the desirability of decentralising this work by delegating appropriate powers for grant of such loans at least upto certain limits to the Zonal Managers may be considered. It is a moot point, however, whether the LIC should engage itself in such an activity, where again the cause of social advancement may not be the primary guide.*

C. Insurance Year Books

Particulars of working of LIC not incorporated.

174. The Committee note that, in the Insurance Year Books published by the Controller of Insurance, particulars regarding the working of the LIC have not been so far incorporated in any detail. Such details used to be given in the book in respect of erstwhile insurers. The representative of the Ministry informed the Committee that from next year it was proposed to make the Year Book fuller. *The Committee hope that sufficient information about the working of the Corporation would be published in future in the Insurance Year Books to serve as a book of reference on life insurance matters as of general insurance.*

X

SUBSIDIARIES OF THE CORPORATION

175. At present the Corporation has the following general insurance companies as its subsidiaries:

(1) The Oriental Fire and General Insurance Co. Ltd.;

(2) The National Fire and General Insurance Co. Ltd.;

(3) The Asiatic Government Security Fire and General Assurance Ltd.; and

(4) the Indian Guarantee and General Insurance Co. Ltd.

All the four companies are working under separate Boards of Directors.

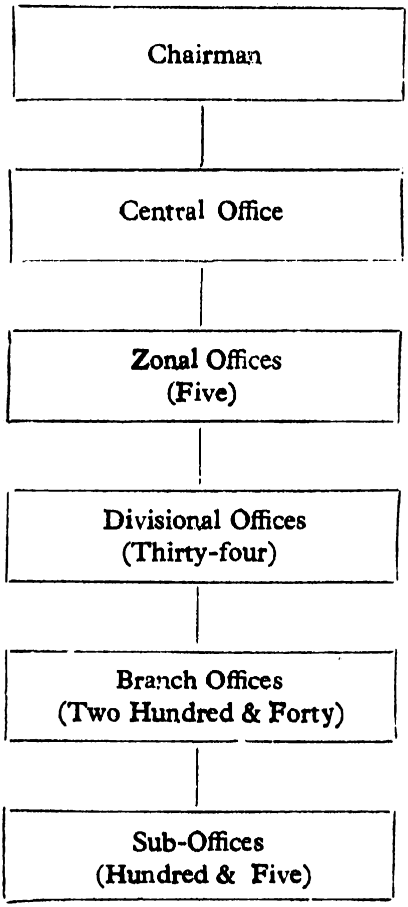
176. *The Committee regret to observe that the annual reports etc., of these subsidiaries were furnished to them late on the* 13*th December,* 1960, *despite reminders. The Sub-Committee on Public Undertakings had by then completed their examination of the LIC, including the evidence of its officials. As such, it has not been possible for the Committee to examine the working of these subsidiaries.* Particulars of the called and paid up capital, the holding of the Corporation as at December, 1958 and a summary of the results of these companies for the years 1956, 1957 and 1958, as contained in the 3rd Annual Report of the Corporation are, however, given in Appendix XVIII.

NEW DELHI;	H. C. DASAPPA,
April, 14*th* 1961	*Chairman,*
Chaitra, 24, 1883(*S*).	*Estimates Committee.*

APPENDIX I

(*Vide* Paragraph 4)

Chart showing the organisational set-up of the Life Insurance Corporation on 31-12-1959



APPENDIX II

(*Vide* paragraph 11)

THE FUNCTIONS OF THE CORPORATION AND ITS BRANCHES

A. Central Office

1. The Central Office of the Corporation is a policy-making and co-ordinating body and its direct executive responsibility is only in a very limited field. Mainly it co-ordinates the activities of the various zones and confines itself to giving broad policy directions and decisions on inter-zonal matters. Investment policy and investing of funds in accordance with it, are the sole responsibilities of the Central Office. In addition to formulation of underwriting standards, the Central Office also does underwriting of proposals for large amounts and for sub-standard lives beyond the Divisional Office authority. Submission of returns etc. in accordance with statutory requirements is the sole responsibility of the Central Office. Standardization of procedures and forms, drawing up of Prospectus, premium rates and policy conditions and arrangements with regard to re-insurance are also looked after by the Central Office. It has also been the responsibility of the Central Office to conduct national publicity campaigns on a wide scale. Inspection of the various offices of the Corporation as also the financial internal audit of the branches, divisional and zonal offices have been the responsibility of the Central Office. Each department of the Central Office is responsible in its particular sphere for the statistical and other research work leading to policy decisions and also for watching the proper implementation of the decisions. However, a Research and Statistics Bureau is also being set up, for research on specific lines. In general, the policy decisions are made by the Chairman, the Executive Committee and the various committees who in turn, report to the Board.

2. At the Central Office, in addition to the Chairman, there are two Managing Directors, a Financial Adviser, four Executive Directors, a Zonal Manager (Integration) and a Chief Internal Auditor.

3. Managing Director I, besides attending to co-ordination of work in all the Departments, is also in direct charge of the Actuarial Department, and is assisted by the Actuary to the Corporation. The Actuarial Department controls the Actuarial work in all the Zones, and also keeps under constant review the underwriting methods and standards of the Corporation.

4. Managing Director II handles the portfolios of Development, Foreign Business, Training of Development Staff and Publicity. In this, he is assisted by the Secretary (Development), Development Secretary (Foreign) and the Public Relations Officer. The Development Department deals with the planning of development of new business, opening of new offices and matters relating to field officers, agents, etc., and has a section to plan and execute training programmes for the Branch Managers, field officers and agents of the

Corporation. The Development Secretary is in charge of this. The Foreign Department handles all the foreign business of the Corporation and is in direct charge of the Development Secretary (Foreign). The Public Relations and Publicity Department is under the charge of the Public Relations Officer and it deals with all matters connected with publicity programmes of the Corporation, public relations and preparation of sales aids. It also handles certain special problems related to rural development, and maitenance of general contacts with the various Government departments.

5. The Financial Adviser to the Corporation, as his name implies, advises the Corporation on all matters involving financial implications.

6. The Investment Department is under the charge of an Executive Director who is assisted by the Secretary (Investment). This department is in charge of the actual day-to-day management of the investment portfolio. Loans on mortgages of property are also being handled in this Department only. The Executive Director is assisted in this respect by the Secretary (Legal & Mortgages).

7. Executive Director (Accounts) has under him the Accounts Department. The main function of the Accounts Department of the Central Office is to co-ordinate and consolidate the accounts of the various units and offices of the Corporation in addition to reviewing the accounting procedures of the Corporation.

8. The Executive Director (Personnel) is in charge of the Departments of Secretarial and Personnel, Inspection and Training of Administrative Staff. The Personnel Department deals with all matters of policy relating to the Officers and Staff of the Corporation and also such matters relating to individual employees as may require consideration at the Central Office. One wing of the Department attends to the establishment work of the Central Office Staff and another wing arranges the purchase of certain items of office supplies and equipment for all the offices of the Corporation where it is desirable to centralise such purchases. There is also another section in the Department which handles all legal and other matters upon which the Central Office has to take co-ordinated action. The work relating to the Board and the various other Committees (other than the Investment Committee) is also handled in the department under the supervision of the Secretary (P) who is also the Secretary to the Board.

9. Secretary (Inspection & Training) assists the Executive Director (Personnel) with regard to Inspection of the various offices of the Corporation as also training of the Administrative Staff. The Inspection Wing is responsible for periodical inspections of the various offices of the Corporation in accordance with its Regulations. Besides these periodical inspections, which keep a watch on the working of the various offices of the Corporation, particularly to ensure that it is in line with the various established principles and Manuals, the objectives of the Inspection Organisation include a continuous review of the administrative procedures in the light of experience, with a view to simplifying and improving them and the

examination of such questions as staff requirements, work-loads, economy measures etc.

10. The "Training" wing of the Department has been formed to make arrangements for the training of Administrative Staff so as to meet the increasing need for a well-trained organisation to man the various offices of the Corporation. Training will be imparted to new recruits to the assistants cadre as well as to the existing staff appointed after the appointed day working in the various offices. It is also proposed to give training for the Supervisory Staff and Officers of the Corporation.

11. The Corporation has set up a Buildings Department in charge of the Executive Director (Engineering). The Department is responsible for planning and executing building construction programmes and development of Corporation's properties. This department is charged with the general maintenance work of the Corporation's properties and has its organisation at the Zonal level directly responsible to it.

12. The Integration Department of the Corporation under a Zonal Manager (Integration), is charged with the responsibility of preparing for the decentralisation of the existing business and also of ensuring that uniformity of procedures is introduced in all the units. It also aims at expediting settlement of old claims and for that purpose streamlined the procedure, leading to quicker settlement of claims. This department is also handling complaints received from the policyholders.

13. The Internal Audit Department is under the charge of the Chief Internal Auditor. The principal function of the department is to make concurrent audit of the transactions of the Corporation as recorded in the books of accounts of the various offices in the light of the Administrative policy standards and procedures laid down for the purpose.

B. Zonal Office

Each Zonal Office is in charge of a number of Divisions and has authority to execute the decisions of the Corporation and to co-ordinate the working of those Divisions. It is the primary responsibility of the Zonal Office to ensure that uniformity of working is maintained and efficiency of these offices is kept at the higest level. Briefly the Zonal Offices have the following particular functions: They are discussed below department-wise.

1. ACTUARIAL DEPARTMENT

(i) Directions to Divisional Offices regarding underwriting procedures, underwriting revival cases beyond Divisional Office level.

(ii) Supervision and control over Medical Examiners' appointment, rules for medical examination and directions to Medical Examiner.

(iii) Implementation of health propaganda and medical servicing schemes.

(iv) Statistical analysis of all death claims.

(v) Supply of Premium, Surrender Value, etc., quotations to Divisional Offices in individual cases.

(vi) Technical advice to Divisional Offices in respect of all policy-holders' servicing procedures and problems.

(vii) Valuations.

2. ACCOUNTS DEPARTMENT

(i) Preparation of combined accounts for the whole Corporation and for their audit.

(ii) Procedure for Zonal Office Accounts.

(iii) Maintenance of Zonal Office cash books and operation of Zonal Office Bank Accounts.

(iv) Technical advice and directions to Divisional Offices on accounting problems.

(v) Naming the authorities for the Divisional Offices and Branch Offices under the Financial Powers Standing Order.

(vi) Budgetory control over the Divisional and Branch Offices.

(vii) Supervision over all machine accounting operations at the Zonal Office.

(viii) Planning for mechanisation of Divisional Office accounting.

(ix) Provident Fund Accounts for the entire Zone.

3. DEVELOPMENT DEPARTMENT

(a) *Development*

(i) Planning and implementation of the Development Programme for the Zone.

(ii) Periodical review of business progress.

(iii) Organisational cost control over Field Officers and Branch Offices.

(iv) Maintenance of service records for all salaried field staff of the Zone.

(v) Planning for rural development.

(b) *Training of Development Personnel*

(i) Supervision of Training Schools.

(ii) Arrangement for all publicity in the Zone including participation in exhibitions.

(iii) Publication of "House Magazine" for field workers.

4. SECRETARIAT & PERSONNEL DEPARTMENT

(a) *Personnel*

(i) Maintenance of Service Records of all employees in the Zone (other than field staff).

(ii) Arranging for salary disbursements, payment of taxes etc.

(iii) Enforcement of Service Rules at all Offices within the Zone.

(iv) Dealing with all personnel problems of the Zonal Office.

(v) Advice and directions to Divisional Offices in all personnel matters.

(vi) Recruitment of administrative staff for the entire zone, subject to the sanctions given by the Central Office.

(vii) Administrative training for clerical staff and departmental examinations for promotions to higher grades.

(b) *Legal & Mortgages*

(i) Supervision of all existing mortgages and maintenance of mortgage accounts.

(ii) Scrutiny of proposals for mortgages and submitting them to the Central Office for sanction.

(iii) Advice to Divisional Offices on all doubtful claims.

(iv) Decisions regarding repudiation of claims.

(v) Iegal advice and sanction for all legal proceedings within the Zone.

(c) *Establishment & Buildings*

(i) Maintenance of existing investments in real estate.

(ii) Collection of rent, payment of taxes and maintenance of the respective accounts.

(iii) Supervision over all new building activities of the Corporation in the Zone, subject to the directions of the Central Offices (Buildings Department).

(iv) Legal action in connection with investments in real property.

(v) Supply of stationery to all offices in the zone and rules regarding purchase of stationery by Divisional and Branch Offices.

(vi) Printing of all the forms and literature for Zonal, Divisional and Branch Offices and maintenance of record of forms and of their supply.

(vii) Maintaining complete inventory of furniture at the Zonal Office; arranging for repairs of furniture and purchase of new furniture at the Zonal Office.

(viii) Maintaining complete inventory of all office equipment like Typewriters, Calculating Machines, Addressing Machine, Duplicators, Tabulating Machines, etc., at the Zonal Office; looking after the maintenance and servicing of equipment at the Zonal Office.

(ix) Administration of the "Stores Code" with regard to the Offices under its control.

(x) Inward, Outward Mail and other services for the Zonal Office.

5. INTEGRATION

(i) Planning and co-ordinating all integration activities.

(ii) Planning detailed "transfer and receipt" procedure and schedules for existing business records and for staff in consultation with Divisional Offices of the Zone on the one hand and transferring or receiving Zones on the other.

(iii) Supervision over building up complete records for servicing of existing policies for purposes of decentralisation to Divisional Offices in the same and in other Zones.

(iv) Servicing of existing business of the units at 20 Headquarters through the I.H.O. and I.B.O. groups.

(v) Accounting procedures for existing business units, both in their day-to-day working and during the process of transfer of policies.

(vi) Preparation of existing business accounts until decentralisation of the business is completed.

C. Divisional Offices

There are 35 Divisional Offices which are under the charge of Senior Divisional Managers and Divisional Managers in different parts of the country. These have been so located as to ensure that no part of the country is left without the services of a full-fledged head office organisation within easy reach. Development of Organisation, new business planning and executing various new business drives, policyholders' servicing, and underwriting of new business, as well as scrutiny and settlement of claims, are the primary functions of the Divisional Office, which has liberal limits for underwriting purposes. The maintenance of Accounts in so far as the above are concerned is also a main part of its functions. Each Divisional Office has the following organisation and functions:

1. NEW BUSINESS DEPARTMENT

(i) (a) Underwriting of proposals except those to be forwarded to the Central underwriting section at the Central Office.

(b) Follow-up of pending proposals.

(c) All proposals' corespondence.

(ii) (a) Appointment of Medical Examiners.

(b) Maintenance of Medical Examiners' records.

(c) Taking action through the branches to ensure equitable distribution of cases among medical examiners.

(iii) Age admission at the proposal stage.

(iv) Printing and Issue of policies and all correspondence relating thereto.

(v) Maintenance of (a) Proposal Index Cards (b) Declined Index Cards & (c) Medical Examiners' Index Cards.

2. POLICYHOLDERS' SERVICING DEPARTMENT:

All policy servicing after the stage of issue of policy upto settlement of claims, such as (i) issue of premium notices (ii) maintenance of policy registers (iii) maintenance of policy files and Index (iv) registration of nominations and assignments (v) lapses and revivals (vi) alterations including paid-up actions (vii) loans and surrenders (viii) A.N.F. notices and records (ix) age admission (after issue of policy) and (x) claims.

3. CASH AND ACCOUNTS DEPARTMENT:

(i) Scrutiny of Branch Cash Income and Imprest Statements.

(ii) Maintenance of all ledger accounts and preparation of trial balance.

(iii) Settlement of Renewal and bonus Commission and maintenane of agency accounts.

(iv) Control of suspense accounts.

(v) Reconciliation of Bank accounts.

(vi) Maintenance of Divisional Office cash books and operation of Divisional Office Bank accounts.

(vii) Control over the issue and return of First Premium and Renewal receipts.

4. DEVELOPMENT DEPARTMENT:

(i) Execution of the Development Programme for the whole Division.

(ii) Supervision and control of the Branch Offices' field organisation.

(iii) Maintenance of business records of Agents, Field Officers and Branch Offices; also compilation of centre-wise business records.

(iv) Appointment of Field Officers; review of their work; review of branch progress; review of tours by Branch Manager and Assistant Branch Managers.

(v) Organisational cost control.

(vi) Advice and instructions to Branch Office on organisational matters.

(vii) Budgetary control over branch organisation expenses and sanction for specific expenses.

(viii) Consideration of Complaints from the public.

5. ESTABLISHMENT DEPARTMENT:

(i) Maintenance of service records of all employees in the Division.

(ii) Dealing with all personnel problems under the directions of the Zonal and Central Offices.

(iii) Supply of stationery and literature to the different departments of the Divisional Office and also to the branches.

(iv) Inventory of furniture and office equipment for all the offices in the Division; maintenance and new supplies for the Divisional Office only.

(v) Inward and Outward mail and other services.

(vi) Collection of rent, payment of taxes and maintenance of house properties, wherever directed by the Zonal Office.

D. Branch Offices

209 Branch and 113 Sub-Offices are functioning throughout India at present. Normally, a Branch Office which is the basic business procuring agency of the Corporation is constituted on the basis of a realised business of Rs. 75 lakhs or so, whereas a Sub-Office is opened normally in areas which yield Rs. 25 to 40 lakhs of business. However, in many under-developed areas, it has been found necessary to open Sub-Offices with a view to develop business, recognising that though the areas have the potential it would need some time before this can be fully tapped. The Branch Office functions are detailed below:

1. NEW BUSINESS

(i) Scrutiny and registration of proposals and forwarding the proposals to Divisional Office for decision; follow up of incomplete proposals.

(ii) Issue of first premium receipts.

(iii) Maintaining Medical Examiners' records and settlement of medical fees.

(iv) Taking action to ensure that cases are reasonably uniformly distributed over various medical examiners.

2. POLICYHOLDERS' SERVICING:

(i) Maintaining policy registers (ledgers) and Index.

(ii) Collection of premiums, Issue of renewal premium receipts and default notices.

(iii) Follow-up of amounts kept in deposit.

(iv) Attending to simple queries from policy-holders on premium etc.

(v) Payments as authorised by the Divisional Office.

(vi) Assistance to policy-holders in the matter of admission of age, execution of nominations and assignments, revival of lapsed policies etc.

3. ACCOUNTS

(i) Maintenance of daily cash income books and cash Paid Book.

(ii) Reconciliation of imprest Cash Account.

(iii) Maintenance of collecting Bank Accounts and their reconciliation.

(iv) Settlement of agents' commission on 1st instalment of premium.

4. DEVELOPMENT

(i) Maintenance of agents' and Field Officers' business records.

(ii) Preparation of periodical business statements and their submission to Divisional Office.

(iii) Appointment of agents, procuration of Licence for them and maintenance of records for agents and Field Officers.

(iv) Periodical review of Field Officers' business progress; review of their tours.

5. ESTABLISHMENT

(i) Maintenance of service records for all administrative staff of the Branch Office.

(ii) Inward and Outward Mail and other services.

(iii) Stationery and literature supply.

(iv) Inventory of furniture and office equipment.

(v) Granting of leave to staff and maintenance of leave accounts.

E. Sub-Offices

The Sub-Offices have mainly the procuration of new business as their function. They do not normally have other administrative functions and serve as headquarters of an Assistant Branch Manager (Development) or a Field Officer and are meeting places for the local organisation. In a few Divisions, however, the Sub-Offices, though called by that name, function in the same manner as full-fledged Branch Offices.

Branch Offices at Divisional and Zonal centres, certain times, have slightly different functions which are limited to attending to new business and development of the organisation only. Those relating to policyholders' Servicing Department are not attended to by them. Instead, the local Divisional Office attends to them on their behalf.

APPENDIX III

(*Vide* Paragraph 14)

MEMBERS OF THE LIFE INSURANCE CORPORATION OF INDIA

(*From 1st September,* 1960)

1. Shri P. A. Gopalkrishnan, I.C.S.—*Chairman*
2. Shri K. G. Ambegaokar
3. Shri Amolak Chand
4. Shri P. C. Bhattacharyya
5. Shri C. C. Desai
6. Shri B. K. Kaul, I.C.S.
7. Shri T. S. Krishna
8. Shri Vadilal Lallubhai Mehta
9. Shri Dhiren Mitra
10. Shri N. R. Mody
11. Shri N. K. Petigara
12. Shri M. H. Hasham Premji
13. Prof. Gorakh Nath Sinha
14. Sardar Ujjal Singh
15. Shri Bikkini Venkataratnam

APPENDIX IV

(*Vide* paragraph 22)

MEMBERS OF THE EMPLOYEES & AGENTS RELATIONS COMMITTEE

NORTH ZONE

Corporation

Shri S. N. Vaidya
Shri K. R. Puri
Shri L. C. Sehgal
Shri R. C. Bhalla
Shri O. P. Gupta
Shri Kanhaya Singh

Employees

Shri M. S. Dayal
Shri D. R. Premji
Shri Madho Parshad Louton

Agents

Shri M. M. Ahuja
Shri K. B. Nangia

Salaried Field Staff

Shri Atam Prakash

CENTRAL ZONE

Corporation

Shri T. S. Swaminathan
Shri C. M. Sarma
Shri A. S. Raghavan
Shri J. Banerjee
Shri K. L. Gupta
Shri T. R. Shrinivasan

Employees

Shri J. R. Kapur
Shri M. P. Waghle
Shri Y. A. Siddiqui
Shri B. M. Modi
Shri C. M. Mehta

Salaried Field Staff

Shri S. N. Singh

EASTERN ZONE

Corporation

Shri A. L. Dutta
Shri P. R. Gupta
Shri B. C. Ray
Shri P. S. Ramchandra Rao
Shri K. N. Ganguly

Employees

Shri Praresh Ch. Roy
Shri Amal Sen
Shri Panimal Das

Agents

Shri S. Ali

Salaried Field Staff

Shri A. K. Mukherjee

SOUTHERN ZONE

Corporation

Shri K. Balasubrahmanyan
Shri V. Venkatachalam
Shri T. R. A. Pai
Shri S. S. S. Aiyar
Shri N. Swaminathan
Shri T. S. Krishnamurthy

Employees

Shri Murali Manohar
Shri Manik Rao Kelkar
Shri V. R. Krishna Rao

Agents

Shri S. V. Subbiah
Shri Madduri Hanumanthrao

Salaried Field Staff

Shri C. R. Srinivasan

WESTERN ZONE

Corporation

Shri V. H. Vora
Shri G. H. Thakore
Shri B. M. Medora
Shri K. L. Desai
Shri D. V. Deshpande
Shri A. J. Pandya

Employees

Shri R. D. Chitre
Shri K. S. Agashe
Kumari A. K. Mehta

Agents

Shri N. A. Jamall
Shri L. B. Kotak

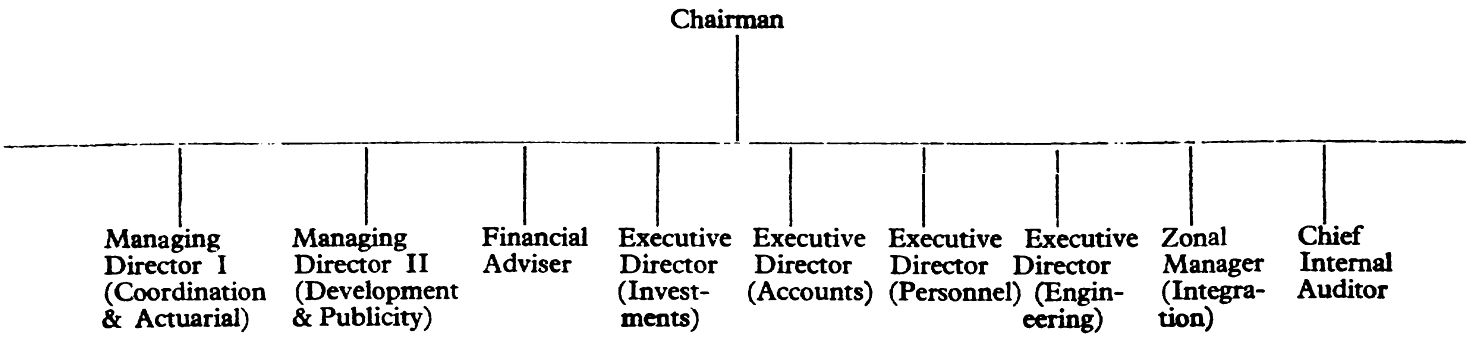
Salaried Field Staff

Shri Bejan Bodhanwalla

APPENDIX V

(*Vide* paragraph 26)

Organisation of the Central Office of the Life Insurance Corporation of India



APPENDIX VI

(*Vide* Para 32)

DIRECTIONS ISSUED BY GOVERNMENT

I

Government of India
Ministry of Finance
Department of Economic Affairs
NEW DELHI, March 31, 1958.

DIRECTIVE

The Government of India have accepted the findings of the Commission of Inquiry, appointed to inquire into and report on the purchase by the Life Insurance Corporation of shares in the 'Mundhra' group of companies, to the effect that the transaction resulting in the purchase of shares of the six companies was not entered into in accordance with business principles and was also opposed to propriety on several grounds. They accordingly propose to initiate appropriate proceedings, on the basis of the findings of the Commission, against the officers of Government responsible for putting through the transaction, *viz.*, Shri H. M. Patel and Shri G. R. Kamat. They propose to appoint for this purpose, in due course, a Board of Enquiry consisting of—

Shri Justice Vivian Bose, *ad hoc* Judge of the
Supreme Court—*Chairman*
Shri Sukumar Sen,
Chief Election Commissioner—*Member*
and
Shri W. R. S. Satthianadhan.
Chief Secretary to the
Government of Madras—*Madras*

2. The other person concerned in the transaction is Shri L. S. Vaidyanathan, Managing Director of the Corporation. The Government of India considering it necessary in the public interest that similar proceedings should be taken by the Corporation against him.

3. The Government of India, therefore, hereby direct the Corporation, under Section 21 of the Life Insurance Corporation Act, 1956, (31 of 1956)—

(a) to issue a charge-sheet to Shri L. S. Vaidyanathan in terms set out in Annexure I together with a statement of allegations on which the charges are based, as set out in Annexure II.

(b) to entrust the enquiry to a Board consisting of the same Chairman and Members as those mentioned in para 1 above, and

(c) to extend to Shri L. S. Vaidyanathan in connection with the enquiry, privileges similar to those admissible to Shri Patel and Shri Kamat.

Sd. B. K. NEHRU,
Secretary to Government of India.

II

No. 1823-SEA|58.
Government of India,
Ministry of Finance,
Department of Economic Affairs,
NEW DELHI, the 14th May, 1958.

To

The Chairman,
Life Insurance Corporation of India,
BOMBAY.

DIRECTION

WHEREAS in a suit instituted by the State Bank of India against the British India Corporation Limited, in a Kanpur Court, a Receiver has been appointed;

AND WHEREAS the Life Insurance Corporation of India has invested money in the share capital of the said company which it is alleged is being mismanaged;

AND WHEREAS as a matter of policy involving public interest the Central Government is of opinion that action should be taken to properly regulate the conduct of the affairs of the said company;

NOW, THEREFORE, in exercise of the powers conferred by Section 21 of the Life Insurance Corporation Act, 1956 (31 of 1956), the Central Government hereby directs the Life Insurance Corporation of India to move the Allahabad High Court forthwith under Sections 397 and 398 of the Companies Act, 1956 (1 of 1956) for the regulation of the conduct of the affairs of the British India Corporation Limited, and the affairs of Begg Sutherland & Company Limited, by the appointment of a Special Officer and for the regulation of any other matter referred to in Section 402 or Section 403 of the Companies Act, 1956, and, in particular, for the issue of an injunction preventing the present management from exercising any powers in relation to the conduct of the affairs of the said companies.

Sd. B. K. NEHRU,
Secretary to the Government of India.

APPENDIX VII

(*Vide* paragraph 40)

Particulars of Foreign Offices of LIC & Business secured by them

Name of the Country	No. of Offices	Business completed (in lacs of rupees)		
		1957	1958	1959
Br. East Africa	Divisional Office 1, Branches 3 and Chief Agency 1	284·18	290·88	538·16
Malaya & Singapore	Divisional Office 1, Branches 4	167·21	184·86	233·87
Fiji	Branch Office 1	23·94	39·03	90·77
Mauritius	Branch Office 1	32·43	22.58	51·15
Hong Kong	Branch Office 1	5·65	7·76	12·25
Aden	Direct Agents reporting to Bombay	4·78	14·92	16·13
	GRAND TOTAL	518·19	560·03	943·90

The expenses for the year 1959 are not available.

APPENDIX VIII

(*Vide* para 55)

Particulars of Urban and Rural Business completed in the years 1957, 1958 & 1959

(Basis : Business of resident branches at centres with a population of one lac and over is treated as Urban and business of branches at other places as Rural)

Zone	Total New Business (In Lacs of rupees)			Urban New Business						Rural New Business					
	1957	1958	1959	1957	%	1958	%	1959	%	1957	%	1958	%	1959	%
1	2	3	4	5	6	7	8	9	10	11	12	13	14	15	16
Northern .	3390	4289	5411	2345	69	3036	71	3564	66	1045	31	1253	29	1847	34
Central .	3571	4362	5455	2365	66	2569	59	2497	46	1206	34	1793	41	2958	54
Eastern .	6805	7878	9622	4225	62	4851	62	5387	56	2580	38	3027	38	4235	44
Southern .	7414	8996	11305	3706	50	4229	47	5195	46	3708	50	4767	53	6110	54
Western .	6470	8220	9995	4795	74	6220	76	7186	72	1675	26	2000	24	2809	28
TOTAL .	27650	33745	41788	17436	63	20905	62	23829	57	10214	37	12840	38	17959	43

NOTE. The above Table does not include figures of Foreign and Janata Business which are shown alongside :

(Figures in crores of Rupees).

	1957	1958	1959
Foreign Business .	5·40	5·62	9·47
Janata Business .	1·17	1.61	2·01

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APPENDIX IX

(*Vide* Para 66)

Lapse ratios for leading Indian and non-Indian insurers

Name of insurer	Lapse ratio for the Year	
	1954	1955
Indian insurers :	%	%
1. Oriental	5·4	7·9
2. New India	10·8	10·0
3. Hindusthan Co-op.	9·4	10·0
4. National Insurance	10·2	10·0
5. Bombay Mutual	7·3	4·4
6. Metropolitan	13·0	17·7
Combined ratio for the above Indian insurers	8·2	9·7
Non-Indian Insurers		
1. Sun Life of Canada	8·5	0·4
2. Prudential	4·1	4·3
3. Norwich Union	2·2	2·0
Combined ratio for the above non-Indian insurers	1·9	2·0
Combined ratio for the above Indian and non-Indian insurers	7·4	8·4

APPENDIX X

(*Vide* Paragraph 83)

List of Bankers of the Corporation

1. Ahmedabad Central Co-op. Bank Limited.
2. Ahmednagar Dist. Central Co-op. Bank Limited.
3. Akola Central Co-op. Bank Ltd.
4. Allahabad Bank Limited.
5. Andhra Bank Limited.
6. Arantangi Coop. Urban Bank Ltd.
7. Arkonam Co-op. Urban Bank Ltd.
8. Assam Co-op. Apex Bank Ltd.
9. Bank of Baghelkhand.
10. Bank of Baroda Limited.
11. Bank of Behar Ltd.
12. Bank of Dewas Limited.
13. Bank of India Limited.
14. Bank of Madura Limited.
15. Bank of Maharashtra Ltd.
16. Bank of New South Wales.
17. Bank of Rajasthan Ltd.
18. Barclays Bank.
19. Bareilly Corporation Bank Ltd.
20. Baroda Central Co-op. Bank Ltd.
21. Belgaum Bank Ltd.
22. Bharat Industrial Bank Ltd.
23. Bharat Laxmi Bank Ltd.
24. Bombay State Co-op. Bank Ltd.
25. Brahmapuri Co-op. Central & Land Mortgage Bank Ltd.
26. Broach Dist. Central Co-op. Bank Limited.
27. Canara Bank Limited.
28. Canara Banking Corporation Ltd.
29. Canara Industrial & Banking Syndicate.
30. Central Bank of India Ltd.
31. Chartered Bank.
32. Chetinad Mercantile Bank Ltd.

33. Co-operative Bank Kota Ltd.
34. Co-operative Town Bank Limited.
35. Co-operative Urban Bank Ltd.
36. Devkaran Nanjee Banking Co., Ltd.
37. Dewas Central Co-op. Bank Ltd.
38. Dhar Central Co-op. Bank Ltd.
39. Dharmavaram Co-op. Town Bank Limited.
40. East Khandesh Central Co-op. Bank Limited.
41. Ganesh Bank of Kurundwad Ltd.
42. Harda Co-op. Central & Land Mortgage Bank Ltd
43. Himachal Pradesh State Co-op. Bank Limited.
44. Hindusthan Commercial Bank Ltd.
45. Hongkong & Shanghai Banking Corporation.
46. Ichalkaranji Urban Co-op. Bank Ltd.
47. Indian Bank Limited.
48. Indian Overseas Bank Ltd.
49. Indo-Commercial Bank Ltd.
50. Indo-Mercantile Bank Ltd.
51. Jammu & Kashmir Bank Ltd.
52. Jaya Lakshmi Bank Ltd.
53. Jhalawar Central Co-op. Bank Ltd.
54. Jodhpur Central Co-op. Bank Ltd.
55. Jodhpur Commercial Bank Ltd.
56. Josna Bank Limited.
57. Kaira Dist. Central Co-op. Bank Limited.
58. Kangra Central Co-op. Bank Ltd.
59. Karnatak Bank Limited.
60. Karur Vysya Bank Ltd.
61. Khanapur Co-op. Urban Bank Ltd.
62. Kodumudi Co-op. Rural Bank Ltd.
63. Kolhapur Dist. Central Co-op. Bank Ltd.
64. Kumbakonam Bank Limited.
65. Kottayam Orient Bank Ltd.
66. Kuppam Co-op. Bank Ltd.
67. Kuthumparamba Co-op. Rural Bank Limited.
68. Laxmi Vilas Bank Ltd.
69. Madurantakam Co-op. Bank Ltd.
70. Mehsana Dist. Central Co-op. Bank Ltd.
71. Mercantile Bank Ltd.
72. Metropolitan Bank Ltd.
73. Miraj State Bank Ltd.
74. Mugberia Central Co-op. Bank Ltd.

75. Nasik Dist. Central Co-op. Bank Ltd.
76. National & Grindlays Bank Ltd.
77. Nedungadi Bank Ltd.
78. Neemuch Central Co-op. Bank Ltd.
79. New Bank of India Ltd.
80. New Citizen Bank of India Ltd.
81. Nepal Bank Ltd.
82. North Satara Dist. Central Co-op. Bank Ltd.
83. Oversea Chinese Banking Coroporation.
84. Palai Central Bank Ltd.
85. Palamner Co-op. Town Bank Ltd.
86. Pali Central Co-op. Bank Ltd.
87. Panchmahals Dist. Co-op. Bank Ltd.
88. Pandhyan Bank Ltd.
89. Pangal Nayak Bank Ltd.
90. Penukonda Co-op. Town Bank Ltd.
91. Perintalmanna Co-op. Urban Bank Ltd.
92. Ponneri Co-op. Rural Bank Ltd.
93. Poona Central Co-op. Bank Ltd.
94. Punjab National Bank Ltd.
95. Punganur Co-op. Town Bank Ltd.
96. Najgarh Central Co-op. Bank Ltd.
97. Rander Peoples' Co-op. Bank Ltd.
98. Rasipuram Co-op. Town Bank Ltd.
99. Ratnagiri Co-op. Urban Bank Ltd.
100. Ratnagiri Dist. Central Co-op. Bank Ltd.
101. Sangli Bank Ltd.
102. Sardar Bhiladwala Pardi Peoples' Co-op. Bank Ltd.
103. Satara South Dist. Central Co-op. Bank Ltd.
104. Saurashtra State Co-op. Bank Ltd.
105. Shivpuri Central Co-op. Bank Ltd.
106. Sholapur Dist. Central Co-op. Bank Ltd.
107. Shoramur Co-op. Rural Bank Ltd.
108. South India Bank Ltd.
109. South Indian Bank Ltd.
110. State Bank of Bikaner.
111. State Bank of Hyderabad.
112. State Bank of India.
113. State Bank of Indore.
114. State Bank of Jaipur.
115. State Bank of Mysore.
116. State Bank of Patiala.
117. State Bank of Saurashtra.

118. Surat Dist. Co-op. Bank Ltd.
119. Srirangam Urban Co-op. Bank Ltd.
120. Tanjore Permanent Bank Ltd.
121. Tiruvettipuram Co-op. Urban Bank Ltd.
122. Town Co-op. Bank Ltd.
123. Travancore Bank Ltd.
124. Travancore Forward Bank Ltd.
125. Umbergaon Peoples' Bank Private Ltd.
126. United Bank of India Ltd.
127. United Commercial Bank Ltd.
128. Vaniyambadi Town Co-op. Bank Ltd.
129. Vysya Bank Limited.
130. Vysya Mercantile Bank Ltd.
131. Wai Urban Co-op. Bank Ltd.
132. West Khandesh Dist. Central Co-op. Bank Ltd.

APPENDIX XI

(*Vide* para 89)

Statement showing the overall and renewal expense ratios of the Corporation, Zone-wise

Zones	Period	New business written		Total expenses of management	Overall expense ratio	Renewal premium income	Renewal expense ratio
		No. of policies	Sum assured in crores of rupees				
			Rs.	Rs.	%	Rs.	%
Northern .	16 Months ended 31-12-57	93,410	42·00	2,48,61,829	33·03	5,80,99,116	16·38
	Year ended 31-12-58	96,326	43·26	2,29,68,803	31·79	5,16,37,635	13·48
Southern .	16 Months ended 31-12-57	3,14,428	87·48	4,13,35,625	42·51	6,73,76,497	21·76
	Year ended 31-12-58	3,12,093	90·02	4,07,16,265	39·60	6,91,84,237	15·32
Eastern .	16 Months ended 31-12-57	2,19,383	76·79	6,27,85,035	29·90	17,88,16,030	19·53
	Year ended 31-12-58	2,26,352	79·41	5,49,80,215	31.38	14,41,94,322	18·92

1	2	3	4	5	6	7	8
Western .	16 Months ended 31-12-57.	1,95,846	76·68	8,74,40,548	18·31	43,53,31,325	11.46
	Year ended 31-12-58	2,10,516	82·61	6,53,02,717	18·02	30,93,59,739	10·44
Central .	16 Months ended 31-12-57	1,09,264	45·13	1,85,19,711	98·13	38,13,604	132·92
	Year ended 31-12-58	1,09,484	43·74	1,85,10,982	63·38	1,30,82,962	31·62
Foreign Deptt.	16 Months ended 31-12-57	9,323	8·59	17,43,444	67·81	84,571	..
	Year ended 31-12-58	5,399	5·52	34,39,114	61·82	28,45,033	35·20

APPENDIX XII

(*Vide para* 135)

No. F. 45/5/53-Ests(A)

GOVERNMENT OF INDIA

Ministry of Home Affairs

New Delhi-1, the 8th January, 1959
18th Pausa, 1880.

OFFICE MEMORANDUM

SUBJECT: *Government servants involved in legal proceedings—provision for legal and financial assistance.*

The question has been raised whether, and if so under what circumstances, Government should provide legal and financial assistance to a Government Servant for the conduct of legal proceedings by or against him. The following decisions, which have been taken in consultation with the Ministries of Law and Finance ad the Comptroller & Auditor General are circulated for information and guidance.

2. (a) *Proceedings initiated by Government in respect of matters connected with the official duties or position of the Government servant*

Government will not give any assistance to a Government servant for his defence in any proceedings, civil or criminal instituted against him by the State in respect of matters arising out of or connected with his official duties or his official position. Should, however, the proceedings conclude in favour of the Government servant, Government will entertain his claim for reimbursement of costs incurred by him for his defence, and if Government are satisfied from the facts and circumstances of the case that the Government servant was subjected to the strain of the proceedings without proper justification, they will consider whether the whole or any reasonable prpportion of the expenses incurred by the Government servant for his defence should be reimbursed to him.

(b) *Proceedings in respect of matters not connected with official duties or position of the Government servant.*

Government will not give any assistance to a Government servant or reimburse the expenditure incurred by him in the conduct of proceedings in respect of matters not arising out of, or connected with his official duties or his official position, irrespective of whether the proceedings were instituted by a private party against the Government servant or *vice versa*.

(c) *Proceedings instituted by a private party against a Government servant in respect of matters connected with his official duties or position.*

(i) If the Government on consideration of the facts and circumstances of the case consider that it will be in the public interest that Government should themselves undertake the defence of the Government servant in such proceedings and if the Government Servant agrees to such a course, the Government servant should be required to make a statement in writing as in Annexure A and thereafter Government should make arrangements for the conduct of the proceedings as if the proceedings had been instituted against Government.

(ii) If the Government servant proposes to conduct his defence in such proceedings himself, the question of reimbursement of reasonable costs incurred by him for his defence may be considered in case the proceedings conclude in his favour. In determining the amount or costs to be so reimbursed, Government will consider how far the Court has vindicated the acts of the Government servant. The conclusion of the proceedings in favour of the Government servant will not by itself justify reimbursement.

To enable the Government servant to meet the expenses of his defence, Government may sanction, at their discretion, an interest-free advance not exceeding Rs. 500/- or the Government servant's substantive pay for three months, whichever is greater, after obtaining from the Government servant a bond in the form reproduced as Annexure B. The amount advanced would be subject to adjustment against the amount, if any, to be re-imbursed as above.

The Government servant may also be granted any advance from any Provident Fund to which he is a subscriber not exceeding three months' pay or one-half of the balance standing to his credit, whichever is less; this advance will be repayable in accordance with the rules of the Fund.

(d) *Proceedings instituted by a Government Servant on his being required by Government to vindicate his official conduct.*

A Government servant may be required to vindicate his conduct in a Court of law in certain circumstances (*vide* Ministry of Home Affairs O.M. No. F. 25/32/54-Ests(A), dated 8th January 1959). The question whether costs incurred by the Government servant in such cases should be reimbursed by the Government and if so, to what extent, should be left over for consideration in the light of the result of the proceedings. Government may, however, sanction an interest-free advance, in suitable instalments, of an amount to be determined by them in each case on the execution of a bond by the Government servant in the form reproduced in Annexure B.

In determining the amount of costs to be reimbursed on the conclusion of the proceedings, the Government will consider to what extent the Court has vindicated the acts of the Government servant in the proceedings. Conclusion of the proceedings in favour of the Government servant will not by itself justify reimbursement.

(e) *Proceedings instituted by a Government servant* suo motu, *with the previous sanction of Government to vindicate his conduct arising out of or connected with his official duties or position.*

If a Government servant resorts to a Court of Law with the previous sanction of Government to vindicate his conduct arising out of or connected with his official duties or position, though not required to do by Government, he will not ordinarily be entitled to any assistance but Government may, in deserving cases, sanction advances in the manner indicated in sub-para c(ii) above, but no part of the expenses incurred by the Government servant will be reimbursed to him, even if he succeeds in the proceedings.

3. Clause (d) of article 320(3) of the Constitution requires consultation with the Union Public Service Commission on any claim by a Government servant for the reimbursement of the costs incurred by him in defending legal proceedings instituted against him in respect of acts done or purporting to be done in the execution of his duty. In other cases consultation with the Union Public Service Commission is not obligatory, but it will be open to Government to seek the Commission's advice, if considered necessary.

4. The question whether a case falls under article 320(3)(c) of the Constitution so as to require consultation with the Commission may at times be difficult to determine. It may be stated generally that the consultation is obligatory in a case where a reasonable connection exists between the act of the Government servant and the discharge of his official duties, the act must bear such relation to the official duties that the Government servant could lay a reasonable but not a presented or a fanciful claim that he did it in the course of the performance of his duties.

5. The appropriate authority for taking decisions in each case will be the administrative Ministry of the Government of India concerned who will consult the Finance and Law Ministries, where necessary. The Comptroller and Auditor General of India will exercise the powers of an administrative Ministry in respect of the personnel of the Indian Audit and Accounts Department.

6. In so far as persons serving in the Indian Audit and Accounts Department are concerned, these orders are issued in consultation with the Comptroller and Auditor General.

Sd/- (V. VISWANATHAN),
Special Secretary to the Govt. of India.

ANNEXURE A

[Here enter description of the proceedings]

The Government of India having been pleased to undertake my defence in the above proceedings, I hereby agree to render such assistance to Government as may be required for my defence and further agree that I shall not hold Government in any way responsible if the proceedings end in a decision adverse to me.

Date

Signature of the
Government Servant.

ANNEXURE B

By this Bond I——————————(here give the name and other particulars of the Government servant including post held by him) acknowledge myself bound to the Government of India in the sum of Rs——————————(here enter a sum representing double the amount advanced) to the said Government.

Now the above written Bond is conditioned to be void in case the above bounden (Government servant), his personal representatives or any person acting for and on behalf of the above bounden (Government servant) shall, on demand, pay to the said Government or its representatives or assigns or their attorney authorised to receive the same, the said sum of Rs.——————————, but in the event of the above bounden (Government servant) or his personal representatives or any person acting for and on his behalf failing to pay the said sum on demand, the above written Bond shall remain in full force and effect.

Dated this the ———— day of ————19 .

——————————

Signature of the Govt. Servant.

Witnesses.

——————————

——————————

——————————

APPENDIX XIII

(*Vide* Paragraph 137)

The duties of Field Officers are:—

(i) to develop and increase the production of new life insurance business in the area allotted to him or in which he is allowed to work through agents placed under his supervision by the Corporation;

(ii) to guide, supervise and direct the activities of all such agents;

(iii) to recruit and train new agents in accordance with such directions as may be laid down for the purpose by the Corporation from time to time;

(iv) to act generally in such a way as to activise existing agents and motivate new agents; and

(v) to render such routine services to policyholders as may be required by the Corporation.

APPENDIX XIV

(*Vide* Para 138)

Number of Agents appointed as Field Officers during 1958 *and* 1959

Zone	1958			1959		
	No. of active agents appointed as field officers	Total No. of field officers appointed	(2) as percentage of (3)	No. of active agents appointed as field officers	Total No. of field officers appointed	(5) as percentage of (6)
(1)	(2)	(3)	(4)	(5)	(6)	(8)
Northern	44	53	83	108	163	66
Central	39	63	62	77	81	95
Eastern	9	17	53	27	39	69
Southern	41	57	72	67	70	96
Western	70	82	85	111	164	68
TOTAL	203	272	75	390	517	75

APPENDIX XV

(*Vide* paragraph 158)

Schedule showing difference in guaranteed cash surrender values between Sun Life of Canada, Norwich Union and Life Insurance Corporation

Age 30 Years

Amount of Policy Rs. 10,000

Years	Endowment 10 years			Endowment 15 yeasr			Endowment 20 years			Endowment 25 years		
	Sun Life	Nor-wich	LIC	Sun Life	Nor-wich	LIC	Sun Life	Nor-wich	LIC	Sun Life	Nor-wich	LIC
5	4:420	4,230	1,290	2,690	2,400	850.00	1,700	1,520	630.00	12,10	1,010	500.00
10	Policy matures			5,980	5,770	1910.00	4,020	3,780	1420.00	2,920	2,630	1130.00
15				Policy matures			6,750	6,530	2200.00	4,890	4,590	1760.00
17							7,970		2520.00	5,770		2010.00
19							9,290		2830.00	6,710		2260.00
20							Policy matures				6,990	2380.00
22										8,250		2630.00

APPENDIX XVI

(*Vide* Paragraph 164)

Report on the inspection of various offices of the Corporation placed before the Executive Committee on 14-11-1960

The following is a broad summary of the findings of inspections made so far, indicating the position obtaining in the offices during the earlier years of the Corporation and the position obtaining now:

NEW BUSINESS DEPARTMENT

Divisional Offices:

The earlier inspections had disclosed that issue of acceptance Letters on proposals was considerably delayed, due partly to paucity of machines. Issue of policies was still more delayed, the time lag, sometimes, extending to more than two months. Effective follow-up of incomplete proposals was more or less lacking.

The position had, however, improved at the time of later inspections. The delay in the issue of Acceptance Letters had been considerably reduced. The present average varies between 4 to 7 days. Issue of policies has been speeded up. The present average time is about 20 days. The necessity for an effective follow-up of incomplete proposals has been realised and is being consistently done. Underwriting of proposals has been found to be generally in accordance with the instructions laid down in this behalf from the beginning.

Branch Offices:

The follow-up of incomplete proposals was not satisfactory in the earlier years, in most of the Branches. Payment of medical fees was not prompt. The Branches are now doing both oral and written follow up of incomplete proposals. Payment of medical fees has now become very systematic and prompt in almost all the offices. 'Express Service', which aims at giving prompt service to proponents who give their proposals complete in all respects together with the first premium, has been operating with considerable success and popularity in most of the offices.

The earlier inspections revealed that the distribution of proposals among medical examiners was neither uniform nor equitable. Though steps are now being taken to ensure an equitable distribution of cases among medical examiners, it cannot be said that these steps have, so far, been particularly effective. Field Officers and Agents do not generally seem to have realised the necessity for this.

POLICY-HOLDERS' SERVICING DEPARTMENT

Divisional Offices:

The working of this department was very unsatisfactory in the earlier years. The effective functioning of the department itself started by about the middle of the year 1957 only. Paucity of Adrema and Accounting Machines was one of the main reasons for the earlier difficulties experienced. In addition to this, the various registers required in the department had also been supplied very late to the offices. There were heavy arrears in posting of premiums paid in the Policy Registers and in replying to letters. Investigation of claims was also very much protracted. The equipment required for filing was not at all adequate. In many of the offices the files were left on the floors in the absence of filing cabinets.

This is the department where the greatest improvement in working has been registered. The position of the machines has improved somewhat, even though it cannot be said to be very satisfactory even now. Most of the registers required have been supplied to the offices. The posting of collections in Policy Registers is not kept in arrears generally. However, the extent of arrears in replying to letters is still fairly large. The tempo of investigation of early claims has improved considerably. The position has also eased with regard to the supply of filing equipment.

Branch Offices:

Issue of lapse notices was totally absent in the initial stages in most of the offices. Follow-up of policy deposits was not attempted systematically. An unconscionably large amount of arrears was apparent in the unattended Deposit Receipts in almost all the offices.

The issue of lapse notices has now improved in many Branches. The follow-up of amounts lying in deposit has registered a very satisfactory improvement in most of the offices now. A concerted drive for the adjustment of deposits is now in swing as a result of the instructions issued in this behalf by the Chairman. The extent of arrears in replies to letters etc., is however largest in this department, as compared to all the departments of the Branch Offices. Policy Index Cards are even now not being arranged alphabetically and uptodate in a large number of Branch Offices. Steps are being taken to remedy this situation.

CASH AND ACCOUNTS DEPARTMENT

Divisional Offices:

A feature which was common in almost all the offices during the earlier years was the extent of arrears in reconciliation of Bank Accounts; very few offices were uptodate in this respect. The checking of the Branch returns was similarly in arrears in almost all the offices. Proper record of Travelling Advances had not been maintained in most of them. Payment of Renewal Commission was not uptodate. Reconciliation of Premium Receipts had not been attempted at all.

Except for the last item, *viz.* Reconciliation of Premium Receipts, most of the offices have shown considerable improvement in their working with regard to the others. In view of the necessity of drawing up quarterly Trial Balances, it has become necessary for the offices to keep their books properly posted. Payment of Renewal Commission has improved considerably. On the question of reconciliation of Premium Receipts, however, the position has not improved much. A part of this work is however looked after in the P.H.S. Department itself and recent inspections have disclosed a tendency for an improvement in this matter also.

Branch Offices:

A common feature during the earlier years was the absence of steel cash boxes or safes for keeping the day's collections. The position has however improved considerably now. One item of work in which all the Branch Offices are uniformly regular and prompt is in payment of commission on first premiums. Submission of daily returns by the Branch Offices to the Divisional Offices was observed to be irregular in the earlier years, but the position has now improved very considerably. A tendency however is still observed in some of the offices to put amounts in deposit even in cases where official receipts could be issued straightaway. This is particularly so in the Eastern Zone, especially in the case of amounts received towards First Premium.

DEVELOPMENT DEPARTMENT

Divisional Offices:

All the Divisional Offices were very late in starting to maintain the registers prescribed in the Manual for the Development Department. This was partly due to the fact that the offices were preoccupied for a long time with the allotment of code numbers to the large number of 'existing' Agents, allotting the Agents and territories to Field Officers and their subsequent categorisation and partly because the printed registers themselves were supplied late by the Zonal Offices. The work of the review of Branch Managers' performances was not systematic in most of the offices during the earlier years. Scrutiny of Field Officers' tours was also found to be rather sketchy.

The registers are being properly maintained now. With the introduction of the 'conference' method of review by the Branch Managers of their Field Officers' work, the corresponding work of review of the Field Officers' performance at the Divisional Office has become easier. The work regarding the annual business budget and its later review has also been taken up in earnest now in almost all the offices. House magazines are now issued at regular intervals by most of the Divisional Offices.

Branch Offices:

Not much progress was apparent in most of the offices till very recently in the matter of collection of statistics for the purpose of development planning. Another common feature observed in a number of offices was that Field Officers were not submitting their work books regularly. The touring of Branch Officials was not as extensive as it could be. Preparation of monthly statements of business statistics had been much in arrears.

Most of the Branches are now aware of the usefulness of development planning and are taking pains to collect the necessary data for planning their business output realistically. With the introduction of the 'conference' method of review, the Branches are finding it easier to make periodical reviews of the business performance of the Field Officers. Even though the position has improved considerably, a number of Field Officers still do not submit their Work Books regularly.

ESTABLISHMENT DEPARTMENT

Divisional Offices:

A large number of offices were resorting to overtime, rather extensively, in the earlier years. Equipment for storage of stationery, etc., was insufficient in most of the offices. Shortage of accommodation, with the added inconvenience of having two or more separate buildings wherein the Divisional Office had to be housed, was a fairly common feature. This came in the way of proper supervision over the staff.

After the imposition of a curtailed ceiling on the amount that can be spent on overtime by any office, the expenditure on this account has now been stabilised. The position of storage equipment has become more or less satisfactory now. The shortage in accommodation however persists and threatens to be a major problem in the years to come, especially in view of the rapid expansion of business and the consequent enlargement of the offices.

2. It may also be mentioned that Branch and Divisional Offices have not, generally speaking, been able to keep up a good rate of improvement in their efficiency. This is probably due to the fact that the increase in staff during the last three years has brought in a large number of fresh recruits without experience and this, together with the fast expansion in business, has put a strain on the existing experienced staff. However, since a scheme of training for fresh recruits has been introduced this year, it is expected that this problem may not arise hereafter to the same extent.

APPENDIX XVII

(*Vide* Paragraph 171)

Scheme for granting of loans on mortgage of Property

1. *Area of operation*: Loans will be granted only on the security of properties situated in the towns of Calcutta, Madras, Bombay, Delhi and Hyderabad.

2. *Mortgagor*: Loans will be granted only to approved parties. (Since the personal covenant of the borrower is of the utmost importance, the Corporation must be satisfied about the financial standing and credit worthiness of the borrower).

3. *Security*: Loans will be granted only on first mortgage of property.

4. *Property*: Loans will be granted only on the security of approved properties.

(In approving properties, all relevant factors should be taken into account, *e.g.*, location, type of property, marketability, etc.)

Loans will be granted on mortgages of property, both new buildings as well as old buildings, provided the latter are not dilapidated.

Loans will not be granted on the security of leasehold properties with an outstanding term of less than 30 years.

5. *Term of Loan*: The maximum term for which a loan will be granted is 15 years.

[Where a loan is granted for a period not exceeding 5 years, interim retirement of debt will not be obligatory. Where the term of loan exceeds 5 years, there will be a provision for amortisation by regular annual (or more frequent) payments of principal].

6. *Amount of Loan*: The amount of loan will not exceed 50% of the value of the property. Further, the minimum amount of loan to a borrower (two or more loans on different properties to be treated as one loan for this purpose) will be Rs. 25,000|- and the maximum Rs. 5,00,000|-.

7. *Rate of Interest*: The rate of interest chargeable will be 7% per annum reducible to 6½% on punctual payment.

8. *Valuation of property*: Valuation of property should be done by a competent valuer approved by the Corporation.

APPENDIX XVIII

(*Vide* para 176)

Particulars of subsidiaries of the Life Insurance Corporation of India

	Year	Called & Paid up capital	Holding of Corporation as at 31st Dec. of of the year	Net premiums	Net claims	Increase in under writing Reserves	Profit carried to appropriation account
						(Figures in Rupees)	
Oriental Fire and General	1956	..	..	28,94,406	10,97,922	2,12,309	7,27,023
	1957	10,000 shares of Rs. 500 each.	10,000 shares of Rs. 500 each.	53,04,967	20,38,655	12,59,585	6,66,076
	1958	15,000 shares of Rs. 500 each.	15,000 shares of Rs. 500 each.	74,83,388	37,67,001	18,63,789	2,89,207
National Fire and General	1956	..	..	43,81,069	19,39,770	1,22,774	1,90,168
	1957	50,000 shares of Rs. 100 each.	49,940 shares of Rs. 100 each.	54,19,343	24,12,681	6,04,371	—2,81,901
	1958	50,000 shares of Rs. 100 each.	49,992 shares of Rs. 100 each.	64,28,664	32,58,281	4,79,955	56,263

Asiatic Government Security Fire & General	1956	..	..	11,58,282	4,77,864	1,16,273	1,862
	1957	2,00,000 shares of Rs. 5 each.	1,68,876 shares of Rs. 5 each.	13,99,599	6,67,783	1,66,517	39,250
	1958	2,00,000 shares of Rs. 5 each.	1,71,117 shares of Rs. 5 each.	17,26,721	9,94,170	1,84,542	54,728
Indian Guarantee and General	1956	--	--	1,01,632	77,713	17,937	—26,532
	1957	1,000 shares of Rs. 100 each.	990 shares of Rs. 100 each (held by O.F. & G.)	1,12,356	53,190	5,362	20,929
	1958	1,000 shares of Rs. 100 each.	990 shares of Rs. 100 each (held by O.F. & G.)	1,26,739	48,411	7,191	30,407

APPENDIX XIX

Summary of Conclusions and Recommendations

Serial No.	Para No. of the Report	Summary of Conclusions/Recommendations
1	2	3
1	10	In the case of a monopolistic and monolithic enterprise like the Life Insurance Corporation no comparative standards for measuring efficiency and performance are readily available. In the absence of such competition, perhaps defects cannot also be easily located or removed.
		The suggestion which contemplates a federal structure with semi-autonomous zonal units, has a number of desirable features. It will not entail duplication of organisation. On the other hand the grant of more autonomy in the writing of business, payment of claims, grant of loans, servicing etc., will encuorage initiative and can be expected to result in increased efficiency. Such delegation of functions is also likely to require a smaller Central Organisation which need be concerned only with policy matters, overall supervision, co-ordination, rates of premia, higher recruitment, postings and transfers, training, inspection, etc. An element of competition between the different semi-autonomous Zonal Units could thus be introduced. The figures of new business, management expenses, overall and renewal expense ratios, profit and loss etc. could be worked out for each Zone and published separately in the Annual Reports of these Units to enable their efficiency to be judged. The Committee recommend that the matter may be examined in the light of the observations made above.
2	11-12	It is quite clear that at least one of the two tiers in a Zone, *viz*., Divisional or Zonal Office, is superflous and could be eliminated.
		The Committee have recommended the setting up of semi-autonomous Zonal Units. They are not aware whether administrative and financial considerations would justify or warrant creation of such a semi-autonomous unit in each State immediately. They

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		expect that in the years to come the rising tempo of business would justify the creation of zonal units in at least most of the States if not all. The Committee suggest that the feasibility of doing so may be kept in mind when a reorganisation on the basis of the recommendation for creating semi-autonomous zonal units is to be considered. Moreover, if such a unit is set up in each State it should be easier for such Offices to deal with the Branch Offices directly without an intermediate Divisional Office, which could then be done away with.
3	13	The Committee suggest that the jurisdiction of Branch and supervisory offices may be demarcated in such a way as not to fall in more than one State except for very special reasons.
4	16	(*i*) Should there be decentralisation of functions of the Central Office and semi-autonomous zonal units are created, as envisaged in paragraph 10 of the Report, then the composition, powers and functions of the Members of the Corporation as well as the Zonal Advisory Boards would require examination, and the Zonal Advisory Boards would have to be strengthened by the addition of people having knowledge of insurance business. The Committee trust that these matters would be examined by Government at the appropriate time. (*ii*) As an immediate measure, Government may endeavour to appoint more members with experience of life insurance work.
5	18	The Committee find that the fees paid to the Members for attending the meetings of the Boards of Directors etc. differ from one undertaking to another. They feel that there should be some rationale for fixing such fees for the meetings of different bodies in all the public undertakings.
6	20	The Committee consider that an inspection of every office should be carried out at least once every year, as provided in the L.I.C. Regulations.
7	21	The Committee have elsewhere suggested the abolition of the Divisional Offices when servicing will become the responsibility of Branch Offices. Till such time that the recommendation is implemented, the Committee feel that the inspection organisation should pay special attention to the servicing of policies and payment of claims during their periodical inspection of the Divisional Offices.

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8	25	(i) It is evident that the Employees' and Agents' Relations Committees are not meeting regularly in all the Zones. In the Southern Zone no meetings have been held for 3 years and in the Eastern Zone only one meeting has been held for 3 years. These are statutory committees which it is expected will be taken a little more seriously. (ii) The Committee trust that necessary action would be taken to ensure that the Agents' Associations are adequately represented on these Committees and their meetings are held regularly.
9	26	There are two Managing Directors, four Executive Directors and a Zonal Manager in the Central Office in addition to the Secretaries to look after each Deptt. The Committee feel that such a hierarchical system of administration may not be quite suitable for the public undertakings. They consider that with the stabilisation of working methods quite apart from the decentralisation suggested in paragraph 10 above—there should be enough scope for reduction in the top posts in the LIC particularly in the Central Office.
10	28	It appears that the functions of the financial Adviser Executive Director (Accounts) and Chief Internal Auditor are, to a large extent, allied and are in fact being performed by a single officer in the Railways and, to some extent, in the Defence Accounts Organisation. The Committee recommend that the justification for the continuation of these three separate posts in the Corporation may be examined with a view to reduce the number.
11	29	The Committee were informed that Government had no powers over the creation of and appointment to any posts in the LIC. They find that in the case of all Government companies and of statutory corporations, like Oil & Natural Gas Commission, Employees' State Insurance Corporation, Khadi & Village Industries Commission, prior approval of Government is necessary for creating and making appointment to posts carrying a pay beyond the prescribed limits ranging between Rs. 500 and Rs. 2,000 p.m. The Committee are of opinion that there should be uniformity in all public undertakings in this respect and recommend the desirablility of Government issuing a Direction to the Corporation under Sec. 21 of the LIC Act, 1956, requiring it to seek approval of Government for creation of posts carrying pay over

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		certain limit. They would also refer to the views expressed in paragraph 48 of the Report of the Sub-Committee of the Congrees Party in Parliament on Parliamentary Supervision over State Undertakings that 'appointments carrying monthly salary of Rs. 2,000 and above should be made by Government'.
12	31	Whatever justification there may have been for locating the Central Office of the Corporation in Bombay originally when the head offices of most of the erstwhile insurers situated in Bombay had to be integrated, now that it has been done the need for its continued location there loses much of its significance. Moreover, with the creation of semi-autonomous Zonal Units recommended at paragraph 10 of the Report, it would be administratively convenient for the Central Office of the LIC to be located at a more central place from where the work of co-ordination and overall supervision may be discharged more conveniently. The Committee recommend that Government may examine the desirability of shifting the Central Office of the LIC from Bombay to a more suitable place.
13	34—36	(*i*) In administering a public undertaking there has necessarily to be a large measure of consultation between Government and the undertaking concerned. It is also perhaps inevitable that such consultation would include a number of suggestions from the Government to the undertaking. But a clear distinction has to be drawn between suggestions made for consideration by the undertaking and suggestions which are really in the nature of instructions to be complied with. The committee are of opinion that the views of the Govt. set out in paragraph 35 of the Report lay down the correct principles which should regulate the relationship between an undertaking and the administrative Ministry concerned. When a suggestion is made for consideration it is open to the undertaking to accept it or not. When, however, the Government issues instructions which are for implementation and not merely for examination, such instructions should appropriately be issued as directions. The Committee suggest that it would be desirable for Government to lay down these principles clearly for guiding the relationship between the public undertakings and concerned Ministries.
		(*ii*) Any directions issued should also be published in the Annual Reports of the Undertakings as recommended by the Committee in paragraph 26 of their 86th Report (Second Lok Sabha).

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14	42	No precise statistical data had been collected for the purpose of fixing targets of new business. The Committee consider that one of the ways to do so would be by collection of statistics of potential business through field officers by means of properly devised proforma.
15	43	The Committee are glad to note that the Corporation exceeded the targets of new business during the first three years of its working but they fail to understand why there has been a shortfall of about Rs. 65 crores in the year 1960, *i.e.*, 12% of the target of Rs. 525 crores. The actual increase so far has been Rs. 59 crores a year on an average, that is nearly a third of the anticipated average increase in the next three years. Unless the Corporation improves on its present performance in securing new business by about 3 times the target of business fixed for 1963 cannot be fulfilled. The likelihood of the Life Insurance Corporation even bettering this target, as indicated in the speech of the Finance Minister, referred to in para 43 of the Report, seems rather doubtful. The Committee hope that the target of new business under the Five Year Development Plan will not have to be substantially revised and that suitable steps will be taken to reach it after analysing the reasons for shortfall in 1960 and overcoming them.
16	47	The Committee trust that the Corporation would plan its future programme after taking into account the various targets of performance indicated before Parliament from time to time and the vast potential of life insurance which is obviously there. They hope that Government also will keep a continuous watch over the actual performance of the Corporation so that it may not fall behind the targets and that the objectives of nationalisation are amply fulfilled.
17	50—52	(*i*) The over-concentration of a major portion of the new business of the LIC in the last months of the year is in striking contrast to the corresponding distribution in the U.S.A. The Committee are of opinion that the situation demands much more effective steps to be taken than hitherto. One way of doing so would be to fix the targets of new business for the field staff on a quarterly basis instead of the present annual targets. (*ii*) They also suggest that in order to encourage the field staff to pay more attention to the soundness of business procured, prizes may be awarded on the

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		basis of the business which continues to be in force two years after its introduction instead of the present practice of awarding such prizes on the volume of business procured during the year.
18	53	(*i*) The Committee suggest that lapses from the busic ness written in the last quarter of the year should be worked out separately for each month and published in the annual Reports of the Corporation.
		(*ii*) It would also be desirable for the LIC to give in the Annual Reports figures of new business written during each month of the year zone-wise as indicated in paragraph 49 of the Report.
19	56	[Since the spreading of insurance to the rural areas is one of the primary objectives of the Corporation, the Committee recommend that efforts may be made to increase such business more effectively than has been done so far.]
20	57	The Committee feel that it would be hardly realistic to view all areas having a population upto 20,000 as rural. They understand that for purposes of censue the areas having a population of 5,000 and below are viewed as rural. They suggest that the same definition may be adopted by the Corporation and figures of rural business may be compiled and published separately in the Annual Reports of the Corporation. They do not appreciate different standards to be applied for determining what are rural areas for different purposes.
21	60	[As group insurance practically rules out lapses and makes for lower expenses the Committee suggest that special efforts should be made by the Corporation to popularise this scheme, particularly in the industrial undertakings, both in the public and private sectors.]
22	61	The Committee hope that the non-medical scheme will be successful. They need hardly stress that the success of such a scheme would depend on the careful selection of lives so as to avoid, or at any rate minimise, fraud or anti-selection.
23	64	While the Committee do not want to go into the technicalities of the legal position they feel that the question of payment of a portion of profits to non-participating policyholders has to be looked into from the point of view of equity also. Since the higher premia paid by a with-profit endowment policyholder is determined on the basis of bonus of Rs. 8 on each thousand of the sum assured, the policyholder can expect a higher return upto a reasonable limit. If the profits go beyond this

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		limit, the Committee consider that there is certainly a case in equity for a portion of the profits being passed on to the non-participating policyholders, at least *ex-gratia*. The Committee hope that the matter will be examined by Government from this angle.
24	65	[The Committee feel that in the nationalised set up, the premium rates should not be any higher than are warranted by strict actuarial considerations. The continuation of old rates by the Corporation therefore calls for reconsideration.] One of the tests of the successful working of the Corporation is the long-term reduction it can effect in its expenses and consequently reduction in the rates of premia. They recommend that a Committee of experts consisting of the Controller of Insurance, representatives of the Corporation and independent actuaries may be set up to review the rates of premia offered at present by the Corporation.
25	68	The Committee are glad to note that there has been an improvement in the lapse ratio of the business written by the Corporation since 1957. In para 52 they have suggested that concerted efforts should be made to spread the business of the Corporation evenly throughout the year. This may further reduce lapses. The Committee trust that every effort would be made to bring the lapses to the level of the erstwhile best managed Indian and foreign insurers.
26	69	The Committee were informed by the Controller of Insurance that information in forms DD, DDD and DDDD, which was required to be submitted along with the audited accounts for 1959, had not been submitted by the Corporation till December, 1960 and in the absence of this information, it had not been possible for him to check the figures of lapses given in para 67 of the Report. The Committee would refer to their remarks in paragraph 77 and trust that in future the Corporation would furnish such information in time.
27	71	One of the desired effects of life insurance is an increased provision of social security. If this is to be achieved, it does not appear desirable to leave out of consideration the possibility of introducing compulsory life insurance to Central Government employees whose total number runs to about 20 lakhs. There is no reason why it cannot be done by the Central Govt. when it has been possible for a number of State

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		Govts. to do so. The Committee consider that the matter calls for co-ordinated examination by Government at a high level. One of the requirements of such a scheme would be the deduction of premia at source. This has been dealt with in paragraph 155 of the Report.
28	72	(*i*) Statistics relating to the first insurance policies and sum assured thereunder in urban and rural areas, should be published in the annual reports of the Corporation ; (*ii*) Statistics relating to the policies classified into : (a) Rs. 501—1000 (b) Rs. 1,001—2,000 (c) Rs. 2,001—3,000 (d) Rs. 3,001—5,000 (e) Rs. 5,001—10,000 (f) Rs. 10,001—100,000 (g) Rs. 100,001—and above should be included in the annual reports of the Corporation ; (*iii*) Lapse ratio for the year under report should be compiled in time for inclusion in the relevant annual report of the Corporation ; (*iv*) It should be ensured that the age of proponents is admitted and the assignments are made by policyholders within a period of 12 months from the date of issue of the insurance policies ; (*v*) The desirability of making cash payments for the amount of bonus declared or in the alternative allowing the bonus amount to be utilised towards payment of premium might be considered ; and (*vi*) the Corporation should keep in touch with the latest plans of insurance available to the policyholders in other countries with a view to introducing them here.
29	75	The Report of the first valuation as at 31-12-57 was presented to Parliament on 5th August, 1959, *i.e.* 19 months after the period to which it related. Even this report was not final as the objections raised by the Controller of Insurance on the values of some of the assets as well as adjustments to the Life Fund had not been settled. The Committee consider that normally only final reports which depict a true and complete picture should be presented to Parliament. In

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		this case, they feel that it should have been at least indicated for the information of Parliament that the valuation, though provisional, was not expected to vary materially. This was not done.
30	76	[The Committee understand that bonus warrants as a result of valuation as on the 31st December, 1957 have not so far been issued to the policyholders. They consider the delay regrettable all the more because the bulk of Government share has been already paid.]
31	77	The Committee understand that the Corporation has not so far furnished the valuation returns to the Controller of Insurance in regard to the second valuation as at 31-12-59 under Section 15 of the Insurance Act, 1938, as applied to the Corporation. These were required to be submitted within a priod of 9 months, *i.e.* by 30th September, 1960. In this connection, it is to be noted that the Corporation did not even approach the Central Government for extension of the period of submission of returns which could only be given upto a period not exceeding three months thus making a total of 12 months. Even this maximum period has been exceeded and yet the returns have not been furnished to the Controller of Insurance. It may be noted that failure of the Corporation to furnish returns in time to the Controller of Insurance attracts penalties under Section 102 of the Insurance Act. The Committee feel that it is essential for public undertakings to comply strictly with the provisions of the various statutes applicable to them.
32	78	The Committee suggest that a time-limit should be fixed for finalisation of valuation reports and their submission to Parliament.
33	79	The Committee suggest that the Corporation may examine the desirability of associating one or more experienced independent actuaries in carrying out the valuation.
37	80	No regulations have been so far framed in respect of classification of policies under Section 49(2)(k) of the L.I.C. Act,1956, pending finalisation of the scheme of differential bonuses. The Committee hope that early action will be taken to finalise the scheme and frame regulations for the classification of policies.
35	81	In the first Valuation Report the erstwhile insurers have been classified under five groups on the basis of the reserves brought by them into the Corporation.

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		The policyholders of the insurers under the first four groups are entitled to bonuses at different rates according to the reserve strength of their insurers. The policyholders of Group V companies do not get any bonus at all. While the Committee appreciate that the rate of bonus may have to vary on the basis of the assets of each erstwhile insurer, they hope that the results of better management and working of the Corporation would enable some bonus being paid in future to the policyholders of Group V companies.
36	82	The Committee trust that the settlement of compensation in all the outstanding cases would be finalised as early as possible.
37	84	The Committee recommend that the Corporation may examine the desirability of changing the present practice of banking with a large number of Banks and of having as far as possible operating account with the State Bank of India alone.
38	87	The large balances in current accounts at the end of the year as indicated in paragraph 85 of the Report could have been invested gainfully in call deposits.
39	88	(*i*) The Committee would suggest that the Corporation may examine the desirability of keeping its call deposits also with the State Bank of India as far as possible.
		(*ii*) They would further suggest that the cash position of the Corporation should be examined at least twice a week in order to ensure that surplus money in its current account is transferred to call deposits, pending regular investment.
40	90	The Committee hope that with improved management, the Corporation would not only reach but improve on the renewal expense ratio attained by the leading erstwhile insurance companies in the country.
41	91	The Committee consider that for a monopoly organisation like the LIC the limit of 15% in respect of the renewal expense ratio provided for under the Insurance Act, 1938 is probably on the high side. They would suggest that Government may review the possibility of bringing down the present prescribed limit of 15% suitably.
42	92	The Committee are inclined to agree with the stand taken by Government that there should be one auditor for each zone and one extra auditor for Bombay

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		who, along with the Zonal Auditor, should audit the consolidated accounts of the Corporation and there is no reason why the LIC should not have accepted the suggestion. At any rate it should be acted upon in future.
43	94	(*i*) The Committee trust that the details of activities likely to be taken up in subsequent years would also be incorporated in the Reports from 1960 onwards.
		(*ii*) They would also refer to the recommendations contained in the 20th Report of the E.C. (2nd Lok Sabha) for the preparation of performance-*cum*-programme statements by the Public Undertakings and suggest that the LIC should also take necessary action in the matter.
44	95	The Committee hope that a beginning would be made to include a summarised statement showing the excess of income over expenditure at a glance in the annual reports of the Corporation from this year, as agreed to by the representative of the Corporation.
45	106—22	Reading the assurances held out by the Finance Minister in regard to making investments available the private sector, it is clear that the intention was more to help the development of industries in the private sector than in going to the share market and merely dealing in stocks and shares. Purchase of shares already in the market can be hardly held to serve the purpose of adding the development of new industries or expansion of existing ones. They would mostly go to the benefit of the persons who are already possessed of such shares, very likely for speculation. That the LIC could buy only Rs. 17·15 lakh worth of shares/debentures of newly floated companies and Rs. 205·57 lakhs worth of shares/debentures floated by the existing companies during 1959 would indicate the inherent limitations of LIC's role in the achieving the above purpose. The fact that other public undertakings like the IFC, ICICI and State Industrial Finance Corporations, which could finance new industries on a developmental basis have come into operation would seem to make the role originally contemplated for the LIC in this respect somewhat superfluous. The Committee feel that the Corporation's investments in shares and debentures fulfil little of the objectives of social advancement, diversification and avoidance of speculation. It would be in the interest of the country and the Plan programme for the Government itself to take over the

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		entire investible funds of the LIC as an unfunded debt. The interest payable by Government could be pre-determined periodically in consultation with the Corporation to give an adequate return to meet the Corporation's liabilities. It should not be difficult for Government to pay an interest of 3% as deemed to be sufficient by the Chairman, LIC or for a matter of that even something more. Such an arrangement would provide in the 3rd Five-year Plan period an estimated amount of Rs. 135 crores, in addition to a sum of Rs. 315 crores approximately which could be utilised by Government to the best advantage for the development plans. The various requirements of diversification, development, social advancement and furtherance of the interest of the community as a whole could be better served by Government with the help of the funds provided by the LIC for the Plan than could be done by the Corporation itself. Government could likewise provide funds for the development of new industries for expansion of existing ones contemplated evidently for the private sector under the Plan. Such investments should be made through other financing agencies in the Public Sector, taking into account the size of investments made by the LIC for this purpose in the past and the allocations in the Plan. A very important factor to be borne in mind is that with the passage of time the business will increase to such an enormous extent that the LIC whose main purpose is to procure insurance business and render service may not be able also to devote sufficient time and care for assuring the most advantageous investment of the large funds without detriment to its main task. If the Corporation is freed from the controversial and distracting work of investment it can then find time and energy necessary which the growing business and servicing would demand. The Committee recommend that the desirability of changing the present policy of investment of the LIC on the above lines may be examined by Government. The measure suggested will not only relieve the LIC of the job of investments and increase its efficiency but will also enable the Government to better realise the objectives of nationalisation.
46	124—31	(*i*) The overall increase in staff during the 3 years period 1957-59 has been over 21% and the increase in expenditure about 29%. While some additional staff might have been required to look after the increased business of the Corporation, the Committee find it difficult to appreciate the justification for such a large increase in the number of employees within a period

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		of two years, particularly in view of the statement of the Minister of Finance quoted in para 125 of the Report. They consider that the real test of economy and efficiency of the Corporation would be to increase the business without a corresponding increase in operational cost. The Committee feel that once the Corporation has established its network of organisation it should be possible to exercise more economy in the number of staff employed and the existing organisation should be able to take care of additional business to a large extent. They recommend that the staff position in the various categories of the different zones may be constantly reviewed with reference to the work-loads which should be uniform for all zones and efforts made henceforth to secure additional business without a correponding increase in staff. (*ii*) The immediate attempt should be to approximate the ratio of the strength in the other zones to that of the Western Zone at least and see to the elimination of the wide disparities between the zones.
47	132	In the opinion of the Committee the salaries of officers in the Corporation should not be so fixed as to bear no reasonable proportion to the salaries drawn by them for discharge of similar duties prior to nationalisation. Such a treatment may create dissatisfaction among others not equally fortunate. The Committee suggest an examination by Government of such cases if not for the purpose of disturbing the existing order at last as a guidance for the future, though the cases that may arise hereafter may not be many.
48	136	The liability incurred by the Corporation in the defamation case against one of its officers is obviously far in excess of the financial assistance which a similar Goverment servant could have obtained in similar cirucusmtances ; nor is it contemplated to recover any portion of this expenditure. The Committee are firmly of the view that the principles and rules to be followed in this respect by the L.I.C. or any Public Undertaking in such a case should be the same as prescribed by Government for its Officers. A direction to this effect may be issued by Government to L.I.C. and to all other public undertakings.
49	138	The Committee feel that since the Field Officers are expected to guide, supervise and direct the activities of agents and to recruit, train and motivate them for insurance work, recruitment to this category of officers should as a rule be made from among successful

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		whole-time agents of at leat 5 years' standing. Such a provision might be attractive to good agents who after obtaining an assured renewal commission might feel encouraged to work as field officers.
50	143	Part-time agents cannot devote themselves whole-heartedly to securing business; nor can they render efficient service to the policy-holders. For better business and proper servicing it would be desirable to appoint more and more whole-time agents. There may be exceptions in the case of rural areas where part-time agents may have to continue for some time more as insurance business is not so widely spread and popular in such areas and the commission earned may not be sufficient. The Committee suggest that in order to attract young and energetic men to the insurance profession, the Corporation should consider restriction of the number of agents in urban areas and encouraging the appointment of whole-time professional agents.
51	144	The Committee suggest that the Corporation may take effective steps to eliminate benami agents.
52	145	The Committee suggest that the feasilibility of spreading the payment of first year's commission to Agents over a period of 3 to 4 years may be examined.
53	146	The Committee trust that necessary action would be taken by Government to ensure expeditious payment of commission to agents.
54	147	The Committee hope that necessary action would be taken at an early date in the matter of permitting the agents to nominate the beneficiaries to their renewal commission.
55	148	The Committee do not appreciate why it should not b possible for the Corporation to follow the genera policy of Government in the matter of reserving certain posts for candidates belonging to scheduled castes/tribes. They suggest that Government may examine the desirability of issuing a direction prescribing the same reservation as has been made for Government Departments.
56	149	The Committee consider that, instead of one individual working as an agent, if two or more persons pool their resources, they could (as partnerships or co-operative venture) render continuous and better service to the policyholders. In view of these advantages, the Committee suggest that the feasibility of

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		granting licences to cooperative bodies and partnerships might be considered.
57	151	The Committee appreciate the various steps taken to encourage the spread of insurance in rural areas by utilising the agency of the Panchayats. In view of the doubts expressed that the proposed arrangement of requiring the Panchayats to collect the premia and payment of service-*cum*-collection charges to them is not in conformity with the spirit of Insurance Act, 1938, it would be desirable to have the matter examined and if necessary action taken to modify the existing statutory provisions to remove any doubts in the matter.
58	153	The Committee consider that investigation of individual complaints to the effect that premium notices were not issued by the Corporation regularly and when any premium was not paid in time copies of default notices were not endorsed to the Agents through whom the particular policy was issued so that the agent could follow it up though certainly desirable, may not be enough remedy for the state of affairs that is indicated by the complaints made to them from many quarters. Further, not all such cases will be brought to the notice of the Corporation through written complaints. The ordinary man will judge the performance of the LIC by the efficiency and promptness of service to the policyholders. It is, therefore, essential that the Corporation should take special and effective steps to improve its servicing so that there may be no room for any such complaints.
59	154	At present payment of premia is accepted only at the Branch Offices of the Corporation where the relevant policy records are maintained. The earlier practice of accepting premium in any of its offices has been discontinued. The withdrawal of this facility has caused much inconvenience and hardship to the policyholders. The Committee suggest that the feasibility of reverting to the earlier practice may be reconsidered.

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60	155	It appears to the Committee that the difficulties of accounting stated to be the reason for not providing the facility of deduction of premia at source are not insurmountable. They recommend that the matter may be considered by Government to enable deduction of premia at source to be made in respect of its employees and employees of the public undertakings insured with the L.I.C. Apart from the advantages pointed out in this paragraph, this measure is certain to improve LIC's business. In this connection, they also invite attention to the recommendation of the Public Accounts Committee contained in paragraph 68 of their 34th Report (2nd Lok Sabha) urging extension of the facility of deduction of premia from monthly salary of all the constituents of the L.I.C. The Committee also feel that it would be desirable to extend the same facility to employees of State Governments in due course who may insure with L.I.C.
61	156	The procedure for grant of loans to policyholders seems to be far from simple. The Committee consider that delays in the grant of loans defeat the very object for which loans are applied for by the policyholders. They trust that immediate attention would be paid to these matters and action taken to simplify the procedure for disposal of loan applications by empowering the Branches to grant loans upto a specific amount which should be disposed of within a time-limit to be fixed for the purpose. The Committee would further suggest that the desirability of charging a lower rate of interest on such loans may also be examined. It should also be possible for the LIC to accept repayment of loans (1) within 6 months of the loan giving proportionate rebate of interest taken in advance and (2) in instalments the minimum of which may be prescribed.
62	157	The Committee suggest that the feasibility of granting loans on the security of policies against stamped receipts may be examined.
63	158	The surrender values on the LIC policies are extremely low. Since the amount of loan to the policyholder depends upon the surrender values, the Committee recommend that the matter may be examined so as to bring the surrender value of LIC policies on par with the leading insurance companies abroad.
64	159—62	(i) The Committee feel that delay in the settlement of claims is very undesirable and results in unnecessary hardship to the claimants. Particularly, when Government has guaranteed the payment of sum assured

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		to policy-holders, such delays also tend to expose Government itself to criticism. The Committee suggest that Government should call for periodical returns of outstanding claims and ensure that their settlement is not delayed. (*ii*) A time-limit may be laid for the settlement of both death and maturity claims. (*iii*) Investigations into early death claims about whose settlement there are many complaints may be specially conducted by senior officers.
65	163	(*i*) It has been suggested to the Committee that apart from administrative measures, it would be desirable to levy an interest on delayed payment of claims, say after a period of three months. This suggestion may be examined. (*ii*) The Committee also recommend that to enable a correct appreciation of the position of each Zone, and from year to year, the figures of outstanding claims, classified into maturity and death claims zone-wise, their value, period for which they are outstanding etc. may be published in the Annual Reports of the Corporation.
66	165	The servicing of policies by LIC leaves much to be desired. The Committee consider that under the nationalised set up, the service offered by the Corporation should not only be as good as rendered by the erstwhile insurers but very much better. They suggest that effective steps should be taken to improve the position in this regard. One way of doing so may be to make the Branch Offices responsible for all types of services, for which they have no responsibility at present.
67	166	The Committee would suggest that an analysis of complaints received by the Corporation during a year from each Zone, should be published in its Annual Reports.
68	170	(*i*) While the Corporation may have its own buildings to house its offices wherever justified, it does not appear necessary to possess such a large number of buildings for renting out, particularly when the net return does not exceed 3% on the capital invested. The Committee recommend that the Corporation may examine the desirability of disposing of its unwanted or surplus buildings gradually for reasonable prices.

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		(*ii*) Special efforts may be made to gain occupation of the buildings rented out wherever it would be economical to use them for Corporation's own offices at present housed in rented buildings.
69	173	(*i*) Obviously the scheme for the grant of loans on mortgages of property, if it is to be continued, has to be extended to places other than the few important cities to which it is at present restricted. The Committee hope that the experience gained by Corporation so far would enable such a relaxation to be made.
		(*ii*) The Committee further suggest that the desirability of decentralising this work by delegating appropriate powers for grant of such loans at least upto certain limits to the Zonal Managers may also be considered. It is a moot point, however,whether the L.I.C. should engage itself in such an activity, where again the cause of social advancement may not be the primary guide.
70	174	The Committee hope that sufficient information about the working of the Corporation would be published in future in the Insurance Year Books to serve as a book of reference on life insurance matters, as of general insurance.
71	176	The Committee regret to observe that the annual reports etc. of the subsidiaries of the Corporation were furnished to them late on the 13th December 1960, despite reminders. The Sub-Committee on Public Undertakings had by then completed their examination of the LIC, including the evidence of its officials. As such, it has not been possible for the Committee to examine the working of these subsidiaries.

APPENDIX XX

Analysis of Recommendations contained in the Report and the estimated economy likely to result from their implementation

I. Classification of Recommendations

A. Recommendations for improving the organisation and working :—

[S. Nos. 1, 3, 4, 6, 7, 8, 12, 14, 15, 16, 17, 18, 19, 21, 22, 25, 26, 28, 29, 30, 31, 32, 33, 37, 38, 39, 40, 41, 42, 43, 45, 47, 49, 50, 51, 58, 61, 64, 66, 67 and 69 (*ii*)]

B. Recommendations for effecting economy :—

(S. Nos. 2, 9, 10 and 46)

C. Miscellaneous :—

[S. Nos. 5, 11, 13, 20, 23, 24, 27, 34, 35, 36, 44, 48, 52, 53, 54, 55, 56, 57, 59, 60, 62, 63, 65, 68, 69 (*i*), 70 and 71]

II. Analysis of the recommendations directed towards economy

S. No.	No. as per summary of recommendations	Particulars
2	11-12	Abolition of superfluous tiers in the administration of L. I. C.
9	26	Reduction in the no. of top posts in the Central Office.
10	28	Amalgamation of the posts of Financial Adviser, Executive Director (Accounts) and Chief Internal Auditor.
46	124—31	Review of staff position in the various categories in the different Zones.

III. Monetary value of economy

It is not possible to calculate the monetary value of the economies which might be effected as a result of implementation of the recommendations contained above.

GMGIPND—LS I—97(Aii)LS—13-4-61—1275