

STUDY TOUR REPORT NO. 10

C.P.U. NO. 832

COMMITTEE ON PUBLIC UNDERTAKINGS

(2001 – 2002)

(THIRTEENTH LOK SABHA)

STUDY TOUR REPORT

ON

LIFE INSURANCE CORPORATION OF INDIA LIMITED

Laid in the Lok Sabha on

Laid in the Rajya Sabha on

1 AUG 2001
1 AUG 2001

LOK SABHA SECRETARIAT

NEW DELHI

July 2001 / Shravana, 1923 (S)

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COMPOSITION OF COMMITTEE ON PUBLIC UNDERTAKINGS
(2001-2002)

CHAIRMAN

Prof. Vijay Kumar Malhotra

MEMBERS

LOK SABHA

2. Shri Prasanna Acharya
3. Shri Mani Shankar Aiyar
4. Prof. S.P. Singh Baghel
5. Shri Sudip Bandyopadhyay
6. Shri Ram Tahal Chaudhary
7. Shri Ajay Singh Chautala
8. Shri Shiv Raj Singh Chauhan
9. Shrimati Sangeeta Kumari Singh Deo
10. Shri C.K. Jaffer Sharief
11. Shri K E Krishnamurthy
12. Shri Vilas Muttemwar
13. Shri Rajiv Pratap Rudy
14. Shri Tarit Baran Topdar
15. Shri Dinesh Chandra Yadav

RAJYA SABHA

16. Shri Suresh Kalmadi
17. Shri K. Kalavenkata Rao
18. Shri Jibon Roy
19. Shri B.P. Singhal
20. Smt. Ambika Soni
21. Shri C.P. Thirunavukkarasu
22. Shri Ranjan Prasad Yadav

SECRETARIAT

- | | | |
|----|----------------------------|--------------------|
| 1. | Shri. M. Rajagopalan Nair, | Joint Secretary |
| 2. | Shri S. Bal Shekar, | Director |
| 3. | Shri T.G. Chandrasekhar | Assistant Director |

INTRODUCTION

In pursuance of the procedure adopted under Rule 281 of the Rules of Procedure and Conduct of Business for laying the Study Tour Reports on the Tables of both the Houses of Parliament, I, Chairman, Committee on Public Undertakings have been authorised by the Committee to lay the Study Tour Report on their behalf, lay the Study Tour Report of the Committee on their discussions with the officials of Life Insurance Corporation of India Ltd.

2. The Committee held discussions with the officials at Goa on 9.10.2000. A copy of the tour programme is annexed (Annexure-I).

3. The Committee considered and approved the Report at their sitting held on 15th May, 2001.

4. The Committee wish to express their thanks to Life Insurance Corporation of India Ltd for providing facilities during the visit of the Committee and for supplying necessary material and information required in connection with the Study Tour.

5. They would also like to place on record their sense of appreciation for the invaluable assistance rendered to them by the officials of the Lok Sabha Secretariat attached to the Committee.

New Delhi
29 MAY, 2001
8 JYAISTHA, 1923(S)

PROF. VIJAY KUMAR MALHOTRA
CHAIRMAN
COMMITTEE ON PUBLIC UNDERTAKINGS

STUDY TOUR NOTES OF THE COMMITTEE ON PUBLIC UNDERTAKINGS

DISCUSSION WITH THE OFFICIALS OF LIFE INSURANCE CORPORATION OF INDIA LIMITED AT GOA ON 9TH OCTOBER, 2000

1. INTRODUCTORY

At the outset, the Chairman, Committee on Public Undertakings made opening remarks and requested the Chairman, Life Insurance Corporation of India Ltd to introduce himself and his colleagues to the Committee. The Chairman, COPU also requested him to give a brief resume of the working of the Corporation.

1.1 After introduction of officials of the Corporation, the Chairman, LIC informed the Committee that in the context of the socialistic pattern adopted by the Union Government after independence, the Life Insurance Corporation of India was set up on 1.09.1956 by transferring to it the business of all the erstwhile life insurance companies – Indian and foreign. The objectives, the Corporation had set for itself in view of the background in which it came into being were, to spread life insurance more widely and in particular to the rural areas and to socially and economically backward classes; maximise mobilisation of people's savings by making insurance linked savings adequately attractive; bear in mind in the investment of funds, the primary obligation to its policy holders whose money it holds in trust without losing sight of the interest of the community as a whole; conduct business with utmost economy; act as trustees of the insured public in their individual and collective capacities; meet the various life insurance needs of the community;

involve all people working in the Corporation to the best of their capabilities in furthering the interests of the policy holders; and promote amongst all agents and employees of the Corporation a sense of participation, pride and job satisfaction.

1.2 Detailing the achievements made by the Corporation in meeting the various objectives, the Chairman, LIC informed the Committee that the total business in force – in terms of number of policies – which stood at 85.77 lakhs in 1961 had risen to 1026 lakhs (app) in 2000. Simultaneously, the percentage of Rural Policies had risen from 38.53% in 1961 to 55.10% in 2000. Further, the total premium income of the Corporation had risen from an amount of Rs.88.65 crore in 1957 to Rs.27,850 crore in 2000. As regards the total investment of funds made by the Corporation during the last few decades, the Chairman, LIC informed that this amount, which stood at Rs.329.74 crore as on 31.12.1957 had risen to Rs.1,44,954 crore as on 31.3.2000. Also, the contribution of the Corporation during the five year plan periods had risen from an amount of Rs.184 crore for the II Plan (1956-1961) to Rs.79,666 crore for the IX Plan (1997 onwards).

1.3 The Chairman, LIC further informed the Committee that the overall expense ratio – in percentage terms – had come down from 27.30% in 1957 to 21.00% in 2000, while the revival expense ratio had come down from 28.40% to 5.01% during the same period. As regards settlement of claims, the Chairman, LIC informed that the percentage of outstanding maturity claims had come down from 13.89% in 1973 to 2.1% in 2000, while the

outstanding death claims registered a decrease from 46.82% in 1973 to 12% in 2000.

1.4 On the issue of insurance products evolved by LIC for various sections of the society, the Committee were informed that presently the Corporation had as many as 67 Insurance Policies in force, of which 7 policies were exclusively for children, 1 for women, 2 for the handicapped, 3 for the weaker sections and 2 were health oriented policies.

II. FINANCIAL PERFORMANCE

(a) Growth of business / Actuarial valuation

2 As regards the specifics of the financial performance of the Corporation in terms of growth in number of policies, sum assured and first premium income earned as compared to the budgeted targets for the last three years, the following figures were furnished to the Committee :-

YEAR		POLICIES	GROWTH %	S.A. (IN CRD)	GROWTH %	FPI (in Lakhs)	GROWTH %
1997-98	Budget	1,38,86,600	13.3	65,220.00	14.9	236000.00	20.1
	Achievement	1,33,11,294	8.5	63,617.69	12.1	209945.26	15.6
	% achievement	95.9		97.5		96.1	
1998-99	Budget	1,50,00,600	12.7	74,000.00	16.3	252500.00	20.3
	Achievement *	1,48,43,687	11.5	75,316.00	18.4	269999.09	28.2
	% achievement	99.0		101.8		106.6	
Excl. BN+SP Only BN+SP	Achievement	1,47,97,057	11.2	75,091.41	18.6	249617.55	18.9
		46,630		224.85		19441.14	
1999-2000	Budget	1,69,30,000	1.4	90,500.00	20.3	306030.00	22.6
	Achievement	1,68,82,785	14.16	90,747.61	20.4	305942.60	22.6
	% achievement	99.7		100.27		99.9	
Bima Nivesh & Single Premium	Budget	70,000	99.9	350.00	111.0	30270.00	117.9
	Achievement	91,997		466.64		42562.76	
	% achievement	131.3		133.1		140.6	

* Includes NB under Bima Nivesh & Single Premium.

2.1 As regards the surplus amounts generated on the basis of actuarial valuation for the last ten years from 1989-90 to 1998-99 the following information was furnished by the Corporation :-

YEAR	VALUATION SURPLUS (RS. IN CRORES)
1989-90	1523
1990-91	1800
1991-92	2108
1992-93	2368
1993-94	2803
1994-95	3219
1995-96	3434
1996-97	3887
1997-98	4873
1998-99	5300

(b) Non-Performing Assets

2.2 Queried about the position of Non-Performing Assets (NPA) of the Corporation, information in this respect was furnished for the years 1986-87 to 1998-2000 as per the table below :-

	(Rs. in Crores)							
	1986-87	%to/ Dec	1987-88	%to/ Dec	1988-89	%to/ Dec	1999-00	%to/ Dec
Book Value of NPA (Gross)								
Sub standard	463	(3.7)	561	7.8	574	(3.2)	246	(37.1)
Doubtful	386	41.8	410	12.0	536	30.8	853	21.8
Total	849	13.8	971	10.8	1110	12	1099	(23.5)
Corporate Sector Investment (Excl. equity and preference)	18723	28.8	13909	20.2	15758	23.1	19840	25.9
% of NPA (Gross)	7.73	(13.0)	7.68	(0.6)	7.05	(8.2)	4.93	(95.6)
Provisioning for Reserve for NPA	212	(18.5)	321	51.4	345	7.8	391	19.4
Net NPA (%)	5.75	(5.8)	5.10	(9.7)	4.86	(6.4)	2.63	(89.5)

(Figures in brackets denote decrease)

(c) Fixed Costs

2.3 Asked to specify whether the overhead costs of the Corporation were not on the higher side and to provide details of the modalities through which the issue was proposed to be tackled, the Chairman, LIC admitted that the high fixed costs were indeed a matter of concern to the Corporation.

2.4 Further, the Committee were informed that several initiatives have been taken in the areas of revenue generation, cash flow management and Financial Discipline / Budget control to reduce the high fixed costs. These inter-alia included, focusing on realisation of premium through new business and conservation of business, exercising control on lapses, surrenders and early claims; investing in high yielding securities; disposal of passive and unserviceable assets; generation of income through real estates; prompt transfer of surplus funds from various offices to the corporate office; prompt deployment of funds for investment; cost control and cost reduction to avoid wasteful expenditure; holistic and total budget control; and monitoring and evaluating the performance of operating units in all key areas of operations.

(d) Outstanding Loans

2.6 Asked to specify the position of outstanding loan amounts advanced to various agencies / corporates by LIC, the following information was furnished to the Committee :-

(Rs. in crores)	
NAME OF AUTHORITY	OUTSTANDING DUES (PRINCIPAL & INTEREST O/S)
STATE ELECTRICITY BOARDS/ELECTRIC POWER CORPORATIONS	358.90
STATE GOVERNMENTS FOR HOUSING SCHEMES	21.13
APEX CO-OPERATIVE HOUSING FINANCE SOCIETIES, OTHER AUTHORITIES AND STATE HOUSING BOARDS INCLUDING LICHFL, ETC.	289.57
NATIONAL HOUSING BANK	-
MUNICIPAL COMMITTEES/WATER SUPPLY & SEWERAGE BOARDS AND TO STATE GOVERNMENTS FOR URBAN WATER SUPPLY SCHEMES	23.71
ZILLA PARISHADS FOR RURAL PIPED WATER SUPPLY SCHEMES	0.16
STATE ROAD TRANSPORT CORPORATIONS	55.23
SUGAR CO-OPERATIVE SOCIETIES	5.21
CO-OPERATIVE INDUSTRIAL ESTATES	4.58
JOINT STOCK COMPANIES INCLUDING LOANS TO PUBLIC SECTOR CORPORATIONS	831.57
DEVELOPMENT AUTHORITY NAGALAND	0.42
TOTAL	1570.48

2.6 Further, as regards the position of outstandings of mortgage loans extended by LIC, the Committee were informed that with effect from 16.8.1993, the Corporation had withdrawn the policy of giving mortgage loans to the public and such loans were now extended only to staff members and agents. The Corporation's outstanding mortgage portfolio therefore, consisted only of loans granted to policy holders and members under mortgage schemes upto 16.8.1993, and loans granted on regular basis to its staff members and agents.

2.7 Asked to detail the steps being taken to recover the outstanding amounts from various agencies, the Committee were, inter-alia, informed that

in the past, the issue of defaults had been taken up with the agencies concerned but the response had not been adequate. As regards Social Sector Investments, cases of defaults were taken up by the Corporation at the highest level with the Chief Secretary of concerned States as well as the Secretary (Economic Affairs), Government of India for adjusting the dues against Central allocation of funds to States but the response had not been positive. It was also informed that follow-up action for recovery of outstandings would be intensified so as to have a workable restructure plan, failing which legal action would be contemplated.

III. ORGANISATIONAL RESTRUCTURING

3. The Committee were informed that since its formation in 1958, LIC had grown tremendously and was presently functioning with a Central Office, Seven Zonal Offices, 100 Divisional Offices and a total of 2048 Branches in 1363 Centres. Further, LIC had foreign Branch Offices in Fiji (Suva, Lautoka), Mauritius and the United Kingdom (London).

3.1 The Committee desired to know about the steps taken by the Corporation relating to organisational restructuring, finance etc., in the wake of the opening up of Insurance business to private companies. The Committee were informed that LIC had appointed an international consultant viz. Mr's Booz Allen & Hamilton to give definite advice on the steps to be taken by the Corporation to make it a competitive and customer-oriented organisation in the light of the developments in the financial sector, and in particular, in the insurance sector.

3.2 The major recommendations made by the consultants in their report, which was received at the end of June, 2000 were as under :-

1. LIC to be a fully Board-managed company with increased powers for the Board, various Committees under the Board and a fully empowered CEO.
2. Decision-making process to be speeded up, inter-alia, by flattening the hierarchical set up and in due course de-layering the number of offices.
3. Fixed cost of LIC is relatively high by international standards and LIC needs to adopt a re-deployment process to generate revenue.
4. A differentiated approach to the various customer segments, in particular, to the high-end customer.
5. Re-engineering the process to Leverage Information Technology
6. Improve Investment returns and returns from Real Estate
7. Build performance culture through relationship building with the constituents.

3.3 The Committee were informed that the Board was in general agreement with the directions of the recommendations of the consultants. The activities relating to implementing the same were in two parts viz., issues on which the approval of the Government of India was required, and issues that can be dealt with by the Life Insurance Corporation of India with the approval of the Board wherever necessary.

3.4 As regards issues relating to Life Insurance Corporation of India becoming a fully Board-managed company and Corporate Governance etc it was informed that these were taken up with the Finance Ministry.

3.5 As regards issues being dealt with by the Corporation, it was informed that each functional head at the Corporate Office had taken up issues for implementation relating to his department. Thus, the Investment Department was considering the appointment of an asset management company to assist Life Insurance Corporation of India in the matter of investment as a short term measure. In the meantime, it was developing capabilities internally in this area. The Actuarial Department had refixed the minimum Sum Assured under the popular plans to reduce the extent of cross subsidy from high Sum Assured to low Sum Assured policies. Appropriate adjustments in the bonus rates (both reduction and increase) were made in the last 3 Valuation years to align declared bonuses with the bonus earning capacities of the various plans. The Marketing Department had redesigned the various Club Membership Rules for agents in tune with the recommendations of the Consultants and the amended Rules were to be published.

3.6 Further, it was informed that in order to meet the challenges of competition, LIC had constituted Committees to recommend strategic alliances / modifications in the LIC Act in the light of IRDA regulations, Information Technology, Banking, Training, International operations, Market Research, Growth Model, Ambience upgradation etc. The Committees were expected to formulate plan of action for implementation in a definite time frame.

3.7 To match the private companies that may bring in very sophisticated software to handle the business and service. LIC has undertaken technology upgradation measures. The Committee were informed that the computing model developed by LIC was a decentralised one with the Branch considered as a profit centre. On the other hand, foreign companies would be adopting a centralised computing model by networking all their branches, adoption of which would pose problems for LIC on account of the cost involved in networking; unreliability of telecommunication lines; and lack of ownership of data, in the sense, the person processing the data at the centralised level would not be exposed to the problems faced by the branch office, if the system was not perfect.

3.8 The Committee were further informed that LIC was attempting to web-enable their applications to provide service to the policy holders on the Internet.

IV. INVESTMENT OPERATIONS

4. On the modalities followed in making investment decisions and the extent of functional / operational autonomy the Corporation enjoys in making investment decisions, the Committee were, inter-alia informed as under :-

“Investments of the Corporation are governed by the provisions of Section 27A of the Insurance Act, 1938 and the Notifications & Circulars / Letters from the Government from time to time. As per the provisions, the investments of the Corporation were categorised into Scheduled and Unscheduled Investment.

Investment Committee is empowered to take decisions on investments within the broad guidelines and all investment decisions are unanimous.

Investments in private limited companies are permitted with the prior approval of Government of India. However, this stands withdrawn in the amended Section 27A of the Insurance Act.

The following are some of the Scheduled Investments :-

- a) Investments in Central Government marketable securities.
- b) Central Government and State Government Securities
- c) Socially Oriented Sector investments.

In addition to this, certain investments in Corporate Sector satisfying conditions as set out in Section 27A (1) are also classified as Scheduled Investments."

4.1 Further, it was informed that Scheduled / Approved Investments in the Corporate Sector as defined under Section 27A are as under :-

- a) Shares of any company on which dividends of not less than 4% including bonus have been paid for at least 7 out of 8 or 9 years immediately preceding.
- b) Debentures secured by first charge on any immovable property, plant or equipment of any company which has paid interest in full for the 5 years immediately preceding on such or similar debentures issued by it.

4.2 The Committee were also informed that "at present investments categorised as Scheduled Investments including secondary market investments in Equity / debt and certain investments in approved PSUs are made with the approval of Chairman as authorised by Investment Committee. These investments are reported to the Investment Committee subsequently.

All other investments in unscheduled category are made with unanimous approval of Investment Committee."

4.3 On the issue of operational autonomy, per se, that LIC enjoyed in making investment decisions, the Committee were informed as under :-

"The Government has been issuing guidelines in the form of notifications, letters / circulars from time to time which are in the nature of liberalising the scope of investments and also enhanced the scope to the category of scheduled investments. The above provided the Corporation to undertake certain activities for improving investment performance. For e.g. Central Government vide its letter dated 30.7.1997 enlarged the scope of socially oriented sector investments to include investments in infrastructure and charge interest at market related interest rates in socially oriented sector.

In exercise of powers conferred by Section 27A of the Insurance Act 1938, the IRDA has issued investment regulations 2000 for regulating / guiding the investments of the Corporation. These guidelines have come to effect from 14th August, 2000.

The guidelines specify pattern of investments in approved securities, Socially Oriented Sector including infrastructure and approved investments and other than approved investments. In addition to above, these regulations specified exposure / prudential norms and periodical returns to be submitted."

V. LAPSEATION OF POLICIES / SETTLEMENT OF CLAIMS

5. On the issue of net lapses of policies (lapses less revivals) to mean life insurance business in force in the last three years, the following information was furnished to the Committee :-

YEAR	% OF LAPSES TO MEAN FORCE
1999-2000	5.1
1998-99	4.9
1997-98	5.0

5.1 On the measures being taken for controlling the lapse rate of policies, the Committee were informed in a written communication that by way of implementation of recommendations of the Ganesan Committee regarding control on lapses, the Corporation has taken a number of steps, prominent amongst which were the following :-

- (i) Specific targets were assigned for individual offices to ensure that first premium lapsation did not exceed 15% and showed atleast 2% reduction over the corresponding figures of the previous year.
- (ii) Control mechanisms at Divisional, Zonal and Central levels were set up to continuously review and monitor the progress.
- (iii) Disincentives for Development Officers to control lapses.
- (iv) Special revival campaigns for revivals after 5 years.

5.2 Elaborating on the measures being taken to control the lapses of policies which happen as a consequence of low level of follow up services

provided by agents and ignorance, the Committee were informed as under during informal discussion :-

- (a) An appropriately worded communication is being sent to all such policyholders alongwith lapse notices from time to time.
- (b) Corporation holds a campaign for Revival of Lapsed Policies each year under which some incentives / concessions are granted for such policyholders to revive their policies. This is normally launched during November, December and January of each financial year.
- (c) Incentive Bonus to Development Officers has been suitably amended to encourage them to ensure that policies remain in LIC's fold for at least two years; of course there is also a penal provision in respect of policies which lapse within two years.

5.3 The Committee were also informed that the Corporation proposes to send revival quotations to the policyholders alongwith lapse notices to make reinstatement of the policies easy. In addition to this, list of lapsed policies are also to be provided to the Agents and Development Officers every month enabling them to call on the concerned policyholders for getting their policies revived.

5.4 On the procedure followed in settlement of claims on account of death and maturity of policies, and the compensation granted to policyholders for delays in settlement of claims for which the Corporation is found to be responsible, the Committee were informed as under :

A) Maturity & Survival Benefits :

- (i) Intimations regarding payments due to the policyholders are sent to them three months prior to the date of maturity alongwith a discharge form (pre-receipt).
- (ii) On receipt of the duly completed discharge form and original bond, post-dated cheques are sent to policyholders.

B) Death Claims :

Claims resulting from death of policyholders are settled immediately in favour of nominee or legal heirs on receipt of proof of death, duly completed discharge form.

In the event of the delay in settlement caused by the Corporation interest is paid @9%.

As regards the maturity claims outstanding in the last three years viz. 1997-98, 1998-99 and 1999-2000, the Committee were informed that a total of 1,28,449 policies (2.4%), 1,53,179 policies (2.7%) and 1,28,146 policies (2.1%) remained outstanding during these years. Further, the outstanding death claims for these years were 28,224 (12%) for 1997-98, 28,009 (11%) for 1998-99 and 33,364 (12%) for 1999-2000.

The Committee were also informed that following the reconstitution of the Claims Review Committees in 1996, the number of appeals outstanding before the Committees has come down from 37.24% in 1996-97 to 13.51% in 1999-2000, signifying the expeditious disposal of the appeals.

OBSERVATIONS OF THE COMMITTEE

PERFORMANCE OF LIFE INSURANCE CORPORATION OF INDIA

1. The Committee note that since its formation in the year 1986 following the nationalisation of the business of Insurance, the Life Insurance Corporation of India (LIC) has performed successfully in expanding its business extensively and building a large infrastructure with substantial financial strength and managerial competence. Yet, at the same time, the Committee are inclined to believe that LIC could have performed even better in extending the coverage of insurance in the country and mobilising resources. The Committee are of the firm view that following the de-regulation of the Insurance Sector with the entry of private companies in the field, LIC has to re-orient itself in several aspects of its functioning so as to enable it to continue to maintain a position of strength. These aspects, inter-alia include, bringing down the level of overhead costs of the Corporation which is presently on the high side ; restructuring the organisational set-up and upgrading the technological measures to match private competition ; bringing about changes in the modalities followed in investment operations to enable higher and better returns ; and undertaking measures for better and effective customer service. These issues, as well as others on which the Committee expect positive action to be taken both by LIC and the Government are dealt with more elaborately in the succeeding paragraphs.

(Action : LIC of India Ltd. & Ministry of Finance)

OVERHEAD COSTS

2. The Committee are of the view that the overhead costs of LIC is relatively high by international standards. This issue has been brought out in the report of the international consultant engaged by LIC to advise on the steps to be taken to make the Corporation competitive and customer-oriented. The Chairman, LIC too admitted before the Committee that the high overhead costs was an area of concern. The Committee understand that a number of initiatives have been taken by LIC in the areas of revenue generation, cash flow management and financial discipline / budget control to bring down the overhead costs. The Committee wish to be kept apprised of the details of measures taken to bring down the overhead costs and the extent to which such measures have helped in the bringing down the costs particularly, in comparison to international standards / other private companies operating in the field.

(Action : LIC of India Ltd.)

NON-PERFORMING ASSETS

3. Yet another area of concern for the Committee is the level of Non-Performing Assets (NPAs) of the Corporation. The Committee note that in the last few years from 1996-97 to 1999-2000, the total worth of NPAs of LIC has been much higher than the provisioning of resources made on this count, which does not auger well to the financial health of the Corporation. One positive indication in this regard has, however, been the fact that the net percentage of NPAs has shown a downward trend in the last two years. The Committee hope that LIC will spare no effort to keep the NPAs to the barest minimum so as to ensure that the financial health of the Corporation does not continue to be affected negatively.

(Action : LIC of India Ltd.)

OUTSTANDING LOANS

4. The Committee are constrained to note that an amount in excess of Rs.1570 crore of the loans advanced by LIC to various agencies / corporates remain outstanding to be recovered. A bulk of the outstandings pertain to social sector investments made by LIC, which include, loans advanced to State Electricity Boards / Electric Power Corporations, Apex Co-operative Housing Finance Societies and State Housing Boards, State Road Transport Corporations and Joint Stock Companies including Public Sector Corporations. The Committee understand that steps taken by LIC to recover the outstandings have not yielded the desired results. The Committee express the hope that the Corporation will spare no effort to recover the outstandings. Further, the Committee also expect the Ministry of Finance to render every possible assistance to the Corporation in recovering the outstandings, particularly those from the State Government agencies.

(Action : LIC of India Ltd. & Ministry of Finance)

ORGANISATIONAL RESTRUCTURING

5. The Committee have been informed that LIC is seized of the recommendations made by the international consultants engaged for providing definite advice on the steps to be taken by the Corporation towards strategic transformation following the de-regulation of the insurance industry. While the functional heads of various departments viz, Investment Department, Actuarial Department, Marketing Department etc., have taken up issues concerning them for implementation, issues relating to corporate governance, converting LIC into a fully Board-managed Company etc. have reportedly been taken up with the Ministry of Finance. The Committee are of the firm view that the exercise of restructuring / strategic transformation has to be carried out urgently in order to enable LIC to maintain a competitive edge vis-à-vis private insurance companies. The Committee, therefore, strongly recommend that issues relating to corporate governance and converting LIC into a Board-managed company should be acted upon on an urgent basis by the Corporation and the Ministry of Finance. The Committee also desire to be kept apprised of the progress made in the organisational transformation of the Corporation.

(Action : Ministry of Finance / LIC of India)

INVESTMENT OPERATIONS

6. Although LIC reportedly enjoys sufficient autonomy in making investment decisions, the Committee feel that certain modifications are required in the existing system so as to enable the Corporation to maintain a competitive edge in the business. For instance, it was impressed upon before the Committee that the Investment Committee of LIC needs to function primarily as a policy making forum with only investments beyond certain limits referred to it and that the Chairman and other functionaries should be delegated the authority to make investment decisions subject to certain limits. The Committee are of the view that these aspects relating to the modalities of making investments which are prevalent in other financial institutions deserve to be given a favourable consideration by the Government. Further, the Committee have been informed that owing to the large size of its resource base, LIC has been facing certain problems in strictly adhering to IRDA regulations in making corporate sector investments only in AA rated companies. Given the magnitude of LIC's total controlled fund, which has been built over a long period, the Committee expect the Government to render all possible assistance to the Corporation in overcoming the problems faced in meeting the IRDA stipulations on investments.

(Action : Ministry of Finance)

POLICY LAPSES / CLAIMS SETTLEMENT

7. The Committee feel constrained to note that the net lapses of policies to mean life insurance business in force has consistently remained around 5% in the last three years viz., 1997-98 to 1999-2000. This is despite the fact that the Corporation has initiated a number of steps to control the lapse rate of policies. The Committee expect the Corporation to gear up the efforts to bring down the lapse rate of policies.

Another worrisome aspect noticed by the Committee is the quantum of outstanding claims, particularly death claims, which has remained at more than 11% in the years, 1997-98 to 1999-2000. One positive development in this regard has, however, been the effective functioning of the re-constituted Claims Review Committees in enabling speedy settlement of claims. The Committee expect LIC to spare no effort in ensuring that the claims, either on account of maturity or death, are settled in a just, speedy and transparent manner. They wish to be kept apprised about the results achieved in this regard for the year 2000-2001.

(Action : Life Insurance Corporation of India)

**TOUR PROGRAMME OF THE COMMITTEE ON PUBLIC UNDERTAKINGS
TO GOA, BANGALORE AND CHENNAI FROM
9TH OCTOBER TO 14TH OCTOBER, 2000.**

(MEMBERS ASSEMBLED AT GOA)

DATE & DAY	TIME	VISIT & DISCUSSION
9.10.2000 (Monday)	1600 hrs	Informal discussion with the Officers of Life Insurance Corporation of India
(NIGHT HALT AT GOA)		
10.10.2000 (Tuesday)	0900 hrs	Visit Goa Shipyard Ltd and informal discussion with the officers of Goa Shipyard Ltd
(NIGHT HALT AT GOA)		
11.10.2000 (Wednesday)	1130 hrs	Departure for Bangalore by IC-817 (1320 hrs)
	1605 hrs	Arrival Bangalore
(NIGHT HALT AT BANGALORE)		
12.10.2000 (Thursday)	0900 hrs	Informal discussion with the Officers of Kudremukh Iron Ore Ltd.
	1100 hrs	Informal discussion with the Officers of ITI Ltd.
	1500 hrs	Departure for Chennai by Mysore-Chennai Shatabdi Express (1625 hrs)
	2145 hrs	Arrival Chennai
(NIGHT HALT AT CHENNAI)		
13.10.2000 (Friday)	1030 hrs	Informal discussion with the Officers of Steel Authority of India Ltd.
	1530 hrs	Informal discussion with the Officers of Hindustan Petroleum Corporation Ltd.
(NIGHT HALT AT CHENNAI)		

14.10.2000 (Saturday)	0900 hrs	Informal discussion with the Officers of Neyveli Lignite Corporation Ltd
	1100 hrs	Informal discussion with the Officers of United India Insurance Co.
	1400 hrs	Informal discussion with the Officers of Chennai Petroleum Corporation Ltd (Formerly known as Madras Refineries Ltd.)

DISPERSAL

ANNEXURE II

**COMPOSITION OF THE COMMITTEE ON PUBLIC UNDERTAKINGS
WHICH VISITED GOA, BANGALORE AND CHENNAI
FROM 9TH TO 14TH OCTOBER, 2000**

S.NO	NAME	DATE OF JOINING	DATE OF LEAVING
1.	Prof. Vijay Kumar Malhotra, Chairman	9.10.2000 Goa	14.10.2000 Chennai
2.	Shri Prasanna Acharya	8.10.2000 Goa	15.10.2000 Chennai
3.	Shri Sudip Bandyopadhyay	13.10.2000 Chennai	15.10.2000 Chennai
4.	Shri Surinder Singh Barwala	8.10.2000 Goa 13.10.2000 Chennai	12.10.2000 Bangalore 15.10.2000 Chennai
5.	Shri R L Bhatia	9.10.2000 Goa	13.10.2000 Chennai
6.	Shri Shivraj Singh Chauhan	9.10.2000 Goa	12.10.2000 Bangalore
7.	Maj. Gen. (Retd) BC Khanduri	9.10.2000 Goa	14.10.2000 Chennai
8.	Shri K E Krishnamurthy	8.10.2000 Goa	12.10.2000 Bangalore
9.	Shri Vilas Muttemwar	11.10.2000 Bangalore	14.10.2000 Chennai
10.	Shri Dharam Raj Singh Patel	8.10.2000 Goa 12.10.2000 Chennai	10.10.2000 Goa 15.10.2000 Chennai
11.	Shri R P Rudy	9.10.2000 Goa 12.10.2000 Chennai	11.10.2000 Goa 14.10.2000 Chennai
12.	Shri Taril Baran Topdar	9.10.2000 Goa	14.10.2000 Chennai
13.	Shri Devendra Prasad Yadav	11.10.2000 Bangalore	14.10.2000 Chennai
14.	Shri Jibon Roy	9.10.2000 Goa	14.10.2000 Chennai
15.	Smt. Ambika soni	9.10.2000 Goa 12.10.2000 Bangalore	10.10.2000 Goa 14.10.2000 Chennai

16.	Shri Ranjan Prasad Yadav	8.10.2000 Goa	14.10.2000 Chennai
17.	Shri K Kalavenkata Rao	8.10.2000 Goa 12.10.2000 Chennai	11.10.2000 Goa 15.10.2000 Chennai
18.	Shri B P Singhal	9.10.2000 Goa	14.10.2000 Chennai
19.	Shri Satish Chandra Sitaram Pradhan	9.10.2000 Goa 13.10.2000 Chennai	10.10.2000 Goa 14.10.2000 Chennai

SECRETARIAT

1. Shri S Bal Shekar, Director
2. Shri Raj Kumar, Under Secretary



ANNEXURE – III

LIST OF OFFICIALS OF LIFE INSURANCE CORPORATION OF INDIA WHO WERE PRESENT DURING DISCUSSION WITH THE COMMITTEE ON PUBLIC UNDERTAKINGS AT GOA ON 8.10.2000.

- | | |
|-------------------------------|-------------------------|
| 1. SHRI G. N. BAJPAI | CHAIRMAN |
| 2. SHRI Y. P. GUPTA | MANAGING DIRECTOR |
| 3. SHRI A. RAMAMURTHY | EXEC. DIRECTOR (MS) |
| 4. SHRI P. A. BALASUBRAMANIAN | EXEC. DIRECTOR (INVEST) |
| 5. SHRI N. C. SHARMA | ZONAL MANAGER (VZ) |
| 6. SHRI AMITABH | SECRETARY (BOARD) |