SIXTH REPORT

COMMITTEE ON PUBLIC UNDERTAKINGS

(1985-86)

(EIGHTH LOK SABHA)

GENERAL INSURANCE CORPORATION OF INDIA

[Ministry of Finance—Department of Economic Affairs]

सत्यमेव जयते

Presented to Lok Sabha on...............

Laid in Rajya Sabha on...............

LOK SABHA SECRETARIAT
NEW DELHI

November, 1985/Kartika 1907 (Saka)

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COMMITTEE ON PUBLIC UNDERTAKINGS

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INTRODUCTION

I, the Chairman, Committee on Public Undertakings having been authorised by the Committee to present the Report on their behalf, present this Sixth Report on General Insurance Corporation of India.

2. The Committee's examination of the working of the Corporation was mainly based on the Report of the Comptroller and Auditor General of India, 1982, Union Government (Commercial) Part XIII.

3. The subject was examined by the Committee on Public Undertakings (1984-85). That Committee took evidence of the representatives of the General Insurance Corporation of India on 21 and 22 September, 1984 and also of the Ministry of Finance (Department of Economic Affairs) on 15 and 16 November, 1984. The Committee, however, could not finalise their Report due to the dissolution of the Seventh Lok Sabha on 31 December, 1984.

4. The Committee on Public Undertakings (1985-86) considered and adopted the Report at their sitting held on 23 August, 1985.

5. The Committee feel obliged to the members of the Committee on Public Undertakings (1984-85) for the useful work done by them in taking evidence and sifting information which forms the basis of this Report.

6. The Committee wish to express their thanks to the Ministry of Finance (Department of Economic Affairs) and General Insurance Corporation of India for placing before them the material and information they wanted in connection with examination of the Corporation. They also wish to thank in particular the representatives of the Department of Economic Affairs and the Corporation who appeared for evidence and assisted the Committee by placing their considered views before the Committee.

7. The Committee also place on record their appreciation of the assistance rendered by the Comptroller and Auditor General of India.

NEW DELHI;
November 6, 1985
Kartika 15, 1907 (*Saka*)

K. RAMAMURTHY
Chairman,
Committee on Public Undertakings

CHAPTER I

HISTORICAL BACKGROUND

General Insurance was brought under State ownership and control by an Ordinance dated 13th May, 1971. The Ordinance was replaced by the General Insurance Business (Nationalisation) Act, 1972, which came into effect on September 20, 1972. The object of nationalisation was to serve better the need of the economy by securing the development of general insurance business in the best interests of the community and to ensure that the operation of the economic system does not result in the concentration of wealth to the common detriment, for the regulation and control of such business and for matters connected therewith and incidental thereto. A Holding Company called the General Insurance Corporation of India (GIC) was formed in November, 1972 as a Government Company for the purpose of superintending, controlling and carrying on the business of general insurance. Under Section 3 of Insurance Act, 1938, it was registered on January 1, 1973 for transacting fire, marine and miscellaneous insurance.

1.2 With effect from January 1, 1973 the shares of the Indian Insurance companies and the undertakings of other insurers operating in India, including the general insurance business of the Life Insurance Corporation, vested in the Central Government under Sections 4 and 5 of the General Insurance Business (Nationalisation) Act, 1972. The general insurance business of the Life Insurance Corporation was also transferred to the four subsidiaries of the Corporation from January 1, 1973. Immediately thereafter, the existing 55 Indian Companies became the subsidiaries of the General Insurance Corporation. The four Companies were formed as flag companies to operate all over India with Head office in the four zones, as indicated below:—

1. The National Insurance Company Limited with Head Office at Calcutta.

2. The New India Assurance Company Limited with Head Office at Bombay.

3. The Oriental Fire and General Insurance Company *Limited with Head Office at Bombay and from January 1, 1974 at New Delhi.

4. The United India Fire and General Insurance Company Limited (named as United India Insurance Company Limited with effect from December 30, 1978) with Head Office at Madras.

The four flag companies took over the assets and liabilities of the other 55** Indian companies under four Merger Schemes with effect from January 1, 1974 and continued as the subsidiaries of the Corporation.

1.3 The Corporation's paid up capital (out of the Authorised capital of Rs. 75 crores) stood at Rs. 43 crores as on December 31, 1983.

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*The Oriental Fire & General Insurance Company Ltd. was renamed as Oriental Insurance Company Ltd. with effect from 1st May, 1984.

**At the time of factual verification the Ministry of Finance (Deptt. of Economic Affairs) suggested that the figure "5"may be changed to '51". The suggestion has not been accepted as the figure 55 is based on the facts mentioned in the Audit Report. Audit has not suggested any change in this regard.

CHAPTER II

OBJECTIVES AND OBLIGATIONS

A. *Objectives*

2.1. The functions of the Corporation as provided in Section 18(1) of the General Insurance Business (Nationalisation) Act, 1972 are:

(a) The carrying on of any part of the general insurance business, if it thinks it desirable to do so;

(b) aiding, assisting and advising the acquiring companies in the matter of setting up of standards of conduct and sound practice in general insurance business and in the matter of rendering efficient service to holders of policies of general insurance;

(c) advising the acquiring companies in the matter of controlling their expenses including the payment of commission and other expenses;

(d) advising the acquiring companies in the matter of the investment of their funds;

(e) issuing directions to acquiring companies in relation to the conduct of general insurance business.

2.2. Elucidating the objectives of the nationalised General Insurance Companies, the then Finance Minister, while adressing the first meeting of the Board of Directors of the Corporation on February 25, 1974 stated that the main objective of formation of the Corporation was to make it the focal point as well as a radiating centre for all important policy decisions relating to the business of general insurance, to provide leadership in achieving a wide geographical spread of insurance services, extension of intensive coverage of new economic activities and an efficient personalised and improved service to the customers, as the primary objective of nationalisation of general insurance was to make it meaningful to the common man and carry its message to the remotest corner of the country. He further emphasised that the objective of nationalisation was to remove mal-practices and enter upon an era of insurance run on sound business principles on healthy and egalitarian lines and spread the message of insurance as widely as possible with right weightage to the weaker sections of society, with service to the policy holders as the main consideration and settlement of claims requiring concentrated attention.

2.3 Audit has pointed out that in pursuance of the recommendations of the Administrative Reforms Commission, the Bureau of Public Enterprises has asked all Government companies to formulate a statement of their precise financial and economic obligations/objectives. No such statement has been formulated by the Corporation and got approved by Government so far (June 1983).

2.4 In a written note furnished to the Committee, the Corporation has intimated that the objectives, the Industry has set for itself in the "Approach Paper" to the Corporate Plan are as under:—

(1) to generate greater insurance consciousness with special emphasis on the rural sector and the economically weaker sections of Society:

(2) to provide efficient service to customers through prompt issue of documents, speedy settlement of claims and risk management support;

(3) to fulfil obligation as a Public Financial Institution by channelising the investible funds into socially oriented and other sectors of economy; and

(4) to maintain efficiency in all areas of operation and ensuring adequate return on capital.

2.5. In order to understand broadly the objectives of the Corporation, the Committee desired to know in the first instance the salient features of functioning of the Corporation. The Chairman of the Corporation stated in evidence:—

"The organisation of the industry is that GIC is the holding company. We own 100 per cent shares of the four companies. The four companies are not corporations. They transact the business. The GIC does not transact any business with two exceptions—one is crop insurance and secondly aviation insurance emanating from Air India, Indian Airlines, Hindustan Aeronautics Limited and International Airports Authority of India. Other than these two items of business, the crop insurance and the national Airlines, all other business is transacted by the companies only. There are four operating companies. We own 100 per cent shares of the four companies, they pay dividend to us. Our 100 per cent shares are owned by the Government and out of our profit we pay divident to the Government. These four companies operating with cooperation amongst them and the utility of having four companies which are competing with each other and still subsidiaries of GIC, the parent holding company, I personally feel is a great success. I say this because by this arrangement we are operating independently having their own Board of Directors. An element of competition brings efficiency, at the same time because they are subsidiaries of GIC there is a great deal of dialogue which goes on between the companies and GIC and through the platform of GIC the four companies come together, sit down and a lot of commonality of approach is brought about through GIC in the functioning of the four companies. So, on the one hand we have an element of competition, at the same time we are able to ensure that the four companies function in a uniform manner, that the divergence is not too much, that they are functioning on proper lines. So through GIC we are able to properly guide the functioning of the companies."

2.6. When asked as to why the Corporation could not formulate financial and economic objectives/obligations even after 12 years of nationalisation of the industry and what was the present position thereto, the Chairman of GIC, during his evidence before the Committee, stated:—

"The objectives have now been spelt out (See para 2.4 above). This is just a summary of the broad objectives. The full document is very voluminous. We have not brought the full document, we have just given the broad parameter of the objectives enunciated. Following from these objectives, strategies and action plans are spelt out. I would like to clarify that this document is at the draft stage.

I will first comment on the 12-year period, why we have taken it up only now. The four companies had drafted their corporate plan earlier, which is commented in the CAG's report. So, it is not that action has been initiated only now. After the companies drafted the corporate plan, it was felt that at the company level they might be doing it but it will be feasible to have an overall corporate plan. That is why the GIC took over this exercise from the company.

The BPE guidelines on the subject have spelt out the 5 criteria which they expect the public sector to bring out in the corporate plan. First of all, the BPE guidelines automatically do not apply to us. As a financial institution, we do not come under the BPE jurisdiction automatically. Still, we try to follow the BPE guidelines to the extent possible and advisable.

As regards the 5 obligations spelt out by the BPE, this matter was examined and it was felt that these 5 obligations are already spelt out in the Insurance Act. Otherwise, they are not relevant to us."

2.7. During the evidence of the representatives of the Ministry of Finance (Department of Economic Affairs), the Committee enquired whether the instructions/guidelines issued by BPE on various matters were not automatically applicable to GIC and whether the Ministry of Finance had issued their own separate instructions on these subjects to GIC. The Finance Secretary then stated:—

"There were certain instructions that were issued in December, 1978 about the area of operation in which Government would like to monitor the performance on a quarterly basis... These were further revised recently in May, 1984 and information is now being obtained even on those items. Whenever there is discussion between the Chairman and others, if there are any items of importance at a certain particular point of time, then those are also discussed. There are separate meetings held on specific problems that may come up from time to time."

2.8 During evidence of the representatives of the Ministry of Finance, the Committee enquired as to why the financial and economic objectives/obligations of GIC have not been formulated in the form of a document as envisaged in the 'Bureau of Public Enterprises' instructions. The Finance Secretary then stated:—

> "So far as the question of the preparation of the corporate plan is concerned, we have explained to the Committee that this total process of amalgamation of the various insurance companies was completed only by about June 1978 and the Insurance Corporation started the process of corporate planning thereafter. In January-February 1977 they conducted a Seminar on this subject. The corporate plan was prepared separately for the five year period for the different corporations. A corporate plan for the entire general insurance industry is also prepared. I am told that the Board of the GIC discussed this corporate plan in its meeting in October 1984."

2.9 When asked as to how in the absence of objectives the Government was able to watch and satisfy itself about the performance and growth of the Corporation from year to year, the Finance Secretary stated:—

> "There are quarterly reports that we receive about the performance of the different insurance companies. These quarterly reports would comment on aspects like progress of new business, regional development of business, insurance business specially meant for agriculture. tackling of claims, investment of funds of the companies, complaints and so on. These were then compared with the reports relating to the previous quarter. These were also analysed by the Ministry. Then these were submitted to the Finance Minister, who would pass instructions on such reports. Since then we have also introduced a scheme whereby the Minister himself conducts a meeting with the senior officers of the GIC, as well as the subsidiaries, so that there is inter-action at the personal level between the Minister, the Ministry and the senior representatives who are actually running and operating the corporations. This has been started from the current year."

B. *Corporate Plan*

2.10 The Corporation had also not prepared and got approved by Government any corporate plan (June 1983) either for the Fifth or Sixth Plan periods. Such plans were prepared by "New India" and

"United India" for the Five Year Plan period 1981—85 and "National" and "Oriental" for the Five Year Period 1982—86.

2.11 The Corporation stated (January 1983) that as the plans prepared by the subsidiaries were on a micro level for their individual operations, the Corporation considered it preferable to prepare a corporate plan on a macro level for the entire General Insurance Industry so that the plans of the individual subsidiaries could be in conformity with the goals and objectives of industry as a whole. With this end in view, a firm of Management consultants was appointed to prepare a corporate plan in collaboration with nominated officers of the Industry.

2.12 The Corporation further stated that the draft corporate plan was expected to be ready soon for consideration by the Management and that the objectives and obligations of the Industry would also be spelt out therein.

2.13 In this connection the Ministry of Finance (Department of Economic Affairs) informed the Audit in June 1983:—

> "Guidelines and circulars/instructions issued by the BPE are not automatically applicable to financial institutions and the nationalised insurance companies. However, since BPE's instructions are meant to bring about uniformity in practices followed in public undertakings, the insurance industry should also, to the extent possible, adhere to their instructions. The criteria laid down by the ARC are covered by international practices and provisions of the Insurance Act, the General Insurance Business (Nationalisation) Act. 1972 and the rules made thereunder. The General Insurance Company, till recently, was engaged in the task of amalgamating and streamlining the procedures of over 106 companies which were amalgamated into four subsidiaries. The GIC has undertaken the task of formulating a corporate plan for itself as well as its subsidiaries and has assured that the various issues by the ARC will be spelt out in these plans".

2.14 Subsequently, the GIC informed through a written note that a draft "Approach Paper" to the corporate plan for the period 1984—89 to coincide with the Seventh Five Year Plan has since been prepared.

2.15 On enquiry as to how in the absence of the statement of objectives and the Corporate Plan, the Corporation was able to watch and satisfy itself about the performance and the growth of its own activities and also of its subsidiaries from year to year, the Corporation in a written note furnished to the Committee stated:—

"A Corporate Plan normally aims at determining the company objectives and formulating the strategy required to achieve them over a period of time. It also identifies vulnerable areas of the organisation, its weaknesses and threats and its strengths and opportunities. An attempt is also no doubt made to quantify precisely what the company is trying to achieve within a time-scale of several years. These quantified targets, however, are in the nature of indications of what could possibly happen in future, and are subject to periodic review and revision in the light of changes in company priorities and external circumstances, rather than definite yardsticks with which to measure the performance from year to year.

General Insurance business being dependent on the changing state of economy and subject to fluctuations from year to year on account of unpredictable claims, it is not practicable to lay down definite targets valid for a long period of time. Our targets of performance in different operational areas based on earlier experience and assessed business potential are, therefore laid down from year to year in the annual budgets with reference to which the performance is monitored and measured periodically by the managements and Boards of Directors of the Companies and the Corporation."

2.16 The Committee note that in pursuance of the recommendations of the Administrative Reforms Commission the Bureau of Public Enterprises had asked the Government Companies, as far back as in November, 1970 to formulate a statement of their financial and economic obligations/objectives clearly. No such statement in the form of a document has so far been prepared by the General Insurance Corporation (GIC) and got approved by the Government. The Chairman of the Corporation clarified during his evidence before the Committee that the full document on the objectives, strategy and action plan etc. was at the draft stage. He, however, stated that the draft 'Approach Paper' for the period 1984—89 has been prepared and broad objectives, the industry has set for itself, have been spelt out therein. The Committee are unhappy over this inordinate delay and desire that the objectives and obligations of the Corporation should be formulated and got approved by the Administrative Ministry without any further delay so that the areas of operation are clearly known and the Corporation

and its subsidiaries are able to set targets, frame their programmes and execute them in a pre-determined manner and also assess the growth of their activities at periodic intervals on realistic basis.

2.17 The Committee are also surprised at the information given by the Secretary of the Ministry of Finance in his evidence that the General Insurance Corporation does not come within the purview of BPE on the ground that it is a financial institution and guidelines issued by the Bureau are thus not applicable to the Corporation automatically. The Committee do not see much logic in this argument and are not able to appreciate this line of approach. The Committee are of the view that since BPE instructions are well thought out from commercial angle and are based on important considerations besides bringing about uniformity in practice, it should be desirable on the part of all the public undertakings including nationalised financial institutions to follow them in the normal circumstances. In the opinion of the Committee, there should be no difficulty in following BPE guidelines by undertakings engaged in financial business unless the guidelines are totally unsuitable to the special nature of the business transacted by the undertaking. Where it is not feasible to follow the guidelines, the undertaking should bring the matter to the notice of the administrative Ministry and take their specific approval. In view of the evidence of the Chairman of GIC that the Corporation was at the draft stage of the document on objectives, strategy and action Plan, the Committee feel that the guidelines and instructions issued by BPE should have been followed by GIC in letter and spirit.

2.18 The Committee note that not only the Corporation has not formulated its economic and financial objectives but also it has not prepared and got approved the Corporate Plan which could give a proper directive to the Management to watch and satisfy about its performance and growth and also of each of its subsidiaries. The Committee desire that the Corporate Plan which is long overdue should immediately be drawn up and got approved by Government. The Committee would like to be apprised of the action taken in this behalf.

CHAPTER III

POLICIES FOR WEAKER SECTIONS OF SOCIETY

3.1 The following main schemes were introduced by GIC for the benefit of the weaker sections of the society:—

(i) Crop Insurance.

(ii) Janata Personal Accident Policy

(iii) Cattle Insurance

(iv) Insurance of Agricultural Pumpsets

(v) Pedal Cycle Policy*

The crop insurance is transacted by the Corporation and the remaining ones by the subsidiaries. The schemes are discussed as under:—

A. *Crop Insurance*

3.2 The Crop Insurance scheme on individual approach basis was first taken up by the Corporation as an experimental measure in 1973. The scheme was found impracticable and was discontinued from 1980. The Corporation incurred a total loss of Rs. 33.34 lakhs on this scheme.

3.3 In view of the financial implications of operating crop insurance on a country-wide scale and the fact that appropriate technology was yet to be established for transacting crop insurance on a viable basis in the prevailing circumstances, a Pilot Crop Insurance Scheme on homogenous approach basis was approved by the Board of Directors of GIC in December, 1977 and was being implemented on pilot basis by, GIC since 1979-80 for selected crops in selected areas with State Governments participating as Co-insurers to the extent of 25 per cent.

3.4 The Pilot Scheme provided cover to the extent of 150 per cent of crop loan. Policies were issued in favour of lending Banks. Farmers were not parties to the Crop Insurance contract, although they were ultimate beneficiaries.

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*This scheme was introduced in 1976 and was discontinued within a span of less than two years as it ran into losses.

3.5 The Scheme was based on area approach. Premium rate and guaranteed yield in each stratum (usually a Sub District) for any particular crop was determined on the basis of data of yields for the stratum for the preceding 10 years, as obtained from crop cuttings conducted by the State Governments in accordance with the procedures approved by the National Sample Survey Organisation. During the insured season each beneficiary farmer was deemed to have obtained yield equivalent to the average yield of the stratum. If such average yield was less than the guaranteed yields, then claims became payable. The amount payable bore the same proportion to the Sum Insured which the shortfall in yield bore to the guaranteed yield. The farmer's individual experience of yield was not taken into account.

3.6 Under the Scheme the total Sum Insured for the whole country was limited to Rs. 12 crores, including States' share of 25 per cent. Out of this each State was allotted a limit, which again was broken into sub-limits seasonwise, cropwise and stratumwise. The maximum sum insured per farmer could not exceed per annum in the case of irrigated crops either 150 per cent of Crop Loan or Rs. 10,000|- whichever was less and in the case of unirrigated crops either 150 per cent of crop loan or Rs. 5,000|- whichever was less. These restrictions were adopted to ensure optimum dispersal of risks.

3.7 The number of participating States increased from 3 in 1979 to 12 in 1983-84. The participating States were Andhra Pradesh, Bihar, Himachal Pradesh, Haryana, Karnataka, Kerala, Maharashtra, Madhya Pradesh, Orissa, Tamil Nadu, Uttar Pradesh and West Bengal. The crop covered was mainly Paddy and to a limited extent Jowar, Bajra, Maize, Ragi, Groundnut, Cotton, Potato, Gram Barley and Oil Seeds. The number of crop strata covered which was 66 in 1979-80 increased to 498 in 1983-84.

3.8 The Management stated in November 1982 that the coverage depended on the extent to which the banks and other crop financing institutions could persuade the loanee farmers to take insurance and that the Corporation by itself was not expected to and did not, have the necessary machinery to reach the individual farmers.

3.9 While reporting the performance of the scheme to the Ministry, the Corporation pointed out in September 1981 the following deficiencies and problems in the implementation of the scheme.

(i) Voluntary basis—The voluntary basis mentioned in the scheme is not feasible in practice as the average farmer in our country has neither the insurance consciousness nor the literacy to appreciate the area approach under which compensation payable has no relevance to individual farmer's losses.

(ii) Limit of coverage—The Limit of sum insured per farmer State is too meagre compared to the total amount of crop loans. Hence Banks find that the scheme provides only limited security.

(iii) Publicity—As the Corporation feels that it is not in a position to continue crop insurance on a long-term basis, it is avoiding any publicity even when claims for large amounts have been settled. State Governments and Banks are also unable to publicise crop insurance because of their desire not to get proposals in excess of the prescribed limits of coverage.

(iv) Statistical work—At present the Corporation depends upon Indian School of Political Economy for all statistical work, consultancy as well as routine work. The Indian School of Poltical Economy being a one man organisation the Corporation cannot depend upon it for ever. Alternative arrangements have to be set up preferably under Corporation's control.

(v) Crop condition reports—As the leading insurer, GIC is interested in getting from State Governments upto-date crop condition reports once in a fortnight or at mutually agreed intervals. This required full co-operation of State Governments.

3.10 According to Audit, GIC stated in a meeting held with the Ministry in October 1981, that it was not the right agency for transacting crop insurance on a large scale or on a long term basis, tho crop insurance could not be tied up with commercial business and that this insurance should be transacted by the State Governments on their own account. In a subsequent meeting held in December 1981, the Corporation's Board expressed the view that Corporation was fully committed for building up the requisite experience for operating a viable crop-insurance scheme in the country. Despite this, commitment action for rectification of the various deficiencies and practical problems in implementation was yet to be taken. The GIC had stated in November 1982 that the effective solution of all these problems rested ultimately on the creation of a separate set-up for crop insurance all over the country with the State Governments operating as direct insurers.

3.11 As to the development of Crop Insurance, GIC stated that during 1984-85, the aggregate area covered was expected to go up to 1 lakh hectares.

3.12 The Ministry stated in June 1983 that under the allocation of business Rules, 'Crop Insurance' falls under the charge of the Ministry of Agriculture. In the absence of any other suitable organisation, the Ministry of Finance asked the GIC to take the initiative and conduct experimental scheme on crop insurance. Since this was a temporary arrangement, the Ministry of Agriculture set up a Committee to go into the question of long-term arrangements. In their report, the Committee had *inter alia* recommended that the State Governments should take on the responsibility of transacting crop insurance throughout the country.

3.13 Since the crop insurance schemes implemented by GIC were still on an experimental basis in selected areas for selected crops the anticipated coverage of 1 lakh hectares by 1984-85 was considered reasonable.

3.14 The Committee were informed in a note that the number of farmers covered under the Pilot Crop Insurance Scheme went up from 16,268 in 1979-80 to 60,372 in 1983-84. The total area covered was 13,181 hectares in 1979-80 and it went upto 87,296 hectares in 1983-84 as against total 16,000 million hectares of cultivable area available in the country. The aggregate sum insured for which policies were issued in 1979-80 was Rs. 1.30 crores and it went upto Rs. 6.64 crores in 1983-84. The progress regarding implementation of Pilot Crop Insurance Scheme, as evolved by the GIC, since 1979 had been as under:—

Year	Area covered in hectares	No. of farmers	Total sum insured	Premium collected	Claim paid	Claim ratio %
				(In lakhs of rupees)		
1979-80 . . .	13,181	16,268	130.29	5.53	5.29	95.71
1980-81 . .	18,703	23,442	165.77	6.93	3.27	47.10
1981-82 . . .	24,152	24,831	203.79	7.55	9.64	127.67
1982-83 . . .	70,729	50,655	486.26	15.65	37.32	238.46
1983-84 . . .	87,296	60,372	664.31	21.15	8.36	39.60

3.15 The Committee pointed out during evidence that at present GIC was practically covering all aspects of general insurance like cattle, crop, dwelling houses etc. When enquired whether it would be feasible for GIC to carry on effectively with all these schemes, the Managing Director of G.I.C stated:—

"As regards crop insurance, even when crop insurance was envisaged, it was felt that this was Agriculture Department's work. So, on crop insurance our mind was clear that we would not be able to do it in the long run. Some other agency has to take it over. We are only doing it on an experimental basis......I would say that crop insurance is not really possible for us. At one stage there was a proposal to set up a Rural Insurance Corporation, that proposal was examined by various Departments and it was felt that it was not a viable proposal..."

3.16 When asked whether the GIC was properly equipped to go into the technical details of Crop Insurance, the Chairman of GIC stated—

"I agree with you that we cannot do it."

3.17 On an enquiry about the reasons for high claim ratio under the crop insurance scheme during the years 1979-80 to 1982-83, that Corporation informed the Committee in a written reply that—

"The main reasons for the high claims ratio were heavy rain, water logging, root rot and wilt, low moisture, drought, high velocity winds etc. It may also be stated that high loss ratio is an inherent feature of this class of insurance because of the coverage being restricted only to selected areas and selected crops, and the premium rates having been fixed at a low level due to poor paying capacity of the farmers......The adverse claim ratio was likely to continue till crop insurance was not implemented on a country-wide scale."

3.18 On enquiry about the reasons for the failure of the Crop Insurance Scheme and whether the Government thought of modifying the present scheme or about the feasibility of having an alternative scheme of Crop Insurance for implementation on a country-wide scale so as to extend the benefit of insurance to the common man, the representative of the Ministry of Finance *inter alia* stated during evidence:—

"....This scheme was started on a pilot basis in 1979-80. It worked for some time, but there were certain serious snags in the scheme. Therefore, certain changes were necessary in the scheme. Those changes were brought about on the basis of the homogenous area approach; Crop Insurance was extended to people who had obtained bank loans and there was a master policy issued in favour of the crop financing banks. Then the insurance cover was restricted to 100 per cent of the crop loan. The crop insurance liability was shared between the GIC and the State Government...This scheme was subsequently revised and the main changes were:—

(1) The insurance coverage was increased from 100 per cent to 150 per cent of the crop loan.

(2) The subsidy on premia to small and marginal farmer was increased from 50 to 66.6 per cent.

(3) The scheme was extended to areas where the risk was high and the proportion was maintained between lower risk, medium risk and high risk areas so that there was no catastrophic experience to the industry as such and the overall liability which was to be covered in insurance was increased."

3.19 In reply to a question whether G.I.C. was the proper agency for continuing with the Crop Insurance Scheme, the witness stated:—

"Our experience is that in developing countries there is generally a Government agency which undertakes crop insurance and our experience in India to some extent is corroborated by the U.N. study which had been made in 1981."

3.20 In the U.N. Study (1981) on "Crop Insurance for Developing Countries" it has been stated *inter alia* as under:—

"There is considerable justification for a governmental unit to be the insuring organisation in crop insurance. First. the crop insurance programme is usually linked with other aspects of national policy—overall modernization and promotion of agricultural production, stabilisation of supply of agricultural products, etc. which in many developing countries are considered to fall within the direct responsibility of the Government. Secondly, the actuarial base of losses in crop insurance is not usually as reliable as in the case of, say, life or fire insurance. Mainly because of the catastrophic element they involve, claims in crop insurance are known to deviate significantly from reasonable expectations, therefore, the safety margin that a profit-oriented private insurance would charge for the coverage would probably be high, especially during the experimental and early stages of the programme. The State, on the contrary, can probably charge practically no safety margin. Thirdly, the premiums paid by farmers will probably not suffice to cover the costs of the programme, so that government subsidies will be needed. Payment of subsidies almost inevitable involves major government participation which, for this reason, may be extended to the actual management of the programme. Fourthly, for the crop insurance programme to be economically viable, it is necessary to co-ordinate its operation with that of government agencies; the Ministry of Agriculture, the Bureau of Statistics, agricultural research centres, planning and price regulationing agencies, agricultural lending institutions, etc. Finally, much of the work conducted on behalf of the crop insurance programme may be of substantial benefit to all farmers, even those who do not carry the insurance which is commonly thought of as being more within the responsibility of government than of private enterprise."

3.21 When asked whether the G.I.C. had the necessary infrastructure to cover mofussil areas in the country under the Crop Insurance Scheme or there should be some independent Corporation or Agency dealing with this subject. the Secretary of the Ministry expressed his views during evidence, as under:—

"GIC does not enter deep into the rural areas. My personal view is that it is not geared to undertake schemes of this nature. The Ministry of Agriculture wanted to introduce a scheme. The proposals which they had submitted earlier for discussion generally revolve very much round the grant element. Our experience of the G.I.C. when they administered the scheme on a pilot basis in certain selected districts was that the claims were very high as compared to the premium. It is not possible for the G.I.C. or its subsidiaries to meet with it. Therefore, it was the Planning Commission which was taking a view about what would be the method of introducing crop insurance on a wider scale, what would be the financial implication and what would be the best agency for doing so. The last meeting was held on 29th October, 1984. I do not think they have come to any final decision in that meeting. Certain more follow up meetings would be necessary. If crop insurance as a major scheme has to be introduced, then more detailed thinking would be necessary about financial implication, agency of the Ministry which should undertake it."

3.22 In a note furnished by the Ministry of Finance in May, 1985, the Committee have been informed that with effect from kharif 1985, the Pilot Crop Insurance Scheme of GIC which had been in operation since 1979-80 stood withdrawn and instead the Central Government had decided to introduce a comprehensive Crop Insurance Scheme on country wide basis (effective from kharif 1985) which would have a built in insurance cover for all crop loans. It has also been stated that GIC will act as the leading insurer for the Scheme and will establish crop insurance cells at the State capitals, maintain close and constant liaison with the State Government, Reserve Bank of India, National Bank for Agriculture and Rural Development, State Cooperative Banks, Commercial and Regional Rural Banks. Under this Scheme GIC will set up a separate crop insurance fund known as the "Central Crop Insurance Fund". The crops covered under this scheme would be rice, wheat, oil seeds, pulses and millets and the insurance cover would be provided upto 150 per cent of the crop loan. The charges for the built-in insurance coverage shall be 2 per cent of the sum insured for rice, wheat and millet crops and 1 per cent for oil seeds and pulses. The coverage shall be shared between GIC and State Government concerned in the ratio of 2:1. The Scheme will operate in all States in defined areas for each crop to be notified by the Union Agriculture Ministry and will be administered jointly and in close collaboration with the State Governments.

B. *Janata Personal Accident Policy*

3.23 To meet the requirements of the common men, the Janata Personal Accident Insurance Scheme was introduced from 31st March, 1976 on premium of Rs. 12 per annum with the benefit of compensation ranging from Rs. 10,000/- (upto May 1977 to Rs. 15,000 (from July 1980 onwards).

3.24 The following table brings out the results of the scheme during 1976 to 1982:—

(Figures in lakhs)

Year	No. of Policies sold	Amount premium of Rs.	Claim No. of Policies	Claim Amount Rupees	Claim Ratio
1976	17.33	207.58	0.07	42.55	20.4%
1977	11.02	131.43	0.14	98.54	74.9%
1978	8.17	102.98	0.12	110.73	107.5%
1979	8.10	111.14	0.11	97.57	87.8 %
1980	7.53	126.93	0.06	108.79	85.7%
1981	12.85	192.78	0.02	123.64	64.1%
1982	20.16	219.41	0.01	163.43	74.49%

3.25 The details regarding Janata Personal Accident policies sold by the subsidiaries during the years 1976 to 1982 are given below:—

(Figures in lakhs)

	1976	1977	1978	1979	1980	1981	1982
National	2.17	1.97	1.30	1.64	1.35	1.21	1.43
New India	4.76	2.22	1.75	1.91	1.60	6.85	7.35
Oriental	5.94	3.04	2.19	1.98	2.39	2.95	3.88
United India	4.46	3.79	2.93	2.57	2.19	1.84	7.50
	17.33	11.02	8.17	8.10	7.53	12.85	20.16

3.26 It will thus be seen that from 1977 to 1980, 'National' and 'New India' had lapsed behind the other two subsidiaries in the development of the scheme. New India, however, improved its performance in 1981 and 1982. The overall tempo of development of the scheme was slow. The number of policies sold was 17.33 lakhs during 1976 which came down to 12.85 lakhs in 1981. There was high claim ratio under the Scheme. According to Audit this was ascribed by the GIC (November 1982) to apathy of the sales force in devoting time and energy to sustain the business owing to the small earning accruing to them in the class of business, absence of adequate sales force, high administrative cost of development on individual basis, low premium-paying capacity of the individuals, etc. As to the high claim ratio, the GIC feels that where the policies are designed for weaker sections of society, a relatively high claim ratio is to be expected in the nature of things, as increase in premium ratio is only likely to cut into the sales.

3.27 In a note furnished by G.I.C., the Committee have been informed that the number of persons covered under this policy had gone up from 17.33 lakhs in 1976 to 31.39 lakhs in 1983, the corresponding premium income being Rs. 208 lakhs and Rs. 317 lakhs respectively.

3.28 When asked during evidence whether GIC was satisfied with the number of people covered under this scheme, the Chairman of the Corporation stated:—

> "The Janata Scheme and the Gramin Scheme are not progressing much. It is our concern. We have been negotiating with a large number of groups so that they purchase this policy or a modified version of this policy. We were successful in selling out to two State Governments—Karnataka and Bihar. They took this policy for 40 lakhs and 70 lakhs people. They were covered under the scheme. They had it for one year. But they did not renew it afterwards. We did approach all the State Governments and the dialogue is going on. We look at it in this way. Karnataka and Bihar took this cover for one year. Whether they renewed it for the second year or not, at least in that year, the insurance consciousness had come in the minds of the people."

3.29 On being pointed out that compared to the total population of our country the number of people covered till 1983 was very small, the representative of Corporation informed the Committee—

> "We were in touch with the nationalised banks. At one time we thought that we would be able to persuade the banks to have this cover for all the depositors. If all the depositors in the banks had come under this cover that would have been a very large group. But, ultimately, the banks decided not to do that."

3.30 The witness added that they did not propose to cover all depositors but only those having a deposit of less than Rs. 5000.

C. *Cattle Insurance*

3.31 As per livestock population census of 1977 the total cattle population of India was estimated at 240 million, about 94 per cent of which was located in rural areas.

3.32 Cattle Insurance business is conducted in the country on a limited and selective basis. It is confined mainly to well-organised dairies and in a few cases to milch cattle purchased with Bank or Government loans. With effect from 1976, individually owned cattle are also accepted for insurance.

3.33 The performance o fthe scheme during the period 1976 to 1982 is depicted in the following table:

(Figures in lakhs)

Year	No. of cattle insured	Amount of premium Rs.	No. of cattle effected	Claims amount Rs.	Claim Rotio
1976	2.10	132.93	0.04	58.35	43.9%
1977	5·89	217·18	0·10	100·17	56·7%
1978	14·10	472·47	0·26	341·06	72·2%
1979	32·30	918·16	0·54	806·11	85·0%
1980 . .	43·72	1333·78	0·68	1101·53	82·6%
1981 . .	56·76	1908·08	1·41	1592·74	83·4%
1982	82·35	2633·03	1·82	1743·48	66·2%

3.34 The following reasons were explained to Audit in September, 1980 by the Corporation for adverse claims experienced in Cattle Insurance:

(1) Lack of supervision and control of claims emanating from remote corners with the existing Staff/Personnel, acceptance of risk without physical verification of animals by Field Staff; handing over the tags by the banks to insureds to be put on animals and non-verification of carcass by Rural Representatives|Branch Managers.

(2) Policy conditions are not strictly enforced by the subsidiaries and claims are settled even when the policy conditions are not complied with.

(3) Replacement of uninsured animal in lieu of insured and preferring of the claims. Not taking steps by the subsidiaries to check the genuineness of death certificates.

(4) Insurance of permanently disabled animals.

3.35 The Corporation also intimated to Audit in February 1981, the following reasons for high claim ratio:

(i) Inadequacy of infrastructure in rural areas.

(ii) No dependable method of indentification of animals.

(iii) Banks (financing cattle and other animals) do not take adequate care to select such animals.

(iv) Claim ratio in respect of animals belonging to well-organised dairy co-operatives is not favourable.

3.36 According to Audit, the Corporation informed the Ministry in February 1981, that, as measures for reducing the loss ratio, premium rates had been increased with effect from July 1, 1980 and the companies had recruited and deployed veterinarians and with their help loss minimisation measures had been initiated viz. verification of animals, checking of valuation, special verification of claims, conducting training courses and maintaining effective liaison with banks, undertaking model exercises in selected areas and having joint dialogue by General Insurance Corporation and all companies with organised dairies for reduction of claims.

3.37 The following lapses were noticed in Audit:—

(i) Not obtaining ear tags at the time of settlement of claim.

(ii) Not obtaining health certificate from veterinary surgeons before accepting a proposal for insurance of cattle.

3.38 The Corporation is reported to have estimated that insurable animals in 1977 were to the tune of 500 lakhs while the number of cattle insured increased from 2.10 lakhs in 1976 to 56.76 lakhs in 1981. The claim ratio also showed a continuous rise and rose to 85 per cent in 1979 and stood at 83.4 per cent in 1981. The insurance coverage of cattle for 1981 was only 11.35 per cent of the total cattle population in the country (1977 base). With the increase of cattle population from 1978 to 1980, the percentage of insurance coverage of cattle would be even lower than 11.35 per cent.

3.39 The Corporation had also informed the Audit in November, 1982 that "high claim ratio is an inherent feature of such classes of business essentially meant for weaker sections of society, where premium rates have to be kept at low level and the substantial portion of the premium collected is meant to be given by way of claims to the insuring public."

3.40. In the written reply furnished to the Committee, the Corporation has intimated:

"Cattle Insurance which covers cattle and livestock was introduced in 1974. The insurance is restricted to cattle of a particular age group and also depends on their health, status and feeding resources. Out of the estimated cattle population of 2400 lakhs as per livestock population census of 1977, only about 500 lakhs are insurable. From 29,000 cattle heads covered in 1974, the number has increased to 103 lakhs in 1983 i.e. 20.6 per cent of the insurable number. The corresponding premium income has gone up from Rs. 25 lakhs in 1974 to Rs. 3370 lakhs in 1983, representing a growth rate of more than 72 per cent per annum.

There is a special low-cost insurance scheme for cattle subsidised under IRDP, SFDA, MFAL and EPAP Projects. Group Cattle Insurance Schemes have also been introduced for 'Amul" and "Mehsana" Dairies in Gujarat and also for District Co-operative Milk and Producers' Unions in Rajasthan. Similar Group Schemes have been negotiated with Dairy Authorities in Andhra Pradesh, Tamil Nadu and Sikkim. With a fairly large base already established, efforts are now being made to extend insurance protection to more and more individually owned cattle and entertain proposals where no bank-finance is involved. A beginning has also been made to grant insurance cover to Honey Bees, Silkworm, apart from sheep, goats, poultry, pigs, camels and elephants."

3.41. The Committee desired to know if it was feasible for the G.I.C. to cover all the cattle population in India despite the fact that the Corporation had no branches in 120 districts. The Chairman, GIC informed:

"For cattle insurance we are well organised. Even these 120 districts we propose to cover by next year. So, that is not going to be a constraint. I cannot say about the total cattle population, but all the insurable cattle population in the country can be insured. We would be in a position to cover 5 crores, which is the figure mentioned. The growth rate in cattle insurance is 30 per cent.

3.42. When pointed out that most of the offices of GIC were located in the urban areas whereas the cattle insurance was required to be transacted at the village level, the Secretary, Ministry of Finance stated in evidence:

> "We agree that the existing structure is more or less urban-oriented. We have two options. One is to create a separate Corporation to deal with rural areas. Second, to make the present Corporation move into the rural areas. Personally I see no reason why the General Insurance Corporation should not move to the rural areas rather than having a Corporation to deal exclusively with rural areas."

D. *Insurance of Agricultural Pumpsets*

3.43 Agricultural Pumpsets Insurance Scheme was introduced by the Corporation in 1976 with a view to providing indemnity to rural farmers against various types of losses i.e. fire, theft, mechanical|electrical breakdown, accidental damage etc. and covers both electrical motors and diesel oil sets.

3.44 A feasibility study before the introduction of the scheme revealed that there were over 35 lakh agricultural pumpsets in operation in the country-side. The demand for pumpsets would go up greatly in the future. Thus after considering the market potential and need to provide protection to farmers, the Scheme was launched from June 1, 1976. The premium rate was from Rs. 25 to Rs. 115 depending on the horse power of the pumpset. With effect from July 1, 1980 the premium rates were doubled and a 'No claim discount' was introduced.

3.45. The following table indicates the number of pumpsets insured, premium received and claims incurred during 1976 to 1981:

(Figures in lakhs)

Year	No. of pumpsets insured	Amount of premium Rs.	Claims: No. of pumpsets affected	Claims: Amount (Rs.)	Claims Ratio
1976	0·18	8·78	0·08	4·27	48·5%
1977	·51	20·56	0·05	28·52	138·7%
1978	0·48	24·53	0·10	56·74	231·3%
1979	0 93	36·26	0·14	70·09	193·3%
1980	1·06	52·71	0·14	72·58	137·7%
1981	1·01	80·63	0·07	55·11	68·3%
TOTAL	4·17	223·47	0·58	287·31	

Note : Fall in claim ratio in 1981 was due to doubling of premiums from 1st July, 1980.

3.46 In the written reply furnished to the Committee, the Corporation has informed that as against only 18,000 pumpsets covered in 1976, the scheme has covered 1.65,248 pumpsets in 1983. The premium therefrom has gone up from Rs. 9 lakhs in 1976 to Rs. 123 lakhs in 1983 representing an annual increase of over 45 per cent in the premium income.

3.47 According to Audit, the high claim ratio is attributed by the Corporation to the following factors:—

(1) Business is too scattered involving small value and very negligible premium. It becomes difficult to control the business and claims in view of distance involved.

(2) To inspect the damaged pumpset in remote areas is not possible by our Admn|Dev. Staff. Cost to be incurred for this purpose would be prohibitive.

(3) Repair facilities are not available in rural areas.

(4) Damage to motor is caused by voltage fluctuations.

(5) Quality control is a problem.

3.48 The following suggestions were made in (April to August 1980) by the subsidiaries to the Corporation to reduce the incidence of high claim ratio:—

(1) Fixation of voltage regulations.

(2) To set up repair centres.

(3) Restricting business only to areas where the companies have man-power for pre-insurance inspection as well as at the time of claim.

(4) For large claims, survey assessment of loss should be arranged.

(5) A separate cadre of rural workers should be thought of for the above job.

3.49 The Corporation informed in October, 1982 that the suggestions at Serial No. (1) and (2) were not found practicable and those at serial Nos. (3) to (5) have been implemented. It is, however, seen that subsidiaries have not yet issued the necessary instructions in that regard (August 1983).

3.50 It is also stated in Audit Report (1982) that compared to the estimated figure of 35 lakh agricultural pumpsets in the country, the coverage is only to the extent of one lakh sets, i.e. 2.8 per cent up to

1981. The low percentage in coverage is attributed by the Management to the poor economic condition of the farming community.

3.51 The Committee note that the crop insurance scheme on individual approach basis was first taken up as an experimental measure in 1973 but was abandoned in 1980 after incurring a loss of Rs. 33.34 lakhs, as the scheme was found impracticable. A pilot Crop Insurance Scheme on homogenous approach basis was taken up by GIC in 1979 with the State Governments participating as co-insurers to the extent of 25 per cent but the coverage of the scheme till 1981 had been very meagre in as much as the insurance affected was only to the extent of Rs. 2 crores as compared to the total value of agricultural production of about Rs. 20,000 crores per annum in the country. Similarly the area of land covered under this scheme in 1983-84 was 87,296 hectares as against 16,000 million hectares of cultivable area of land available in the country. The claims paid during the years 1981-82 and 1982-83 as compared to the premium collected were very much on the high side and the claim ratio in 1982-83 had reached an astronomical figure of 238.46 per cent.

3.52 The main reasons for the high claims ratio, as stated by Corporation, are heavy rain, water logging, root rot and wilt, low moisture, drought, high velocity winds etc. The high loss ratio is stated to be an inherent feature of this scheme because of its coverage being restricted only to selected areas and selected crops, and the premium rates having been fixed at a low level due to poor paying capacity of the farmers. As a result, the adverse claim ratio was likely to continue till crop insurance was not implemented on a country-wide scale.

3.53 The GIC is reported to have brought to the notice of the Government as far back as in October, 1981 that it was not the right agency for transacting crop insurance on a large scale or on a long term basis. The view of the GIC is that the crop insurance which cannot be tied up with commercial business should be transacted by the State Government on their own account.

3.54 During evidence, the representative of the Corporation has admitted that the GIC was not properly equipped to go into the technical details of the crop insurance and as such they were not the fit agency to undertake that business. Still the Ministry directed the Corporation to continue to conduct the crop insurance scheme on an experimental basis. In this connection, the Committee would like to point out that Crop Insurance involves several factors like flood, dought, inputs etc. which have direct bearing on yield from the soil and affect the crops. An organisation like GIC which was already engaged on many other activities could not be expected to take up detailed study of all these aspects or have technical knowledge on such matters. In the opinion of the Committee, there should be a rural based organisation with the necessary expertise to take up crop insurance schemes.

3.55 The Ministry of Finance has also admitted that under the Government of India Allocation of Business Rules "Crop Insurance" falls under the Ministry of Agriculture and in the absence of any suitable organisation GIC was asked to take initiative and conduct experimental schemes. The Ministry also informed the Committee that the Ministry of Agriculture had set up a Committee to go into the question of long term arrangement for the crop insurance and in its Report, that Committee had, inter alia, recommended that the State Governments should take responsibility of transacting crop insurance throughout the country.

3.56 The Committee are constrained to observe that in spite of the fact that the GIC had expressed its incapability to undertake crop insurance business as far back as October, 1981, GIC was required to carry on with the crop insurance scheme all these years.

3.57 In his evidence before the Committee, the Finance Secretary stated that the Ministry of Agriculture was keen to have such a scheme introduced. He further stated that when GIC administered the scheme on a trial basis in certain selected districts the claims were reported to be very high as compared to the premium and it was thus not possible for GIC or its subsidiaries to meet with the situation. According to him it was the Planning Commission which was taking a view as to what would be the method of introducing crop insurance on a wider scale, what were the financial implications and what would be the best agency for doing so. The Committee were also informed that in the last meeting held on 29 October, 1984, the Planning Commission have not come to a final decision. In this connection, the Committee would like to draw attention of the Government to the UN Study (1981) on "Crop Insurance for developing countries" which has emphasised the need of a Government Unit to be the insuring organisation in Crop Insurance. Crop Insurance programme is stated to be linked with other aspects of national policy which in many countries are considered to fall within the direct responsibility of Government.

3.58 The Committee cannot but deplore the casual manner in which the crop insurance scheme has hithertofore been dealt with by the Government. When GIC was pleading time and again that the Corporation was not the right agency to transact crop insurance and had brought their difficulties to notice, it was the duty of the Government either to give proper guidelines to GIC for implementing the scheme or to find out and set up a suitable alternate machinery.

3.59 The Committee are, however, glad to note that the Central Government have since decided to introduce a comprehensive crop insurance scheme on a country-wide basis (effective from Kharif 1985) which will have a built-in-insurance cover for all crop loans. Under this scheme, the GIC will act as the leading insurer and will establish crop insurance cells at the State capitals and maintain close and constant liaison with the State Governments, Reserve Bank of India, NABARD, State Cooperative Banks, Commercial and Regional Rural Banks. The crops to be covered are rice, wheat, oil seeds, pulses and millets and insurance cover to these crops would be provided to the extent of 150 per cent of the crop loan. Since the uncertainty about the agency which should transact crop insurance business has been settled, the Committee hope that GIC would now provide necessary infrastructure and implement with due vigour and sincerity the newly introduced scheme efficiently. The Committee are sure that Government would provide the necessary guidelines to the GIC so that the past history is not repeated. The Committee would watch with interest the implementation of this new scheme and would like to be apprised of the results achieved thereunder in due course.

3.60 The Committee find that the working results of another scheme, namely, Janata Personal Accident Policy which was introduced on 31-3-1976 for the benefit of common man are also not very encouraging. The number of policies sold by different subsidiaries of GIC fell steeply from 17.33 lakhs in 1976 to 7.53 lakhs in 1980 and stood at 12.85 lakhs in 1981. There was, however, some increase during 1982 when the number reached at 20.16 lakhs. The claim ratio was also very high as it ranged between 64.1 per cent. to 107.5 per cent. during the years 1977—1982. The figure of 31.39 lakh people, covered under the scheme upto 1983, is still very insignificant as compared to the total population of 684 million people in the country (according to 1981 census). These figures themselves speak about the popularity or otherwise of the scheme among the people at the lowest rank of the society.

3.61 GIC has admitted in evidence that "Janata Scheme is not progressing much". They have also ascribed the slow tempo of development to the apathy of the sales force in devoting time and energy to sustain the business owing to small earning accruing therefrom. The Committee, therefore, recommend that to make the scheme a success the Corporation should approach the administrative Ministry and through them persuade all the State Governments and Union Territories to have this Policy Cover for all their employees as was once initiated by the Governments of Bihar and Karnataka to cover their employees. The nationalised banks and cooperative banks should also be persuaded to have this cover for all their depositors.

3.62 The performance of the cattle insurance scheme is also not very satisfactory. The Committee note that as against the total population of 2400 lakh of cattle as per the livestock census of 1977, only 103 lakh have been insured till 1983, since the inception of the scheme in 1974, which is only 20.6 per cent. of 500 lakh insurable animals in the country. The Corporation has also not been able to check the high claim ratio which ranged between 66.2 to 85 per cent. during 1978 to 1982. The Committee are not satisfied with the progress of the scheme as it is confined only to well organised dairies and in a few cases to milch cattle purchased with Bank or Government loans. The Committee desire that vigorous efforts should be made by Corporation to cover atleast majority of insurable cattle population in the rural areas in the next two years and the total insurable cattle population within five years. Prompt measures should also be taken to minimise the loss occurring as a result of high claim ratio. The Committee would like to be apprised of the measures taken in this regard.

3.63 The Committee also recommend that concrete steps should also be taken to extend insurance protection to more and more individually owned cattle and to entertain proposals even where no bank is involved. Efforts should also be made by the Corporation to create awakening in the minds of the rural masses through the publicity media so that the weaker and poor sections of the society scattered at the remotest corners of the country could be benefitted from this scheme.

3.64 Another insurance scheme, namely, Insurance of Afiricultural Pumpsets was introduced by Corporation in June, 1976 to provide indemnity to rural farmers against various types of losses i.e. by fire, theft, mechanical/electrical breakdown, accidental damage etc. and covers both electrical motors and diesel/oil sets. This scheme has also not become popular as only 4.17 lakh pumpsets out of over 35 lakh pumpsets (1976) in operation in the country were insured during the period from 1976 to 1981 and the industry suffered an accumulated loss of Rs. 63.84 lakhs. Even in 1983 the Corporation had insured 1,65,248 pumpsets which is only 4.7 per cent of the total number of pumpsets in the country (in 1976). This percentage will further slip down in view of the increase in the number of pumpsets after 1976.

3.65 During the years 1977 to 1980 the claim ratio was also ruling very high between 137.7 per cent. to 231.3 per cent. There was, however, some improvement during the year 1981 when the claim ratio stood at 68.3 per cent. The Committee note that in orde to reduce the incidence of high claim ratio the subsidiaries had made certain suggestions to the Corporation in 1980; out of which three were stated to have been implemented by the Corporation in October, 1982 but till August, 1983 the subsidiaries had not issued the necessary instructions in that regard. The Committee take a serious note of this lapse on the part of the subsidiaries and would like to be apprised of the reasons for not issuing the instructions by subsidiaries and remedial steps taken to prevent recurrence of such situations in future.

3.66 On perusal of the performance of the above schemes, the Committee find that the various schemes put into operation by the General Insurance Corporation of India for the weaker sections of the society, especially for the agriculturists and the rural people, have not borne the desired results and consequently the objective of making these schemes meaningful for the common man has been frustrated. The Committee note from the Audit Report (Commercial)—Part VIII (1982) that in January, 1979 Government had taken a decision in principle to establish a Rural Insurance Corporation on the basis of a feasibility report prepared by the G.I.C. in 1979 and approved by the Board of G.I.C. to cover various insurance schemes like cattle insurance, insurance of agricultural pumpsets, gramin accident policies, insurance of poultry, sheep, bullocks, pigs etc. and farmers package insurance policies for the benefit of rural masses but the Ministry of Finance took four years to examine the report and came to the conclusion in June, 1983 that the Rural Insurance Corporation, as envisaged by G.I.C., was not viable and feasible. The Committee are of the view that since G.I.C. are involved in multifarious activities and i:

view of the fact that the branches of G.I.C. and its subsidiaries are located mostly in the urban areas, it cannot do justice to the rural people. The Committee, therefore, recommend that Government should give a second thought to its earlier proposal of establishing a Rural Insurance Corporation to implement the various schemes devised for the benefit of rural masses in general and weaker sections in particular. The proposed Rural Insurance Corporation if set up should be provided with the technical expertise necessary for rural insurance. The necessity of such a rural based organisation for doing rural insurance business has already been emphasised by this Committee in earlier recommendation in this Chapter (Para No. 3.54).

CHAPTER IV

GENERAL INSURANCE BUSINESS IN INDIA

4.1 The General Insurance business transacted by the Corporation and its subsidiaries comprise Fire, Marine and Miscellaneous Insurance. The Corporation directly transacts (1) Crop Insurance and (2) Aviation Insurance.

4.2 The four subsidiaries transact the following classes of business:—

(i) Fire Insurance.

(ii) Marine Insurance which comprises Marine Hull and Marine Cargo Insurance.

(iii) Miscellaneous Insurance which comprises Motor, Burglary, Personal Accident, Aviation (Other than transacted by the Corporation), Cattle Insurance etc.

The salient features of the working of the General Insurance Industry are discussed as under:—

(i) *Organisational Set-up*

4.3 The four subsidiary Companies of GIC viz., the National, the New India, the Oriental and the United India, operate on an All-India basis through the Head Offices and network of Regional Divisional and Branch Offices.

4.4 National has six Regional Offices located at Ahmedabad, Bombay, Calcutta, Delhi, Lucknow and Madras; New India has eleven Regional Offices located at Ahmedabad, Bangalore, Bombay (two) Calcutta, Chandigarh, Delhi, Hyderabad, Kanpur, Madras and Poona; Oriental has ten Regional Offices located at Ahmedabad, Bangalore Bombay (two) Calcutta, Chandigarh, Delhi, Indore, Lucknow and Madras and United India has eight Regional Offices located at Ahmedabad, Bangalore, Bombay, Delhi, Calcutta, Hyderabad, Lucknow and Madras.

4.5 Each Company has a large number of Divisional and Branch Offices spread all over the country so as to reach the insuring public and render effective service. Branches are focal points for collection of premiums, acceptance of risks, settlement of commission and issue of documents. The Divisional Offices supervise the working of the Branch Offices and settle claims in respect of business written by the Branch Offices.

4.6 The details of Divisional Offices and Branches of the subsidiaries during the period 1976 to 1983 *vis-a-vis* gross direct premium income are given as under:—

Year	National			New India			Oriental			United India		
	No. of Divisional Offices	No. of Branch Offices	Gross Direct premium in lakhs of Rs.	No. of Divisional Offices	No. of Branch Offices	Gross direct premium in lakhs of Rs.	No. of Divisional Offices	No. of Branch Offices	Gross direct premium in lakhs of Rs.	No. of Divisional Offices	No. of Branch Offices	Gross direct premium in lakhs of Rs.
1	2	3	4	5	6	7	8	9	10	11	12	13
1976 .	58	105	6006	72	222	7758	65	133	7589	78	140	6697
1977 . .	61	128	6357	81	244	8151	77	165	7373	80	153	7542
1978 . .	66	163	7160	87	170	9254	86	169	8489	83	186	8654
1979 . .	76	169	8220	86	248	10515	95	171	9325	95	197	9838
1980 . .	78	185	9836	86	300	12748	98	184	11102	106	213	12108
1981 . .	84	192	11637	99	351	16472	103	195	13681	113	238	15356
1982	94	222	14024	115	327	20673	113	243	17633	122	283	19119
1983 . .	106	229	16565	134	340	24878	122	294	19803	131	293	22181

4.7 It will be seen from the above table that the number of branches in New India even after excluding 54 branches which the Corporation has stated (September, 1982) are servicing units of Divisional Offices and not separately located branches, is higher than the number of branches in other subsidiaries and was not commensurate with its higher premium income when compared with the income of other subsidiaries.

4.8 Audit Report (1982) stated that there has been an increase of 556 branches (National 124, New India 118, Oriental 161, United India 153) between 1976 and 1983.

4.9 The Audit Board enquired from the Ministry whether any review was undertaken by them to ensure that there was a real total growth of business after opening of the Branches in a particular place after adjusting the incidence of inflation. The Ministry replied in July, 1983:

> "The review of performance of the branches is being done by the concerned subsidiaries as a routine measure. Such review at the level of GIC|Ministry is not considered necessary."

4.10 According to Audit, no detailed work study was reported to have been made to fix premium norms for opening of Divisional Offices and Branches etc. When asked whether the Corporation has not made any detailed work study for fixing the premium norms for opening a new Division etc., the GIC, in a written note submitted to the Committee, stated:

> "In the process of integration of erstwhile private companies into four flag companies, after nationalisation, branches/ divisional offices were initially formed on the basis of the existing structure of the merged companies at particular locations. Wherever the offices of all the Companies taken together at particular location had a premium structure of about Rs. 10 lakhs a branch was established and a premium of Rs. 40 lakhs and above was considered enough to justify a division. These norms for Divisional offices (Rs. 40 lakhs to Rs. 1 crore and branches (Rs. 10 lakhs to Rs. 25 lakhs) and over Rs. 6 crores for a Regional Office were fixed in consultation with the Custodians of the four groups.

4.11 In view of the escalation of salary cost and other expenses of manpower, as also increase in value of risks and consequent increase in premium income the norms for setting up of branches and divisions are reported to have been reviewed by GIC in July, 1981, July, 1982 and May, 1984. For opening branches in 'No Branch' districts, hilly areas etc. to cater to the insurance needs of weaker sections of society in remote corners of the country, the premium norms have been fixed on the low side. The comparative position regarding norms fixed in 1973, 1981, 1982 and 1984 is indicated in (Appendix-I).

4.12 The Company-wise break-up of the branches, as on 30th June, 1984, operating in 'A' and 'B' class cities and in other cities/ mofussil areas, erstwhile 'No Branch' district and hilly areas is as under:—

Company	'A' class cities	'B' class cities	Other cities/ Mofussil areas	Branches set up in 'No Branch' districts since 1981	Hilly areas	Total
National .	12	30	182	22	1	247
New India	29	31	290	17	20	387
Oriental .	42	45	205	17	7	316
United India . .	28	48	232	20	6	334

4.13 It has been brought to the notice of the Committee that 97 per cent of the 432 Districts as at the end of 1983, had either a Branch or an inspector operating there. At the beginning of 1984, there were 124 Districts without a Branch and 16 Districts without any inspector of any of the four subsidiaries. By the end of 1985, the office network is expected to cover all the 432 districts existing as on 31st December, 1983 by appointing Inspectors in all the 'No Inspector' Districts and opening Branches in all the 'No Branch' Districts.

4.14 The organisational network is proposed to be expanded by GIC so as to have as far as possible, one Regional Office in each State, thereby increasing the total number of Regional Offices from 35 as at the end of 1983 to about 65 by the end of 1989. The number of Divisional and Branch Offices are also proposed to be increased from 1649 at the end of 1983 about 3120 by the end of 1989.

(ii) *Growth in Premium Income*

4.15 The following table shows the targets and actuals for the industry as a whole, the percentage of targets completed and the growth rate for each of the years 1977 to 1983:

Year	Targets (Rs. in crores)	Actuals (Rs. in crores)	Percentage of target completed	Growth Rate
1977	336·46	306·06	91%	6·6%
1978	352·47	343·05	97%	12.1%
1979	391·48	387·68	99%	13·1%
1980	457·06	469·39	103%	20·9%
1981	579·13	585·14	101%	24·7%
1982	724·00	723·33	99·9%	23·6%
1983	874·42	857·00	98%	18·5%

4.16 According to GIC, the growth rate of premium increased year after year up to 1981. It increased from 6.6 per cent in 1977 to 24.7 per cent in 1981. Thereafter it decreased to 23.6 per cent in 1982 and suddenly dropped to 18.5 per cent in 1983. It is also reported by G.I.C. that the premium income which was Rs. 184 crores in the first year of nationalisation has increased to Rs. 857 crores in 1983 (an increase of 465 per cent). The industry has also exceeded its business targets in 1974, 1980 and 1981 and in other years, the targets have been achieved to the extent of 91 to 99 per cent. Coupled with the strides made in premiums, the Industry's profitability has also been impressive, the profit before tax having gone up from Rs. 38.10 crores in 1973 to Rs. 254.77 crores in 1983.

4.17 Explaining the reasons for the decline in growth ratio, the GIC stated that "even when the growth rate decreased from 24.7 per cent in 1981 to 23.6 per cent in 1982 and 18.5 per cent in 1983, the targets for these two years were completed to the extent of 99.9 per cent and 98 per cent respectively. The growth rate of 24.7 per cent in 1981 was also due to higher industrial growth (9.27 per cent) in that year (as compared to only 4.5 per cent in the succeeding two years), and increased imports of oil, cement, newsprint etc., which are not normal features. Even the growth rate of 23.6 per cent in 1982 was not normal and was due largely to increase in motor tariff rates from February, 1982. Subsequent reduction of the growth rate to 18.5 per cent in 1983 was due mainly to textile strike in Bombay, recession in the shipping industry, and impact of increase in motor premium rates being not of the same magnitude as in 1982. The normal growth rate in the Industry, based on the average compound growth rate for the period 1973—83 is 16.6 per cent and, it is planned to be raised to 18 per cent during the period 1984—89."

4.18 Explaining the position with regard to the sharp decline in the growth rate in 1983 as compared to 1981 and 1982, the Chairman of GIC stated during evidence:—

"When we are speaking according to the table that the growth rate has come down, we are comparing with the high of 1981 and 1982. In 1982, there is a special reason why production was 23.6. The motor premia rates were inceased in 1982. Otherwise, 1982 would not have been as high as 23.6....1981 was exceptionally good year....During this period (1983) there has been recession in the economy. There was textile strike; ship industry has been indoldrum and there has been disturbed condition in the North. All this contributed to bring down the growth rate to 18.5 per cent....

I may also here point out that compared to other countries, 18 per cent growth rate is exceedingly good. Very few countries are able to achieve this growth rate of 18 per cent."

4.19 The Committee have learnt that the General Insurance Premium in India is about 0.4 per cent of the Cross National Product (GNP) as against 4.6 per cent in United States, 2.8 per cent in U.K. and 1.5 per cent in Japan. The per capita income on General Insurance Premium in India is about Rs. 5.2 as against Rs. 2600 in United States, Rs. 800 in U.K. and Rs. 540 in Japan.

4.20 The Committee has also learnt that the Corporation has planned to reach a premium income of Rs. 1215 crores by 1985 as against a premium income of Rs. 585 crores in 1981.

4.21 While projecting the growth rate of the gross direct premium income during the Sixth Five Year Plan period, the subsidiaries have assumed, while framing their Corporate Plants for 1981—1985/1982- -1986, an average rate of annual inflation at 10 to 15 per cent and the growth rate of Gross National Product at 5.2 per cent as postulated in the Sixth Five Year Plan of the country. These plans also postulated that the percentage of gross direct premium income to Gross National Product would stand at about 0.45 per cent.

4.22 As reported by Audit, the Gross National Product of the country for 1975-76 was Rs. 65,692 crores and that for 1981-82 it was Rs. 1,28,524 crores. The gross direct premium income in India for 1975 and 1981 stood at Rs. 254 crores and Rs. 585 crores, respectively. The Gross Direct Premium Income in India for 1982 and 1983 stood at Rs. 723 crores and Rs. 857 crores, respectively. The ratio of Insurance Premium to Gross National Product thus stood at 0.39 per cent in 1975 and 0.46 per cent in 1981. The ratio of insurance premium to Gross National Product of the country stood at 0.50 per cent and 0.51 per cent in 1982 and 1983, respectively.

4.23 According to Audit the contribution of various classes of business to the gross direct premium income during the years 1975—1983 is as under:—

(Rs. in lakhs)

	1975	1976	1977	1978	1979	1980	1981	1982	1983
I. Fire	9190	10100	10444	11459	11952	14143	17165	19851	23241
	(36·2)	(35·2)	(34·1)	(33·4)	(30·8)	(30·1)	(29·3)	(27·4)	(27·1)
II. Marine									
(i) Cargo	5296	6086	6307	6901	7980	10013	12897	13731	15798
	(20·9)	(21·1)	(20·6)	(20·1)	(20·6)	(21·3)	(22·0)	(19·0)	(18·4)
(ii) Hull	1786	2269	2783	2839	3061	3248	3566	4119	4628
	(7·1)	(7·9)	(9·1)	(8·3)	(7·9)	(6·9)	(6·1)	(5·7)	(5·4)
III Miscellaneous									
(i) Motor	5182	5606	5810	6667	7900	9559	12299	13458	22114
	(20·4)	(19·6)	(19·0)	(19·4)	(20·4)	(20·4)	(21·0)	(25·5)	(25·8)
(ii) Other than Motor	3920	4639	5261	6439	7876	9977	12637	16174	19919
	(15·4)	(16·2)	(17·2)	(18·8)	(20·3)	(21·3)	(21·6)	(22·4)	(23·3)
Total	25374	28650	30605	34305	38769	46940	58564	72333	85700

NOTE : Figures in brackets represent percentages.

4.24 The share of Fire Insurance has been continuously decreasing since 1975 and has come down from 36.2 per cent in 1975 to 27.1 per cent in 1983. The Management stated in October, 1982 that this was due to (i) the discount allowed in premium for the first time from January 1977 and (ii) the rationalisation of fire tariff from January, 1979.

4.25 The following table gives the details of gross direct premium income of the GIC and subsidiaries for the years 1975 to 1983:—

(Rs. in lakhs)

	1975	1976	1977	1978	1979	19780	1981	1982	1983
G. I. C.	668 (2·6)	601 (2·1)	683 (2·2)	748 (2·2)	870 (2·2)	1146 (2·3)	1368 (2·4)	1784 (2·5)	2273 (2·7)
National	5358 (21·2)	6006 (21·0)	6357 (20·8)	7160 (20·9)	8220 (21·[illegible])	9836 (21·0)	11637 (19·9)	14024 (19·4)	16565 (19·3)
New India	6760 (26·6)	7758 (27·0)	8150 (26·6)	9254 (27·0)	10515 (27·1)	12748 (27·2)	16523 (28·1)	20673 (28·6)	24878 (29·0)
Oriental .	6782 (26·7)	7589 (6·5)	7873 (25·7)	8488 (24·7)	9325 (24·1)	11102 (23·7)	13680 (23·4)	16733 (23·1)	19803 (23.1)
United India .	5806 (22·9)	6696 (23·4)	7542 (24·6)	8655 (25·2)	9839 (25·4)	12108 (25·8)	15356 (26·2)	19119 (26·4)	22181 (25·5)
Total . . .	25374	28650	30605	34305	38769	46940	57564	72333	85700

(Figures in bracket represent percentages)

It will be seen that share of 'National' is less than that of other subsidiaries and that of 'Oriental' has been continuously decreasing since 1975 and has come down from 26.7 per cent in 1975 to 23.1 per cent in 1983.

(ii) Incurred Claims under various classes of insurance

4.26 The shares of various classes of the insurance in the total incurred claims is as under:

(Rs. in lakhs)

	1976	1977	1978	1979	1980	1981	1982	1983
Fire	2207 (19·8)	3149 (24·0)	4453 (22·2)	5861 (22·3)	4454 (16·3)	5622 (17·4)	7867 (14·9)	10214 (21·6)
Marine								
(i) Cargo	2942 (26·5)	2974 (22·6)	4847 (24·3)	8166 (30·9)	7408 (27·2)	7758 (24·1)	9811 (18·5)	8329 (17·7)
(ii) Hull	1474 (13·3)	914 (10·0)	2349 (11·8)	1419 (5·4)	2261 (8·3)	2566 (8·0)	8299 (15·7)	1434 (3·0)
Miscellaneous								
(i) Motor	3067 (27·6)	4177 (31·8)	5253 (26·3)	7277 (27·5)	8338 (30·6)	10677 (33·1)	13544 (25·6)	16877 (35·8)
(ii) Other than Motor	1429 (12·8)	1923 (14·6)	3072 (15·3)	3663 (14·0)	4814 (17·6)	5599 (17·4)	13447 (25·3)	10330 (21·9)
Total Incurred Claims	11119	13137	19974	26406	27275	32222	52968	47184

(Figures in brackets represent share of each class of insurance in total claims)

4.27 The Committee have observed that the total incurred claims have gone up from Rs. 11,119 lakhs in 1976 to Rs. 52968 lakhs in 1982 and stood at Rs. 47,184 lakhs at the end of 1983.

4.28 According to Audit, the percentage of the claim ratios to gross direct premium income in respect of almost all classes of insurance has increased since 1976 as may be observed from the following table:—

Year	Fire	Marine		Miscellaneous	
		Cargo	Hull	Motor	Other than Motor
	Percentages of claim ratio to gross diret premium income				
1976	21·8	49·1	67·9	53·9	34·9
1977	30·2	47·4	32·3	73·5	42·9
1978	39·6	70·8	85·0	78·7	53·6
1979	48·8	102·4	46·4	93·1	51·9
1980	31·8	75·5	65·9	86·8	53·9
1981	33·2	61·4	72·1	86·1	49·6
1982	39·6	71·5	201·5	73·3	83·1
1983	43·9	52·7	31·0	76·3	51·9

4.29 While in Motor there is constant increase in the claim ratio, in cattles the claim ratio has been fluctuating. The claim ratio in Motor which was 53.9 per cent in 1976 rose to 93.1 per cent in 1979 and thereafter has shown some declining trend and stood at 76.3 per cent in 1983.

4.30 The Corporation has also stated in its written reply that although the total incurred claims have gone up from year to year, the same has to be viewed in the context of increase in business. A more appropriate yardstick for comparison would be the ratio of incurred claims to gross direct premium from year to year for all classes of business taken together, as indicated below:—

Year	Percentage of incurred claims to Gross Direct Premium
1976	40·6
1977	43·6
1978	74·4
1979	70·9
1980	59·4
1981	56·2
1982	73·9
1983	55·5

4.31 From the above table, it would appear that the incurred claim ratio has been fluctuating from year to year due to varying claims experience. Reasons for increase in incurred claim ratios in 1978, 1979 and 1982 have been analysed and are stated to be as under:

4.32 The high ratio of 74.4 per cent in 1978 was due to heavy claims arising from floods in West Bengal (Rs. 11.84 crores), Air India Boeing losses at Bombay and Delhi (Rs. 44.05 crores), Crash-landing of Indian Airlines Boeing at Hyderabad (Rs. 7.60) and sinking of vessel "Chandragupta" (Rs. 5.82 crores).

4.33 The high ratio of 70.9 per cent in 1979 was due to fire in Southern Petrochemical Industries, Tuticorin (Rs. 10.50 crores), Cyclone losses in Southern States (Rs. 5.01 crores), Crashlanding of Indian Airlines Boeing at Madras (Rs. 6.98 crores), sinking of vessels "AVERILLA" and "OHDAE" (RS. 21.42 crores) and missing vessel "KAIRALI" (Rs. 6.40 crores).

4.34 The high ratio of 73.9 per cent in 1982 was due to fire in Central Warehousing Corporation, Ludhiana (Rs. 5.60 crores), fire and explosion in Calico Mills, Baroda (Rs. 15.01), loss of INSAT I-A (Rs. 64 crores), blow-out of ONGC's 'Sagar Samrat' (Rs. 57 crores) and Sinking of vessels GOGO RUNNER AND JAL MORARI (Rs. 14.48 crores).

4.35 In the years 1980, 1981 and 1983 the incurred claim ratios were 59.4 per cent, 65.2 per cent and 55.5 per cent respectively which shows a declining trend.

As regards motor insurance, some of the reasons advanced for high claims ratio are (i) rising cost of spare parts as well as labour charges in respect of own damage claims, (ii) continuing trend of increased court awards in respect of third party claims, and (iii) inadequate premium rating till February, 1982. There was no revision of motor tariff from 1963 to January, 1982. After the revision of motor tariff from 1st February, 1982, the incurred claim ratio improved from 86.1 per cent in 1981 to 76.3 per cent in 1983.

(iv) *Incurred claims under Aviation Insurance*

4.36 The GIC writes direct aviation business emanating from Air-India, Indian Airlines, Hindustan Aeronautics Ltd. and International Airports Authority of India.

The following table gives the incurred claims and the claims ratio to gross direct premium in respect of aviation business written by the GIC for the years 1976 to 1983.

(Rupees in lakhs)

Year	Gross Premium	Incurred claims	Claims Ratio (%)
1	2	3	4
1976	601·06	499·81	83·15
1977	682·55	202·28	29·64
1978	746·81	5556·01	743·97
1979	867·24	1017·55	123·56
1980	1138·76	695·11	61·4
1981	1361·91	661·39	48·56
1982	1783·78	419·26	23·50
1983	2260·94	355·83	15·74

4.37 The reasons for high claim ratio during 1976, 1978 and 1979 were attributed (May 1981) to major hull and liability claims during these years as indicated below:—

(Rupees in lakhs)

Year	No. of claim	Claim Amount
1976	2	308·65
1978	4	5299·53
1979	3	956·09

4.38 Sundry aviation business relating to hull and liability in respect of small aircraft and helicopters belonging to State Governments and other private firms and business houses is written by the four subsidiaries. In order to ensure a degree of uniformity in the rates for similar aircraft with similar hazards, the rating of this business has been taken over by the GIC from April 1, 1981.

4.39 The following table gives incurred claims and its ratio to gross direct premium for the years 1979 to 1983 in respect of aviation business written by the subsidiaries.

(Rs. in lakhs)

	National				
	1979	1980	1981	1982	1983
Gross Direct Premium	19·46	26·61	32·09	159·95	201·75
Gross Incurred Claims	11·21	14·34	0·57	1211·46	152·06
Claims Ratio (%)	57·6	53·9	1·8	757·4	75·4

	New India					Oriental				
	1979	1980	1981	1982	1983	1979	1980	1981	1982	1983
Gross Direct Premium	5·85	4·04	4·99	247·33	311·41	35·77	44·71	49·44	184·79	205·55
Gross Incurred Claims	8·93	6·09	7·93	2553·03	37·67	23·61	16·03	19·26	1335·08	52·69
Claim Ratio (%)	153·3	150·7	158·9	1032·2	12·1	66·0	35·9	39·8	722·5	25·06

	United India					Total				
	1979	1980	1981	1982	1983	1979	1980	1981	1982	1983
Gross Direct Premium	18·05	19·88	22·30	134·98	179·57	76·66	95·24	108·8	727·05	898·26
Gross Incurred Claims	9·51	10·08	0·81	1283·66	46·68	53·26	46·54	28·6	6383·23	289·10
Claim Ratio (%)	52·7	50·7	3·6	951·0	26·0	69·6	48·9	26·3	878·0	32·2

4.40 From the above details, it would be seen that incurred claim ratio in respect of aviation business written by New India during 1979 to 1981 was 153.3 per cent, 150.7 per cent and 158.9 per cent respectively while, in the case of the other subsidiaries, it ranged from 1.8 per cent to 66 per cent.

4.41 As to the high claim ratio of New India the Corporation stated (July 1983):

"The aviation portfolio of "New India" being small it was on the one hand lacking a wide premium base which could cushion shock claims and, on the other when occasional claims did arise, they were for substantial amounts".

(v) *Premium Rating*

4.42 General Insurance business is divided into two categories, viz., (1) Tariff business and (2) Non-tariff business. Under Tariff business the insurance companies have to charge only the tariff rates prescribed by the Tariff Advisory Committee. In the case of Non-tariff business, the insurance companies decide the rates to be charged after taking into account the overall experience, paying capacity, etc.

4.43 At the time of nationalisation, detailed tariff existed for Fire Motor, Workmen's compensation and Marine Cargo (basic rates) insurance business. In order to have a viable rating structure based on the experience of the industry as a whole, other types of business namely, Marine Hull, personal Accident, Machinery Breakdown and Banker's Indemnity were also brought under tariff from 1978 to 1980.

4.44 The tariff Advisory Committee (TAC) is a statutory body formed under the Insurance Act, 1938. The insurance Act empowers the Tariff Advisory Committee to control and regulate the rates, advantages, terms and conditions that may be offered to insurers in respect of any risks which the Tariff Advisory Committee considers proper to control and regulate; and the rates etc. fixed by the Tariff Advisory Committee are binding on all insurers. The Act also requires every insurer to make payment of fees not exceeding 1 per cent of his total gross premium written direct by him in India in the preceding year to the Tariff Advisory Committee.

The revision of Tariff by TAC for various classes of risks during the years 1977 to 1981 is discussed as under:—

(vi) *Revision of Fire Tariff*

4.45 Before 31st December, 1978, fire insurance premium rates charged in Delhi and Calcutta Regions were higher than those charged in Bombay and Madras Regions. The Tariff Advisory Committee **rationalised the existing tariff from 31st December, 1978, the overall impact of which was estimated by the Corporation to result in reduction of premium by** about 20 per cent. The position of fire premium collection and claims in 1978 as compared to the position during the subsequent five years from 1979 to 1983, in respect **of the four subsidiaries taken** together, is given below:—

Rs in lakhs

Year	Premium	Claims	Ratio (%)
1978	11459	4453	38·9
1979	11952	5861	49·0
1980	14143	4454	31·5
1981	17165	5622	32·7
1982	19815	7867	39·6
1983	23241	10214	43·9

4.46 When asked as to what were the factors responsible for the **increase in incurred claim** ratio, the Chairman of GIC stated in **evidence:—**

"The claims ratio in my insurance business fluctuates from year to year, depending upon the large losses suddenly coming up.

Let us first take up Fire. It was very low, 21 per cent, 30 per cent and 39 per cent. If we are going to incur only this much, that shows that I am slightly overcharging the clients. In 1979, we reduced the Fire rates. It is now hovering around 45 to 48 per cent. I anticipate, as the time will go by, we will have to further reduce the Fire rate a little bit. I cannot give any commitment right here and now. But we are planning some further revision and rationalisation of Fire tariff. Then, the claims ratio will stabilise around 45 to 50 per cent.

As regards Cargo, in one year, it was very high 102 per cent. That was in 1979. In that year, we had two very large claims. There was the Vinod Jain shipment case where a fraud was there. We have not yet paid the claims

But we have provided in the books. Because of that, the claims ratio went upto 102 per cent in 1979. Otherwise, the marine cargo claim ratio is low. It hovers around 60 to 70 per cent.

As regards Hull, that was because of the ONGC claim. You will recall that there was an off-shore fire and that was classified under "Hull".

These claim ratios fluctuate a little bit. These cannot be kept constant. I do not know how many claims will come up. Insurance is for that. Sometimes, the claims will be more and, sometimes, the claims will be less.

As regards Motor insurance, it is showing constant increase. It is because of the high claims ratio. In 1982, we increased the motor rates. As an impact of the increase in the rate, it has come down to 76 per cent. It will ultimately hover around 75 to 80 per cent.

As to why we are not reducing the tariff, I would say that we cannot adjust Premium rates every year because in one year, there is higher claims ratio. The trend has to be watched for a longer period. That is why, after the increase in motor premium in 1982, we are watching the situation and, after some time, we will take some remedial measures.

As regards the claim "other than Motor", it is 83 per cent in 1982. That was because of INSAT 1-A claim. That claim we had to pay in 1982. That has come under "other than Motor" classification. Otherwise, this claim ratio of 50 to 53 per cent is quite in range."

4.47 The GIC has also informed the Committee in a written reply that "the question of further rationalising and simplifying fire tariff has been taken up recently and it is difficult at this stage to indicate what shape the proposed rationalisation will take. A final view is expected to emerge sometime next year (1985)."

(vii) *Revision of Motor Tariff*

4.48 According to Audit, the revision of the existing motor tariff (which was fixed in 1963) was initiated in 1977. The motor claims ratio during 1977 to 1981 ranged from 71.5 per cent to 93.1 per cent. One of the reasons for the high claim ratio was attributed to the low tariff. The tariff was, however, increased only in February, 1982. The delay resulted in loss of revenue to the insurance companies.

4.49 It has been stated that in the years 1974, 1975 and 1976, the motor claims ratio was 63.6 per cent, 61.4 per cent and 53.9 per cent respectively. This downward trend did not justify a revision of the motor tariff. The claims ratio, however, went up to 71.5 per cent in 1977, when an exercise towards revision of the tariff was taken in hand by the TAC. The Technical Assistance Group constituted by the TAC examined all the relevant data. The claims ratio also went up further to 78.7 per cent and 93.1 per cent in 1978 and 1979 respectively. An actuarial study of available statistics according to category of vehicles was undertaken. In addition to the time taken in all these technical and actuarial studies, the proposed revision had also be to considered at various levels from various angles to ensure that it was equitable and adequate and would not provoke undue public criticism.

4.50 The GIC has also informed the Committee that following the revision in Motor Tariff effective from 1st February, 1982 several writ petitions were filed in various High Courts challenging the increase in the premium rates. Writ petitions filed in Madras and Jammu and Kashmir High Courts have ben disposed of upholding the revision in rates. In Jammu and Kashmir High Court, an appeal against the Judgement has been filed and is pending.

4.51 When asked as to why the GIC has not ensured the review of Tariff by the Tariff Advisory Committee with a certain frequency or periodicity and what steps have been taken to avoid in future the recurrence of heavy losses suffered by subsidiaries due to "No Review", the GIC in a note furnished to the Committee stated:—

"Under Section 64 UC of the Insurance Act, the Tariff Advisory Committe may, from time to time and to the extent it deems expedient, control and regulate the rates, advantages, terms and conditions that may be offered by insurers in respect of any risk, or of any class or category of risks and any such rate, advantages, terms and conditions shall be binding on all insurers. It is, therefore, not feasible to lay down any fixed periodicity for review of tariffs which is done on a continuing basis. The experience of different classes of business is kept under constant watch by the TAC and appropriate changes in tariffs are made as and when considered necessary and expedient. A statement indicating the dates on which the tariffs for various classes of risks were last revised is given in Annexure VI. Appendix II.

The premium rates are regulated by the TAC not solely with the object of augmenting the revenue or improving the claims ratio of the insurers (though due consideration is also given to the past and prospective loss experience in addition to other factors) but to give a fair and equitable deal to the insurers as well as the insuring public. Before any revision of tariff, whether downward or upward, the trend has to be watched over a number of years. Because of the fire insurance business being consistently profitable, it was considered expedient and proper by the TAC to rationalise the fire premium structure which resulted in a reduction in premium rates by about 20 per cent from 31st December 1978. On the other hand, the motor premium rates were revised upward from 1st February 1982 due to consistently adverse loss experience. The upward revision of motor tariff could, however, be brought about only after a detailed technical study over a number of years and consideration of its pros and cons from all angles including the possible rection of public."

4.52 In the context of delays in revision of tariff and the expenditure of the T.A.C. the Ministry was asked (June 1983) by the Audit Board:—

(1) about the need for a separate tariff fixation body after the nationalisation of the General Insurance Industry and whether the work could not be integrated within GIC resulting in savings;

(2) whether a system of review of tariffs according to some fixed periodicities could not be considered in the interest of avoidance of losses of premium in certain cases or the insured having to pay higher premium, as a result of the long delays noticed in revision of tariffs; and

(3) about the steps proposed to be taken to strengthen the existing weak data base in TAC.

4.53. The Ministry informed the Audit in July 1983:

"(1) The members of the TAC, though drawn mostly from the nationalised General Insurance Industry, function independently in their individual capacity. The TAC functions as an independent statutory body......not solely for the benefit of the Insurers but also to give a fair and equitable deal to the insuring public as a measure of social control. The decisions of such an Independent organisation carry greater credibility which will be jeopardised if the Committee's functions are taken over by the GIC. There is also no reason to presume that integration of the work with the GIC would result in savings, because the existing paraphernalia of staff at headquarters and regional levels will still have to continue.

(2) In view of the provisions of Section 64 UC of the Insurance Act, there can be no fixed periodicity for review of rates by the TAC.

(3) The data base in the TAC would be strengthened with the introduction of mechanisation and improvement of staff position in the subsidiaries."

4.54 When asked as to what action has been taken to strengthen the data base available with the Tariff Advisory Committee, GIC has informed the Committee that the data base in the TAC would be strengthened with the introduction of mechanisation and improvement of staff position in the Subsidiaries. Both these areas are receiving due attention of GIC. In January, 1982 it was decided by GIC to introduce mechanisation through microprocessing units. Pursuant to the Board's decision, the Computer Maintenance Corporation was entrusted with the task of conducting a feasibility study. Their report was received in February, 1983 and considerable preparatory work has since been done. Its implementation will, however, require consultation with Employees' Unions under Clause 19(2) of the General Insurance (Rationalisation and Revision of Pay Scales and other conditions of Service of Supervisory, Clerical and other Subordinate Staff) Scheme. The management may, after consultation with the Unions, introduce mechanisation to the extent necessary for precise working without effecting retrenchment.

4.55 On enquiry whether GIC was having a regular R&D Section to gauge the customer resistance before processing the new tariff rate etc. the witness admitted that a regular R&D Section to assess the customer resistance was not there but before increasing the motor rates sample studies were normally undertaken.

(viii) *Unhealthy Competition*

4.56 One of the objectives of nationalisation was to remove malpractices and to ensure that business was run on sound business principles. It was also emphasized that the competition amongst the insurers must have its useful role to play but not at the expense of unhealthy rivalry. Competition must be subservient to healthy traditions. In order to achieve this objective and remove unhealthy competition amongst the subsidiaries, the Corporation issued guidelines effective from January 1977. This became more necessary because the Public Sector business which was upto this time allocated between the four subsidiaries on geographical basis, was thrown open for competition. For the first time, the Corporation defined the term "unhealthy competition" as follows:—

(a) Seeking entry into an account by quoting patently uneconomic rates with a view to getting ultimately the entire business including tariff business.

(b) Promising prospective clients of liberal claims settlement procedures, either openly or covertly.

(c) Placing fixed deposits at the request of important clients with Banks of the clients' choice disregarding principles of sound investment.

(d) Granting cover at a very nominal premium on wider terms thus complying with tariff regulations in letter while ignoring them in spirit.

4.57 Though the Corporation had issued guidelines for strict compliance, the subsidiaries in their anxiety to obtain more business resorted to rate-cutting particularly in non-tariff business. Written complaints were also sent to the Government by various associations as well as by Public. Government in their letter (September 1, 1977) to the Corporation emphasized the necessity of avoiding unhealthy competition.

4.58 During 1977 to 1981, 116 cases of unhealthy competition were reported to the Corporation. The Ministry informed the Audit in June 1983 that:

> "There can be no two opinions that 'unhealthy completion' should be avoided since that would only lead to an undetermining of the functioning of the Subsidiaries. It is, however, to be noted that one of the objects of setting up four separate companies to compete with one another was to enable the insuring public to choose the insurer giving the best service. What is 'healthy competition' and what is 'unhealthy competition' would really depend on the facts and circumstances of each case. More and more classes of non-tariff business are gradually being brought under Tariff or under Market Agreements to reduce unhealthy rate-cutting amongst the subsidiaries.
>
> The Ministry further stated that no action by GIC was found necessary in 56 cases and that despite the guidelines, the possibility of stray cases of the type could not altogether be ruled out."

4.59 When asked as to what remedial measures have been taken by GIC to avoid recurrence of cases of unhealthy competition and to ensure that the guidelines issued by the Corporation are strictly followed by the subsidiaries, GIC informed the Committee that the yearwise break-up of number of cases of unhealthy competition reported to the Corporation is as follows:—

Year	No. of cases reported
1977	51
1978	39
1979	19
1980	4
1981	3
1982	4
1983	Nil

4.60 After the issue of guidelines by the Corporation in 1977, the number of cases of unhealthy competition progressively came down, and in 1983 not a single such case was reported. The Corporation has further stated that in an organisation spread over the length and breadth of the country, with a large contingent of agents and inspectors canvassing business for different subsidiaries, the possibility of some stray case of cutting the corner cannot be altogether ruled out.

4.61 In order to reduce the scope for unhealthy competition, more and more classes of business *viz.*, Personal Accident and Sickness Insurance, Banker's Blanket Insurance, Carriers' Legal Liability Insurance, Engineering Insurance, Sailing & Fishing Vessels Insurance etc. have been brought under Tariff after nationalisation. For certain other classes of business *viz.*, Jewellers Block Insurance, Exports of diamonds and precious stones, Contractors' Plant & Machinery, Race Horses, Hospitalisation and Medical Expenses for individuals and families etc., market agreements have been formulated thereby preventing unhealthy rate-cutting among the Subsidiaries. Such agreements are also being evolved for a few other classes of business such as Sheep, Poultry, Camel etc.

Outstanding Premium

Non-collection of Premium in advance

4.62 Under the Insurance Act, premium has to be collected in advance, before assumption of risk unless bank guarantee or cash deposit is provided by the insured. In addition, Government has relaxed (June 1969) the requirement of advance collection of premiums in respect of particular categories of policies, like the policies issued to Government and Semi-Government bodies, on which risk is permitted to be covered on the strength of an undertaking by the proposer to pay the premium within 30 days of the date of intimation of the amount of premium or within such further period as the Controller of Insurance may fix in any particular case.

4.63 According to Audit, the position of outstanding premium at the end of each year from 1976 to 1983 in respect of subsidiaries is given below:—

(Rupees in lakhs)

Year	National	New India	Oriental	United India
1	2	3	4	5
1976	821.18	400.35	547.80	152.87
1977	913.60	463.00	456.71	163.25

1	2	3	4	5
1978	1027.18	484.66	663.57	264.14
1979	1005.50	6[illegible]9.52	807.91	558.96
1980	897.17	795.02	881.99	928.38
1981	898.91	456.54	810.83	1064.41
1982	859.73	723.46	955.23	1600.09
1983	1070.53	1114.62	1015.69	1460.10

4.64 Out of the outstandings upto end of 1980, the following amounts were stated to be outstanding at the end of June 1982.

National Rs. 338 lakhs .	(mostly from public sector undertaking bulk represents unidentified balances transferred by Life Insurance Corporation.
Oriental Rs. 171 lakhs .	(Rs. 168.41 lakhs due from public sector)
United India Rs. 100 lakhs .	(mostly from public undertakings)
New India Rs. 457 lakhs	

4.65 In a note furnished to the Committee, GIC has stated that the break-up of the outstanding premium as on 31st December, 1983 relating to Indian business as between public and private sector units, and its position as on 31st May, 1984 is as under:—

(In lakhs of rupees)

	From Public Sector Undertakings	Others	Total
I. *Amount of premium outstanding as on* 31-12-1983			
National	3,94	6,17	10,11
New India	2,46	8,67	11,13
Oriental	8,15	1,51	9,66
United India	6,28	8,32	14,60
Total	20,83	24,67	45,50
II. *Amount out of I outstanding as on* 31-5-1984			
National	2,39	2,93	5,32
New India	45	1,06	1,51
Oriental . . .	3,95	22	4,17
United India	2,14	3,03	5,17
Total	8,93	7,24	16,17

4.66 The GIC has also stated that out of the outstanding amount of Rs. 45.50 crores as on 31-12-1983, the amount of Rs. 29.33 crores or 64.5% stood recovered by the end of May, 1984 and a substantial part of the balance is also expected to be recovered shortly.

4.67 The outstanding amount also includes (a) amount recovered but lying unreconciled as credit balance in suspense; (b) amount in respect of policies issued in the last month of the year against bank guarantees|cash deposits|undertakings, which would have been subsequently recovered within the stipulated time limit; and (c) amount which remained unrecovered due to default of the parties concerned to pay the premium within the period stipulated in the Bank guarantee| cash deposit|undertaking. The defaults of the nature mentioned in category (c) above occur either because of administrative delay in sending the demand statements to the clients or because of procedural delays in the concerned organisation and|or its difficult ways and means position (in the case of public sector undertakings). In all such cases, efforts are made to recover the outstanding premium by persuation and follow up rather than rigidly observing the stipulated time limit and cancelling the cover immediately on its expiry.

4.68 In order to ensure that the outstanding amounts are recovered speedily and there are no cases of overdue premium in future, GIC is reported to have advised the subsidiaries to (a) issue instructions to all operating units that at the time of next renewal of policies, all Government and Semi-Government Departments, autonomous bodies and public undertakings may be persuaded to pay premium in advance or furnish Bank Guarantee|Cash Deposit wherever they have not done so; (b) advise the operating units to keep the accounts of Bank Guarantee|Cash Deposit uptodate, send demand statements to the concerned parties well in advance, and ensure that recovery is made within the prescribed time limit; (c) specifically advise the Internal Audit-cum-Inspection Department to check the Bank Guarantee|Cash Deposit accounts in the course of their inspection of the operating units and report the results to Head Office for appropriate follow-up; and (d) take action at the highest level to realise the amounts outstanding at present by approaching the heads of the concerned organisations, and where necessary, report to GIC for taking up the matter at the Ministry's level.

4.69 Part of the outstanding amounts is also reported to be due to non-reconciliation of credit balances lying in suspense. The Subsidiaries have been advised by GIC to chalk out a programme for reconciliation of such balances so as to eliminate the outstanding on this account.

4.70 When asked about the quantum of overdue unrecoverable premium written off so far, the GIC stated in their written reply that the unrecoverable premium written off by the subsidiaries from 1979 to 1983 is as follows:— ..

(Rs. in lakhs)

Year	Natioal	New India	Oriental	United Idia	Total
1979	0.19	Nil	1.93	0.03	2.15
1980	0.11	Nil	0.36	0.01	0.48
1981	Nil	Nil	0.16	9.41	9.57
1982	0.47	Nill	0.09	0.88	1.44
1983	Nil	Nil	0.06	0.56	0.62
Total	0.77	Nil	2.60	10.89	14.26

4.71 As regards recovering of outstanding dues, the Additional Secretary in the Ministry of Finance stated in evidence:—

> "Regarding outstanding premium, there is substantial improvements. As on 31-12-1983, the outstanding was Rs. 48 crores. Over the last five months substantial progress has been made. The outstanding progress has been made. The outstanding amount of Rs. 45 crores has been pulled down to Rs. 16.17 crores."

4.72 The Committee pointed out that bulk of the outstanding premium was due from the public undertakings. The Committee then enquired whether the Finance Department takes note of liability while making budget allotments to the defaulting undertakings. The Finance Secretary stated:—

> "We will take not of this and persuade the public sector undertakings to make the payments in time. When the budget estimates are discussed and provided for, we do take into account the liabilities etc. but during the year sometimes they run into difficulties and problems and they find it easy to default on Government payments, but that is very bad ethics."

4.73 When asked whether the good offices of the Administrative Ministry concerned with the defaulting public undertakings units had been utilised in realising the outstanding dues and if so, what were the results, the Finance Secretary stated:—

> "At present GIC does not feel necessary to go to the Government, but if they do, we will give the required help."

4.74 Expressing his views on the review of tariffs with a certain frequency or periodicity, the Finance Secretary stated:—

> "The Committee meets pretty often during the year and it is not necessary that every time they meet they should be revising the terms and premium rates. The changes in the tariff rates are made when considered necessary. The objective is not only profitability, but the objective is that we should be able to give service to the community at a premium rates which are reasonable and equitable. Last time the revision was made in 1982. Recently the Committee has been constituted. After reconstitution it has been stipulated that the Chairman of Bureau of Costs and Prices, Controller of Insurance and the Joint Secretary concerned will also be on the Tariff Advisory Committee. As a result, they would be able to take care of the interest of the community and also the potential policy holders."

4.75. The Committee have observed that there has been an increase of 556 branches of G.I.C. between 1976 and 1983 and 97 per cent of the 432 Districts at the end of 1983 had either a branch or an inspector operating there. At the end of 1984, there were 124 Districts without a branch and 16 Districts without any inspector of any of the four subsidiaries. By the end of 1985, the office network is expected to cover all the 432 districts existing as on 31st December, 1983 by appointing Inspectors in all the 'No Inspector' Districts and opening Branches in all the 'No Inspector' Districts.

4.76. The Committee have also been informed that the organisational network is proposed to be expanded by GIC so as to have as far as possible one regional office in each State thereby increasing the total number of regional offices from 35 at the end of 1983 to 65 by the end of 1989. The number of divisional and branch offices are also proposed to be increased from 1649 at the end of 1983 to 3120 by the end of 1989.

4.77. While on the one hand the Committee are happy over the increase in the number of branches, divisional and regional offices during all these years, on the other they would like to point out that

the Corporation has so far made only a beginning and have yet miles to go for spreading the message of insurance in the rural areas where the people are totally unaware of the concept of general insurance. Therefore, GIC will have to redouble its efforts to carry forward the programme of opening branches in the far-flung areas of the country. So far GIC has covered even the urban and semi-urban areas only partially what to talk of rural areas.

4.78. The Committee also suggest that if the opening of the branches in certain remote areas is not considered financially viable at present, then GIC should consider the feasibility of extending the jurisdiction of the existing branches so as to bring in more and more backward and under-developed areas within the net-work of General Insurance Corporation. In this connection, the Committee would like to suggest that in order to popularise the various insurance schemes and to meet the insurance needs of the weaker sections of the society, GIC should consider the feasibility of giving some special concessions to them.

4.79. The Committee are glad that profitability of insurance industry has been impressive but the performance concerning customer service has been very dismal. The pre-tax profit has gone up from Rs. 38.10 crores in 1973 to Rs. 254.77 crores in 1983. The Committee, however, feel that the profit which no doubt is a legitimate concern of every institution, is at best an only partial indicator of the health of a service organisation like GIC. The earning of the profit should not however engender any sense of complacency on the part of GIC as general insurance premium in India is just 0.4 pe cent of the GNP as against 4.6 per cent. in United States, 2.8 per cent in U.K., 1.5 per cent in Japan, etc. Further, the per capita general insurance premium in India is about Rs. 5.2 as against Rs. 2,600 in the United States, Rs. 800 in U.K. and Rs. 540 in Japan. This shows the enormous growth potential in our country. Furthermore, the overall performance of the Corporation has to be judged not only from its earning profits but also with reference to fulfilment of its broad objectives and goals and how far the various schemes introduced by the Corporation have benefitted the backward and weaker sections of the society.

4.80. The Committee need hardly emphasise that it is the weaker section which should get the maximum benefits. Therefore, the Committee recommend that even at the cost of extra expenditure and less profitability GIC should try to reach areas where they may not be having business according to their expectation but where they are likely to give benefit to the hitherto neglected rural masses.

4.81. The Committee find that Gross National Product of the country for 1975-76 was Rs. 65,692 crores and by 1981-82 it increased to Rs. 1,28,524 crores. The gross premium income which was Rs. 253.74 crores in 1975 increased to Rs. 585 crores in 1981. It increased to Rs. 723 crores in 1982 and further rose to Rs. 857 crores in 1983 resulting in the increase of 18.6 per cent in 1983 over 1982 as against 23.6 per cent in 1982 over 1981.

4.82. The Committee have also observed that the percentage growth of premium income in 1976 was 6.6 per cent and then its progressively increased to 24.7 in 1981. Thereafter, it decreased to 23.6 per cent in 1982 and further decreased to 18.5 per cent in 1983. In this connection, the GIC has explained that the high growth rate of 24.7 per cent in 1981 was due to higher industrial growth and increased imports of oil and cement, newsprint, etc. which are not the normal features. The growth rate of 23.6 in 1982 was also due to increase in motor tariff rates and subsequent fall in growth rate in 1983 was due to textiles strike, recession in shipping industry etc.

4.83. The Committee are not convinced of the reasons advanced by GIC for the decline in the growth of premium income. The Committee are clear in their mind that the Corporation has not done well in regard to premium income and it should not seek alibi for their unsatisfactory performance. The factors stated by GIC to be responsible for the decline in premium income are not unusual and must have been taken into consideration while projecting the increase in premium income. The Committee desire that in order to off-set the loss in premium income GIC should make all out efforts to exercise cost control and to secure more business so as to reach if not exceed the projected premium target of Rs. 1215 crores by the end of 1985.

4.84 The Comittee note that in 1978 the Fire Insurance Premium charges in Delhi and Calcutta regions were higher than the charges in Bombay and Madras regions. The tariff then existing was rationalised by Tariff Advisory Committee w.e.f. 31st December, 1978 and this resulted in reduction of premium by about 20 per cent.

4.85 The Committee also note that subsequent to the rationalisation of the fire tariff in 1978, the fire claim ratio to the gross premium income increased from 38.9% in 1978 to 49% in 1979. The fire claim ratio then declined during 1980 and 1981 to 31.5% and 32.7%, respectively. It again went up to 39.6% in 1982 and further increased to 43.9% in 1983. In Committee's opinion this is an unwelcome trend, and suitable remedial measures, like strict control and check in undertaking insurance and passing claims should be taken promptly to bring down the fire claim ratio which in turn would reduce the loss in revenue of the subsidiaries. The Committee would like to be apprised of the steps taken in this regard.

4.86 The Committee are also informed that the question of further rationalisation and simplification of fire tariff is receiving consideration of GIC and their final view in the matter is expected to emerge shortly. The Committee urge upon GIC to finalise and formulate their views on the proposal at an early date and submit a detailed and comprehensive fire tariff proposal for approval of Governments. The Committee need hardly emphasise that the delay in taking timely action would not only result in loss of revenue to the Insurance Companies but would also deprive the insuring public of the advantageous terms in the form of reduction in premium rate etc..

4.87 The Committee find that the contribution of the Fire Insurance Business to gross direct premium income has been continuously decreasing since 1975 and has come down from 36.2 per cent of the gross direct premium in 1975 to 27.1 per cent in 1983. The decline, as explained by Management, is due to the discount allowed in premium for the first time in January, 1978 and rationalisation of the fire tariff from January, 1979.

4.88 The diminution of income from fire Department is unwelcome trend and the Committee are not happy over it. In their opinion, the Fire Insurance is the most profitable Department and should serve to cover even the losses of other Departments. Further, the reasons furnished by the Management for the decrease of income from fire insurance i.e. the discount allowed and rationalisation affected in 1979, are not convincing to the Committee as the decrease in business in terms of percentage is continuous from 1975 to 1983. The Committee therefore, recommend that the factors responsible for the decline should be thoroughly gone into and suitable remedial measures taken to reverse the adverse trend and to widen the premium base of Fire Department. The Committee would like to be informed of the reasons fo rgiving discount and its commercial justification.

4.89 The Committee have also observed that the total incurred claims have on an average been increasing during 1976 to 1983 in almost all the Departments of the insurance business. The total incurred claims have gone up from Rs. 11,119 lakhs in 1976 to Rs. 52,968 lakhs in 1982 and stood at Rs. 47,184 lakhs at the end of 1983.

4.90 The Committee also find that the precentage of claim ratios to gross direct premium income in respect of all cases of business has also been increasing since 1976. While in the case of motor insurance there is constant increase upto 1979, in others, the claim ratio has been fluctuating. The claim ratio in motor vehicle insurance rose to as high as 93 per cent in 1979 and thereafter it has shown a declining trend and stood at 86.8 per cent, 86.1 per cent, 73.3 per cent and 76.3 per cent in 1980, 1981, 1982 and 1983, respectively which in itself is quite high.

4.91 Since a sizeable chunk of direct gross premium income is appropriated in the settlement of incurred claims of various classes of business, the Committee desire that the Corporation should devise ways and means to plug procedural and administrative loopholes without causing inconvenience to genuine claimants and bring down the high claim ratio obtaining in almost all the Departments, especially in motor vehicle insurance in which there is lot of room for irregularities.

4.92 The motor claim ratio in the years 1974, 1975 and 1976 was 63.6%, 61.4% and 53.9% respectively. It went upto 71.5% in 1977, 78.7% in 1978 and 93.1% in 1981. Due to consistently adverse loss experience the Motor Tariffs were revised upward w.e.f. 1st February, 1982, but the implementation of revised tariff was stayed by writ petition moved in High Courts throughout the country challenging the increase in premium.

4.93 The Committee feel that since the review of Motor Tariff is brought about by TAC after a detailed study spread over a number of years, this is a long drawn process and results in heavy loss of revenue to the subsidiaries due to "No Review" even when it is expedient and desirable to do so. The Committee, therefore, recommend that ways and means should be devised for a quicker review so that such reviews could be held at shorter intervals.

4.94 The Committee suggest that the Government devise methods for quicker collection of data and that the data base available with TAC should be suitably strengthened so that the time taken by them for review of tariff etc. is reduced to the minimum possible extent. In this connection, the Committee have also been informed that the question of introducing mechanisation through micro processing unit is under consideration of GIC. GIC is also reported to have entrusted to the Computer Maintenance Corporation the task of conducting the feasibility study. Its report was received by GIC in February, 1983 and considerable work is reported to have been done by them since then. It is also stated that the implementation of scheme will require prior consultation with and agreement of the Employees' Unions. The Committee, therefore, desire that all implications involved in the scheme of introduction of mechanisation should be urgently sorted out with the Emplyees' Unions and the scheme brought into operation at an early date. The Committee would like to be apprised of the progress made in this regard.

4.95 As regards a regular machinery available with GIC to gauge and assess the resistance and reaction of the customers to the proposed increase in tariff rates, the Chairman of GIC admitted during evidence that the GIC was not having at present a regular R&D Section for this purpose. They only go by sample studies when the tariffs are proposed to be increased. The Committee desire that the Corporation should consider the feasibility of having a regular machinery like RND in their organisation for this purpose.

4.96 The Committee find that to remove malpractices and unhealthy competition among the subsidiaries, GIC issued guidelines effective from January, 1977 for strict compliance. However, the subsidiaries in their anxiety to obtain more business continue to resort in rate cutting particularly in non-tariff business. On written complaints received from public in general and the various associations, the Government is reported to have written a letter to the Corporation on 1st September, 1977 emphasising the necessity of avoiding unhealthy competition. The Committee also find that during 1977 to 1981, 111 cases of unhealthy competition were reported out of which in as many as 56 cases no action was found necessary by GIC.

4.97 The Committee are glad to note that as a result of the issue of guidelines, the number of cases of unhealthy competition has progressively come down and in 1983 not a single case of unhealthy competition was reported.

4.98 While the Committee appreciate that with the large contingent of inspectors convassing business for different subsidiaries, the possibility of some stray cases of rate-cutting cannot altogether be ruled out. The Committee feel that to ensure healthy competition amongst the subsidiaries, it is desirable to devise a suitable code of ethics whereby any tendency to quote unprofitable rate in non-tariff business for retaining or attracting tariff business is curbed if not altogether eliminated. The Committee would also like to emphasise that more and more business of non-tariff category should be brought gradually under tariff so as to reduce unhealthy rate-cutting amongst the subsidiaries.

4.99 The Committee are concerned to note that outstanding premium as on 31-12-1983 was to the extent of Rs. 45.50 lakhs. Out of this, the amount of Rs. 20.83 lakhs was outstanding from public undertakings and the remaining Rs. 24.67 lakhs was due from other parties.

4.100 The Committee also note that under the Insurance Act premium has to be collected in advance before assumption of risk unless bank guarantee or cash deposit is provided by the insured. Thus there should not normally be any outstanding payment. The Committee also feel that the outstanding premium has accumulated mainly due to the procedural and administrative delays in not sending in time the demand statements to the clients. Therefore, the Committee recommend that suitable measures should be taken by the Corporation to recover the outstanding dues from the defaulters by pursuing the matter at the highest level. In so far as the Public Undertakings are concerned, GIC|Ministry of Finance should take up and settle the matter with the concerned administrative Ministry. The GIC|Ministry should also consider the feasibility of issuing fresh instructions to all its operating units that at the time of next renewal of policies, Government, Semi-Government Departments and Public Undertakings should be persuaded to pay premium in advance or to furnish bank guarantee|cash deposit wherever they have not done so. The Committee would like to be apprised of the action taken in this regard.

CHAPTER V

GENERAL INSURANCE BUSINESS OUTSIDE INDIA

5.1 At the time of nationalisation in 1973, 13 Indian Insurance Companies were transacting direct business abroad through branches, agencies and subsidiary Companies. The Government decided in July 1975 that in nationalised set-up should continue to transact business abroad and it should continue in as many countries as it could profitably do so. Government intimated to the Corporation in September 1975 that the working results of the foreign operations of each subsidiary should be analysed every year, separately in respect of each foreign country in which it was operating and a critical examination undertaken by the Corporation to determine whether it was profitable for the subsidiary to continue the operations in the country concerned. If the results were not satisfactory, the business of the particular subsidiary in the country concerned was to be discontinued unless continuance thereof could be justified by any other reasons. Government also intimated that, even in the case of a country in which more than one subsidiary was operating profitably the Corporation should consider whether the subsidiaries in question should continue to operate in competition with each other or the business could be carried on only by the subsidiray which had produced the last results. The four Subsidiaries of GIC are operating in 20 foreign countries through Branches Agencies, and in 9 countries through Associate or Subsidiary Companies as indicated below:—

Directly through Branches/Agencies	Through Associate or Subsidiary Companies
1	2
1. Abu Dhabi	1. Barbados
2. Australia	2. Dominica
3. Bahrain	3. Ghana
4. Canada	4. Guyana
5. Dubai	5. Kenya
6. Fiji	6. Malaysia
7. France	7. Nigeria
8. Hong Kong	8. Sierra Leone

1	2
9. Japan	9. Trinidad and Tob. go
10. Jordan	
11. Kuwait	
12. Mauritius	
13. Nep.l	
14. Netherlands Antilles	
15. Oman (Muscat)	
16. Philippines	
17. Saudi Arabia	
18. Singapore	
19. Thail.nd	
20. United Kingdom.	

5.2 The total Branch premium in respect of the business outside India aggregated to Rs. 246.62 crores for the years 1976 to 1982. The net underwriting results for the period are summarised in the following table:

(Rupees in lakhs)

Year	Branch net premiun	Claims Commission, other Management expenses, and Reserve strain less other income and outgo	National Debit of 5% of gross premium written outside India included in col.3.	Net Outgo (col.3-Col 4)	Net profit/Loss (Col 2-Col.5)
1976	3540.38	3861.99	180.35	3681.64	141.26
1977	3306.69	3365.75	162.05	3203.70	102.99
1978	3576.17	3390.87	176.45	3214.42	361.75
1979	2909.22	3195.79	135.05	3060.74	151.52
1980	3491.64	3499.19	166.80	3332.39	159.25
1981	3870.90	3898.04	193.40	3704.64	166.26
1982	3967.46	3791.70	190.32	3601.38	361.08
Total	24662.46	25003.33	1204.42	23798.91	858 5

5.3 According to Audit, at the end of 1981 more than one subsidiary of GIC was operating in the following countries:—

	Number of subsidiaries of GIC operating
Kuwait	2
Dubai	2
Nepal	2
Singapore	4
Hong Kong	4

In two territories viz. Hong Kong and Singapore, two of the Companies (New India and National) started operating on a joint basis since January 1982 and one company (Oriental) had withdrawn from Hong Kong from 31st December, 1981.

Direct Business through Branches/Agencies

5.4 The details of gross direct premium income and percentage of increase in income over previous year in respect of foreign operations during 1975 to 1981 as stated in Audit Report, are as under:—

(Rs. in lakhs)

	1975	1976	1977	1978	1979	1980	1981
National	211 (—)	185 (—12·3)	29 (—84·2)	97 (230·02)	153 (57·9)	172 (12·7)	215 (24·5)
New India	1210 (—)	1587 (31·2)	1576 (—0·7)	1732 (9·9)	1624 (—6·3)	2002 (23·3)	2620 (30·9)
Oriental India	1161	1282 (10·4)	1172 (—8·6)	1176 (0·4)	798 (—32·1)	813 (—1·8)	539 (—33.6)
United	447	553 (23·7)	464 (—16·1)	524 (12·8)	126 (—75·9)	349 (176·6)	494 (41·4)

Notes : Figures in brackets indicate percentage increase over previous year.

5.5 The figures as given in the preceding paragraph reveal the following results:—

(a) *Gross Direct Premium*

In case of Oriental, the gross premium has gone down from Rs. 11.61 crores in 1975 to Rs. 7.98 crores in 1979, Rs. 8.13 crores in 1980 and Rs. 5.39 crores in 1981. In the case of National and United

India, there was also a decline in the gross direct premium during 1980 in comparison to 1975, but it registered an increase in 1981 as shown under:—

	(Rupees in crores) 1975	1979	1981
(1) National	2·11	1·53	2·15
(2) United India . . .	4·47	1·26	4·94

Year-wise analysis of the trends in four subsidiaries is as follows:—

The gross direct premium decreased|increased as compared with previous year in 1977, 1979, 1980 and 1981 as under:—

	1977	1979	1980	1981
National	(—)84·2%	(+)57·9%	(+)12·7%	(+)24·5%
New India .	(—)0·7%	(—)6·3%	(+)23·3%	(+)30·9%
Oriental . .	(—)8·6%	(—)32·1%	(+)1·8%	(—)33·6%
United India . . .	(—)16.1%	(—)75·9%	(+)176·6%	(+)41·4%

The decrease was due to the following reasons:—

(i) In 1977, all the four subsidiaries discontinued writing direct business in Malaysia. All the subsidiaries also continued to prune their un-profitable business outside India.

(ii) In 1979, this decrease was mainly on account of stoppage of direct operations in Kenya by the Indian Insurance Companies following the setting up of Ken-India Assurance Company Limited from January 1, 1979.

(b) *Underwriting Profit/Loss of Foreign Branches*

The working results of all the four subsidiaries in foreign branches during the period 1976 to 1981 resulted in a net loss of Rs. 516.63

laks as mentioned below:—

(Rs. in lakhs)

Year	Branches premium	Net claims, Commission, other Management Expenses, Reserve Strain, less other income and outgo	Net Profit/Loss
1976	3540·38	3861·99	−321·61
1977	3306·69	3365·75	−59·06
1978	3576·17	3390·87	185·30
1979	2909·22	3195·79	−286·57
1980	3491·64	3499·19	−7·55
1981	3870·30	3898·04	−27·14
	20695·00	21211·63	−516·63

(Reserve Strain calculated on 50%, 50% and 100% basis for Fire, Miscellaneous and Marine respectively).

5.6 The Committee pointed out that subsidiaries were making losses in respect of their units in foreign countries, and the cumulative net loss of all the 4 subsidiaries over a period from 1976 to 1981 was Rs. 516.63 lakhs. Though the Government intended discontinuance of operations in countries showing unfavourable results as far back as in September, 1975, G.I.C. had not done so.

5.7 When enquired about the reasons for allowing subsidiaries to continue their operations in foreign countries despite heavy losses, G.I.C. in a written note stated that the cumulative loss of Rs. 516.63 lakhs over a period from 1976 to 1981 is attributed to the debit of share of Head Office expenses at 5 per cent of the gross premium written outside India. Excluding the share of Head Office expenses which are debited only on a national basis and do not represent actual outgo, the net result of the foreign operations over the period from

1976 to 1983 has been a profit of Rs. 1240.83 lakhs as shown in the table below:—

(Rupees in lakhs)

Year	Branch net Premium	Claims, Commission, other Management expenses, and Reserve strain less other income and outgo	National Debit of 5% of gross premium written outside India included in Col. 3	Net outgo (Col. 3 — col. 4)	Net profit/Loss (Col. 2-Col. 5).
1976	3540·38	3861·99	180·35	3681·64	(—)141·26
1977 .	3306·69	3365·75	162·05	3203·70	102·99
1978	3576·17	3390·87	176·45	3214·42	361·75
1979	2909·22	3195·79	135·05	3060·74	(—)151·52
1980	3491·64	3499·19	166·80	3332·39	159·25
1981	3870·90	3898·04	193·40	3704·64	166·26
1982	3967·46	3791·70	190·32	3601·38	361·08
1983	3979·27	3856·25	190·37	3665·88	382·28
Total	28641·73	28859·58	1394·79	27464·79	1240·83

5.8 Explaining the reasons for the continuance of foreign insurance operations despite the losses, as reported by Audit, the Chairman of GIC stated in evidence:—

> "In foreign operations we are actually making money and not losing. The accounts figures show a nominal loss over several years. In these figures we have loaded up 5 per cent expenses which are not incurred. Nationally we load up as the added expense but this 5% expenditure is not incurred. So, if we deduct this 5 per cent notional loading in our official books then over the years the foreign operations have resulted into a profit of Rs. 12 crores rather than a loss."

The witness added:—

> "Our philosophy of foreign operations starts from the presumption that we should not incur heavy losses and rather make profit. Subject to that the advantage is first of all we are able to serve the Indian ethnic community, Secondly, we

are able to know what is happening there. What policies they are introducing and what are their terms and conditions. We accept business from foreign countries. Our presence in foreign countries helps in establishing our insurance contacts. This is in a nut-shell the position of foreign insurance business."

5.9 When asked about the steps taken or proposed to be taken by GIC to revitalise the subsidiaries abroad so as to make their functioning profitable, the witness stated:—

"Wherever we find that any branch is incurring losses the functioning is very closely watched and necessary steps are taken to see that losses do not continue....In Mauritius we have pulled out the branch incurring losses. But Hong Kong, we are continuing it in a reduced form. O company is pulled out and another company is given for the management by another company....One company, that is, the New India is continuing in Mauritius. But the efforts are to pool them into one to work efficiently. Her the first thing is that we should not lose money."

5.10 When enquired about the steps taken to effect coordination between the companies operating in a parallel way in a foreign country, the witness stated:—

"....When our companies operate in foreign countries, we ensure that they do not compete with each other.... We always ensure that there is coordination between the companies For example, in Singapore, four companies are operating. We have insisted that they must meet every month, they must discuss their problems, they must discuss their business problem also so that they do not compete with each other. As far as possible. clientele is also discussed. Regarding coordination, we have to take a view whether we have to pull out other companies....Now in a few countries only more than one company is operating."

5.11 During evidence of the Ministry also, the Committee enquired about the justification for allowing subsidiaies of GIC to continue operations in foreign countries despite the losses. The Addl. Secretary of the Finance Ministry (Insurance Division) stated *inter alia* as follows:—

"It is with a lot of difficulty that we are able to maintain our presence in foreign countries. Historically, the insurance industry has been catering the needs of businessmen, traders and industrialists of Indian origin who are settled in foreign countries. We have a certain amount of obligation to our own Indian community residing outside India. We have to maintain continuity in those services. Also, our presence in foreign countries helps us to be in the main line of insurance and we will be able to know what the technological changes are which are taking place, what type of new products are being brought out in insurance industry and so on. It helps us to establish contact with the insurance world outside. We get a long-term view of our operations in foreign countries. In the insurance industry it so happens that sometimes you make a profit and sometimes you make a loss. But we take a long-term view. If, after a period of time, we are able to break-even, we do not like to pull out of those countries. On the whole, in our insurance foreign operations we have produced profits if we exclude certain notional debits we put on Head Office expenses, etc.....Our foreign operations have been by and large considered good for the country as a whole and for the Indian Community there. If we pull out from these countries it may be difficult for those people. Also, various developing countries are looking towards India for giving a lead in the insurance sector. If they find that we are pulling out of certain countries where we have been operating traditionally they will not take kindly to it....In a number of countries, we have closed down our operations. There are some countries where we cannot directly operate. We have to operate only through what is called a 'Front Company'. But this has got its own problems. In Kuwait, our experience in motor business came to be very bad. We had to scale down our operations in that field. We find that over a period of time, certain losses get considerably minimised. We hope that with the recent changes in strategy which we have made our operations will turn out to be profitable."

5.12 On further enquiry about the steps taken to revitalise the subsidiaries abroad so as to make them function profitably, the representative of the Ministry stated:—

> "This exercise is already on. We want to have a complete review of our foreign operations....We want to have a dialogue with the foreign representatives. Finance Minister and Finance Secretary have agreed to sit down with the foreign representatives. We are in the process of doing this. We will very soon be able to put our foreign operations on a regional basis company-wise and also country-wise."

5.13 According to Audit the average commission rates paid by all the Companies abroad ranged from 28 per cent to 34 per cent in comparison with the commission paid in India which ranged from 2 per cent to 5 per cent.

5.14 In this connection, the Corporation informed the Audit in November, 1982 that a comparison of average commission rates outside India and in India was not apt because the conditions in India and in various other countries widely differed. In other countries the commission has to be paid at the locally prevalent rates as otherwise no agent would work for us. Further, the quality of underwriting transacted by foreign branches|agencies is stated to be evaluated, watched and controlled as a continuing process and suitable remedial action is taken to eliminate bad risks as an when necessary. For example, 'New India' is cutting down London market business in U.K. In Singapore the 'Oriental' has introduced strict underwriting controls for motor business and cancelled unsatisfactory treaty acceptances. Motor portfolio has also been drastically cut down by 'Oriental' in Kuwait. In some territories, the operations were altogether discontinued because of unfarvourable experience. Accordingly, the operations were discontinued from 1977 to 1981 by the subsidiaries operating directly in the following territories:

1977	Malawi Gibraltar Trinidad
1978	Kenya Lebanon
1979	Malawi (operations closed by Associated companies).
1980 .	—
1981	Dominica) Barbados)"

(c) Business done through Subsidiaries and Associated Companies

The position of investment in associated companies of subsidiary companies ouside India in respect of all four subsidiaries of General Insurance Corporation was under:—

(Investment Rs. in lakhs)

New India	
Subsidiaries	
1. The New India Assurance Company, (Trinidad & Tobago) Ltd.	8·54
2. The New India Assurance Company, (Sierra Leone) Ltd.	15·35
Associated	
1. The New India Assurance Company (Ghana) Ltd.	2·92
2. The New India Assurance Company (Nigeria) Ltd.	8·60
3. National Insurance Company Ltd. Kwacha	2·70
4. United Oriental Assurance Soh-Derhad (Malaysia).	10·87
United India	
1. British India, Nigeria	5·25
2. British India, Ghana	5·70

5.15 It has been reported that the remittance of dividend|sale proceeds of shares etc. in respect of following subsidiaries was not made until November 1982.

	Period of dividend	Amount Outstanding
New India		
1. The New India Assurance Company (Ghana) Ltd.	1977, 1978, 1979 and 1980	New Cedi 0·80 lakh New Cedi 0·72 lakh
2. The New India Assurance Company (Nigeria) Ltd.	1980	Naire—0·72 lakh
United India		
British India Ghana	Branch Profits from 1963 to 1972	New Cedi—0·63 lakh
	Dividends from 1973 to 1979	New Cedi—1.72 lakhs
	Balance of Proceeds of sale of shares	New Cedi—0·75 lakh
	Reinsurance balance	New Cedi—0·96 lakh
	H.O. expenses for the period from 1963 to 1972	New Cedi—6·96 lakhs
British India	1976	Naire—0·10 lakh
Nigeria (under 1975 Liquidation from 1978)		Naire—0·25 lakh

Note :—New Cedi denotes 'New Cedi' of Ghana, Naire denotes 'Naire' of Nigeria

5.16 Audit has further stated that the New India Insurance Company Ltd., Ghana and British India, Ghana did not remit the amount of dividend, due to acute shortage of foreign exchange faced by the Government of Ghana. Proposals made by the Government of India in 1977 to use the blocked funds of Indian Insurance Companies in Ghana for the purchase of a building to house the chancery of the Indian High Commission at Accra (Ghana) also did not materialise as the required buildings was not available. The remittance of Rs. 35.72 lakhs (New Cedi 11.56 lakhs) was outstanding till June, 1983.

(d) *Formation of New Companies as Joint Ventures outside India*

5.17 Joint Ventures between Indian Insurers and the country concerned were formed in Malaysia (December 1976) and in Kenya (1978) which took over the business of subsidiaries in these countries. The investments of companies and dividend received by G.I.C. and subsidiaries were as follows:—

Country	Name of Company	Capital	Indian share (including 10% share of LTC)	Dividend declared
Malaysia . . .	United Oriental Assurance SDN, BHD	M$5 Million	40%	7% (1978 & 1979). 8% (1980)
Kenya . . .	Ken India Assurance Company Ltd.	K Sh. 10 Million	55%	10% (1979) 20% (1980) Bonus shares were also issued in 1979.

5.18 In the following countries more than one subsidiary was operating and the working results showed that some subsidiaries were operating profitably while others were incurring losses.

	1976	1977	1978	1979	1980	1981
New India Dubai .	12·04	(—)54·15	32·74	14·54	36·35	74·77
Hong Kong . .	(—)5·25	(—)8·94	2·12	(—)17·72	10·57	20·04
Kuwait . . .	(—)4·62	(—)40·58	42·29	22·93	21·31	39·78
Mauritius .	(—)10·94	(—)11·35	8·10	10·63	(—)14·16	8·34
Singapore	14·70	7·02	8·72	—53·50	(—)26·80	9·37
Nepal . .						
U.K. . . .	(—)18·83	(—)17·63	(—)63·56	(—)73·86	—(85·15)	(—)322·13

	1976	1977	1978	1979	1980	1981
Oriental						
Dubai	−59·33	−38·32	2·87	44·35	47·22	13·25
Hong Kong	−42·56	13·37	−86·72	−57·95	−25·17	5·19
Kuwait	−10·03	−18·55	−9·72	−32·46	−33·40	−77·78
Mauritius	0·45	−45·61	05·39	11·84	−29·53	..
Singapore	−01·63	1·55	−87·30	−3·07	−46·97	−6·0
Nepal	52·81	4·67	13·15	−3·31	21·33	−18·33
U.K.	−1·05	−32·27	−4·07	−12·57	−0·77	..
United India						
Dubai						
Hongkong	−1·53	0·91	0·47	−1·91	−5·57	−3·28
Kuwait						
Mauritius						
Singapore	10·30	16·03	5·88	−187·71	35·66	37·58
Nepal						
U.K.						
National						
Dubai						
Hong Kong	78·96	7·99	34·11	−8·54	4·90	−1·38
Kuwait						
Mauritius						
Singapore	01·77		−2·57	−3·03	16·84	18·21
U.K.	−54·89	18·91	8·13	6·07	−4·50	14·87

5.19 It will be seen from the foregoing that 'Oriental' has been working in losses in most of foreign branches in most of the years. In the Singapore Branch of 'Oriental' a case of loss of Rs. 7.20 lakhs due to irregular grant of fire insurance cover, without receipt of proposal form and without recovery of premium in due time, was noticed by Audit.

5.20 The Corporation has also stated in the written reply that the following units are consistently making losses:—

(i) 'New India' in UK—It has been operating there since 1921. The premium income has gone up from Rs. 46.66 lakhs in 1976 to Rs. 445.24 lakhs in 1981 leading to a heavy reserve strain of Rs. 114.92 lakhs. It has gradually been cutting down its London market business and is trying to capture domestic business especially of the Indian community in UK through direct operations.

(ii) 'Oriental' in Hong Kong, Mauritius, UK, Kuwait & Singapore—The operations of Oriental in Hong Kong have been discontinued from 31st December, 1981, and those in Mauritius and UK were discontinued from 31st December, 1980.

In Kuwait, the Company has been operating since 1957. The operations were planned to be discontinued from December, 1980 but the matter was reviewed in consultation with the Government and it was decided to continue the operations with necessary safeguards. The Company has since cut down its motor portfolio drastically and the loss has come down from Rs. 77.78 lakhs in 1981 to Rs. 14.62 lakhs in 1983.

In Singapore, the Company has been operating since 1952. The losses in 1976, 1979 and 1981 were marginal. The net loss of Rs. 87.30 lakhs in 1978 was exceptional due to a huge fire claim of over Rs. 1 crore. The results in 1980 were also adversely affected due to large reserve strain caused on account of substantial growth in motor premium income.

(iii) 'United India' in Hong Kong:—The Company's portfolio is small and the losses are of a technical nature due to heavy reserve strains.

5.21 About the need for conducting a critical analysis of the working results of foreign operations to decide the continuance of operations in any particular foreign territory, the Ministry informed the Audit in June, 1983 that "while judging the results of foreign operations, the period to be taken into account has to be sufficiently long to allow for fluctuations caused by the syclical nature of business and also because international business is highly competitive. Among other factors, the need to cater to the Indian populations there and Indian Joint Ventures in those countries and the fact that while it is easy to get out of any country, it is impossible to secure re-entry etc. have to be kept in mind. Besides India's relations with a foreign country have also to be kept in mind in such matters."

5.22 In regard to the loss experience of Oriental according to the Audit Board (June 1983) there was need for an adequate system of control over the business under-written, settlement of claims, commission paid etc., of the foreign branches and for investigation of the consistent losses of 'Oriental'. The Ministry stated in July 1983 that "the Corporation as well as the subsidiaries keep all aspects of the foreign operation in different territories under constant review and appropriate measures are taken in cases where the results are unprofitable."

5.23 GIC was asked to intimate as to what was the dividend etc. due upto December, 1983 from those two companies and whether the same has since been remitted or not. If not then what specific action has been taken to expedite the remittance of the outstanding dues. In the written reply GIC has stated that "the dividend etc. due upto December, 1983 from two companies is as follows:—

	Cedis
(i) New India Assurance Co., Ghana	2,32,700
(ii) British India, Ghana	12,94,782
TOTAL	15,27,482

The application for remittance was approved by the Central Bank of Ghana, but actual remittance has not been permitted till the foreign exchange situation improves."

5.24 The GIC has also intimated that the extension of operations outside India is contemplated through Branches and Agencies in some of the developing countries, such as South Korea, Zimbabwe and Uganda and by opening representative offices in developed countries with large Indian community, such as USA and Holland, and developing country such as Brazil and Venezuela. In developing countries where entry is otherwise restricted, setting up of joint ventures in the form of local companies is visualised, Possibilities of entering countries like Bahamas, Channel Islands, Lichenstien etc. to establish financial bases for foreign operations and reinsurance, and opening consultancy offices in developing countries to promote export of Indian expertise, might also be explored. The net premium growth is envisaged at 10 per cent per annum by 1989 (as against 2 per cent at present) and as against estimated premium of Rs. 4120 lakhs in 1983, the premium envisaged for 1989 is Rs. 6705 lakhs).

5.25. The Indian Insurance Companies are reported to be operating abroad in 20 countries directly through Branches/Agencies and in 9 other countries through Associate or Subsidiary Companies.

5.26. The subsidiaries of GIC are stated to be making losses in respect of their Units in foreign countries and cumulative loss suffered by the four subsidiaries over a period from 1976 to 1981 was Rs. 516.63 lakhs. The G.I.C. has not wound up the operations of loss making overseas branches although the Government had a thinking for discontinuance of their operations in September, 1975.

5.27 As regards the loss suffered by subsidiaries in foreign countries, the GIC has informed that the cumulative loss of Rs. 516.63 lakhs over a period from 1976 to 1981 is attributed to the debit of share of Head Office expenses at 5 per cent of gross premium written outside India. If the share of Head Office expenses is excluded, the net result of the foreign operations would not be a loss but a profit of Rs. 1240.83 lakhs over a period from 1976 to 1983.

5.28. The Committee feel that the losses suffered by the subsidiaries of G.I.C. outside India if not merely notional are a matter of great concern. They, therefore, desire that the Government should take a fresh and close look into all aspects of the matter and find out ways and means as to how best the performance of continuous losing branches of the insurance companies functioning abroad could be improved upon to wipe out the losses and make profits. The Committee require that the Government should review at the Ministerial level the operations of all the overseas branches of the insurance companies so as to lay down necessary guidelines and give a new and vigorous thrust to their operations. The review should also identify new areas abroad where business prospects are bright and where new branches could be opened. The Committee would like to be informed of the steps taken in this regard. The Committee would also like that the annual review of this is made and incorporated in the Annual Report of G.I.C.

5.29. The Committee note that at the end of 1981 more than one subsidiary of GIC was operating in a number of countries including Singapore, Hong Kong, Kuwait, Dubai and Nepal. The Committee feel that in a country where more than one subsidiary of GIC is operating, the business should be carried on only by that subsidiary which has produced the best results. This is necessary to avoid frittering away of precious foreign exchange through unnecessary competition or indulging in under-cutting of business of one company by the other. However, where it is found in the interest of the Corporation that more than one subsidiary should function in a foreign territory, there should be complete coordination between them and their representatives should meet at regular intervals to discuss, sort out and coordinate their business problems.

5.30. The Committee are distressed to observe that the 'Oriental' has been working in losses in most of foreign branches during all these years. In its Singapore Branch, a case of loss of Rs. 7.25 lakhs is reported, due to irregular grant of fire insurance cover, without receipt of proposal forms and without recovery of outstanding premium in due time. The Committee desire that this lapse should be looked into depth with a view to fixing specific responsiblity therefor. The Committee also recommend that consistent losses of 'Oriental' should be investigated and suitable remedial measures taken to improve its performance in foreign countries.

5.31. The Committee have also observed that the average commission rates paid by all the companies abroad range from 28 per cent to 34 per cent as against the commission rates in India ranging from 2 per cent to 5 per cent. While the Committee agree that units functioning abroad have to compete with foreign companies in the matter of commission rates, they feel that it is absolutely necessary on the part of the Indian Assurance Company abroad to evaluate, watch and effectively control the quality of under-writings transacted by foreign agencies on their behalf. Suitable measures should also be taken expeditiously to eliminate any bad risks and streamline or eliminate the agencies giving a poor performance.

5.32. The Committee have noted with concern that the amount of Rs. 35.72 lakhs representing dividend and sale proceeds of shares etc. for the period upto 1980, to be remitted to India by two companies viz. (i) New India Assurance Company, Ghana and (ii) British India, Ghana, was outstanding as on June, 1983. In this connection, GIC has admitted that no remittance has been received from Ghana due to restrictions imposed by local authorities. The application for remittance was approved by the Central Government of Ghana but the actual remittance was held up till such time their foreign exchange situation improved. The Committee desire that the matter should be taken up by the Government of India at the highest level with the Government of Ghana to expedite the remittance of the outstanding dues by these two Companies.

5.33. The Committee are also informed that extension of insurance operations outside India is contemplated through Branches/Agencies in some of the developing countries like South Korea, Zimbabwe, Uganda, Brazil and also by opening representative offices in developed countries with large Indian community such as USA and Holland, where business prospects are bright. With the extension of operations in the proposed new territories, the net premium growth is envisaged at 10 per cent per annum by 1989 as against 2 per cent at present and as against estimated premium of Rs. 4120 lakhs in 1983, the premium envisaged for 1989 is Rs. 6705 lakhs. The Committee trust that sincere efforts would be made by GIC to accomplish these objectives. The Committee would like to be apprised of the concrete action taken in this regard.

CHAPTER VI

CUSTOMER SERVICE

6.1 One of the basic objectives of nationalisation of General Insurance Industry was to provide an efficient service to policy-holders as a matter of right. Proper and efficient service aims at securing the satisfaction of the client through:—

(i) prompt issue of policy documents;
(ii) prompt settlement of claims which can be done by:
  (a) helping the insured to fill up the papers; and
  (b) simplification of procedure for settling of claims;
(iii) follow-up of renewals; and
(iv) meeting the requirements of the insured.

The performance of the Industry in this regard is reviewed below:—

A. *Documentation*

Arrears in Documentation

6.2 The position of arrears in documentation is given below:—

S. No.	Name of the company	At the end of the year	No. of out-standing documents.
1.	National	1979	1,59,491
		1980	2,97,019
		1981	2,90,533
		1982	4,56,080
		1983	7,20,503
2.	United India . . .	1979	1,89,023
		1980	2,78,366
		1981	4,14,789
		1982	5,51,634
		1983	8,06,694
3.	New India	1979	N.A.
		1980	2,67,777
		1981	4,60,721
		1982	7,33,555
		1983	9,25,005
4.	Oriental . .	1979	N.A.
		1980	5,08,419
		1981	5,73,778
		1982	5,77,482
		1983	6,62,732

6.3 G.I.C. informed the Audit in November 1982 that the main reason for the arrears in documentation was lack of adequate staff in the subsidiaries to cope with the increased intake of business. However, the total number of documents issued by the four companies during the years 1979 to 1983 and the number of documents issued per employee were as under:—

Year	No. of documents issued	No. per Class III employee
1979	75·28 lakhs	371
1980	84·30 lakhs	388
1981	88·49 lakhs	409
1982	89·22 lakhs	415
1983	98·74 lakhs	457

6.4 The G.I.C. is reported to have not prescribed any norms for issue of documents per staff member. In the absence of norm, it is not known how effective control is being exercised by the subsidiaries. In this connection, the Ministry stated in June 1983:—

> "The question of prescribing suitable norms for the Industry has been engaging GIC's attention. The S.I.U. (Staff Inspection Unit) of Ministry of Finance has gone into this aspect and its report is under consideration. This also required consultation with the Employees' Unions.
>
> The subsidiaries are, however, exercising the necessary control over the pending documents by a system of periodical returns furnished by the Branch, Divisional and Regional Area Offices and on the sport inspection of field offices by the Officers of different levels."

6.5 In a written reply furnished to the Committee, G.I.C. has informed that "the Scheme for Rationalisation of Pay Scales and other terms and conditions of service of Supervisory, Clerical and Subordinate Staff framed in 1974 provides that the pattern of workload and the system of measurement of work shall be such as may be specified by the Management after consultation with the Unions. In view of this, the staffing norms for various categories of staff since recommended by the Staff Inspection Unit of the Ministry of Finance would require consultation with the Staff Unions. Meanwhile introduction of mechanisation in the Industry is actively under consideration and recruitment of additional staff is also in progress to gradually equip the Divisions and Branches with adequate and optimum facilities and staff etc.'

6.6 Explaining the latest position about the issue of document in the four subsidaries, the G.I.C. has informed that 79.4% and 76% of the documents issueable during the years 1982 and 1983 respectively, were issued by the end of these years. The pending documents represented about two months' arrears on an average. The question of improving the rate of documentation has been constantly engaging attention. As at measure of simplification of procedure so that more documents could be issued with the available manpower, a single Certificate-cum-Policy has been devised in the Motor Department for Third Party Risks. The devised form has been introduced effective from 1st April, 1983. Similarly, certificate of Insurance-cum-Policy form for 'Comprehensive' cover for all classes of vehicles has also been finalised. This has been introduced effective from 1st July, 1984. The position is expected to improve further with the recruitment of additional staff and after introduction of mechanisation which was under active consideration of Management.

6.7 The Committee pointed out that at present the agents are concerned only with their commission and did not care for the service to be rendered to the customers. When asked whether any specific steps had been taken to improve the customer service, the Chairman of G.I.C. stated:—

> "You are right at lot of problem arises—because the clients are not properly advised. The crux of the problem is that the agents should do their job properly. Therefore, we are laying a lot of stress on improving our agency cadre. Previously anybody could apply and get an agency licence and there used to be a mushroom growth of agents. Many of them were perhaps not upto the mark. Now we are gradually trying to screen the agents. We have a programme that in each branch office, divisional office, agents would be called and they would be screened. We have also taken up a programme of training of agents so that these agents become professionals and they are able to render some service to the clients and advise them properly. We are also improving our inspector cadre. Inspectors are the people who are over the agents and we are putting them also through a very intensive training pro-

gramme. Unless the person passes the examination, he is not appointed as an inspector. We want to see that the agent-force and the inspector force are properly trained in insurance matters so that they explain the matters to the clients properly."

6.8 The Ministry of Finance, Department of Economic Affairs (Insurance Division) are reported to have issued instructions on 16 November, 1984 that G.I.C. and its subsidiaries henceforth add in their Annual Report a Special Chapter of 'Customer Relations'. In this Chapter the progress achieved towards better customer services, customer relations, the progress made in settlement of claims, progress made in reducing documentation arrears, steps taken in the course of the year or proposed to be taken in the next year for better customer relations and customer satisfaction should be highlighted.

6.9 The Committee are distressed to note that the number of outstanding documents in respect of all the four subsidiaries has during the years from 1979 to 1983 shot up at an alarming rate instead of decreasing and reached an all time high figure of 31,14934 in the 4 subsidiaries put together at the end of 1983. Similarly, the percentage of documents issued by the four subsidiaries has also declined from 79.4 per cent in 1982 to 76 per cent in 1983. Till June, 1983, GIC had not evolved norms for issue of documents per staff member. In the absence of norms, it is not understood as to how the subsidiaries exercise effective control over the issue of documents. The Committee, therefore, desire that suitable norms for issue of documents by staff members should be prescribed without further delay so as to reduce, if not liquidate completely, the mounting arrears in documentation. GIC should also ensure that the norms thus fixed are meticulously observed by all concerned and no laxity is allowed on this account.

6.10 Another disturbing feature which needs immediate attention of GIC is the improvement in the agency cadre. It is a common knowledge that the agents of the insurance companies are only concerned with their commission and do not bother about the service to be rendered to the customers. They are not properly advising the customers in respect of the various schemes of insurance in operation and in fact they themselves are not fully conversant with the latest developments in the field of insurance. In this connection, the Chairman of GIC also admitted during his evidence before the Committee that "there has been a mushroom growth of agents and many of them were not upto the mark." He also informed the Committee that they

have taken up a programme of training of agents so that these agents become professionals and are able to render effective services to the clients.

6.11 The Committee need hardly emphasise that the insurance by itself is not a substitute for customer's service in prevention of risks and for safety consciousness. Customers' service should take the shape of prompt issue of renewal notices, timely issue of policies and friendly advice from time to time on risk management. The Committee recommend that training of agents and Inspectors and orientation programme of officers and concerned employees should be organised on a regular basis and programmes on scientific lines launched. The Committee hope that the proper training of agents and officers will help a great deal in providing better and prompt service to the customers.

6.12 The Committee are glad to note that in order to improve the rate of documentation and for simplification of the procedure to issue more documents, a single certificate-cum-policy system has been devised in the motor department for Third Party Risks as well as for providing comprehensive cover for all classes of vehicles. The Committee hope that this simplified procedure will not only help the customers but to a greater extent it will also help in clearing the arrears in documentation.

6.13 The Committee are also glad to note that the Ministry of Finance have issued instructions to GIC and its subsidiaries to include in their Annual Report in future a Special Chapter on "Customer Relations" highlighting among other things the progress achieved in better customer services, reduction in arrears of documentation and settlement of claims, etc. The Committee feel that this is a step in the right direction and would go a long way in providing better service to the customer.

B. *Settlement of claims*

6.14 The overall position of outstanding claims in respect of all the subsidiaries between 1976 and 1983 was as under:—

Particulars	1976	1977	1978	1979	1980	1981	1982	1983 (Prov.)
1. No. of new claims intimated . .	441151	463948	478073	582024	647642	682286	726707	824889
2. No. of claims settled during the year .	494264	455671	438724	530716	584088	663758	753413	785811

3. No. of claims outstanding at the end of the year . .	268972	277249	316596	367906	4314[illegible]	44[illegible]	4[illegible]5457	4[illegible]4515
4. Percentage of no. of claims outstanding to claims intimated during the year . .	61·0	59·8	66·2	63·2	66·6	66·2	58·5	56·3

It would be seen from the above that the ratio of number of claims outstanding to claims intimated showed an increasing trend and it rose from 61.0 per cent in 1976 to 66.6 per cent in 1980. In 1981, the ratio was 66.2 per cent. However, in the years 1982 and 1983 the ratio stood at 58.5 per cent and 56.3 per cent, respectively.

6.15 According to GIC, the duration wise-break up of claims outstanding for more then 3 months as on 31st December 1983 on in respect of the 4 subsidiaries is as under:-

(Amounts in thousands of rupees)

Sr. No.	Duration	NATIONAL		NEW INDIA		ORIENTAL		UNITED INDIA		TOTAL	
		Number of Claims	Amount of Claims	Number of Claims	Amount of Claims	Number of Claims	Amount of Claims	Number of Claims	Amount of Claims	Number of Claims	Amount of Claims
1.	Claims outstanding for 6 months or less but more than 3 months	16,664	16,34,35	16,290	20,50,46	21,843	23,32,28	22,723	17,49,36	77,520	77,66,45
2.	Claims outstanding for 1 year or less but more than 6 months	19,272	25,38,77	23,370	54,86,25	23,226	30,38,15	27,189	31,60,00	93,057	1,42,23,17
3.	Claims outstanding for 3 year or less but more than 1 year	29,270	36,16,41	32,876	60,19,40	19,005	48,26,22	31,154	45,99,65	1,12,305	1,90,61,68
4.	Claims outstanding for 5 years or less but more than 2 years	4,268	14,61,26	5,916	11,43,96	7,559	25,57,62	8,025	20,21,71	25,768	71,84,35
5.	Claims outstanding for more than 3 years	2,077	6,10,08	5,776	13,58,27	3,107	10,77,33	2,880	12,38,57	13,840	42,84,25
	TOTAL	71,551	98,60,87	84,228	1,60,58,34	74,740	1,38,31,60	91,971	1,27,69,29	3,22,490	5,25,20,10

6.16 In a written reply, the Committee were informed by G.I.C. that "despite increase in the number of intimated claims from 7.27 lakhs in 1982 to 8.25 lakhs in 1983, as many as 63.2 per cent to 63.4 per cent of the total claims (including those carried forward from previous years) were settled during the respective years (as against 55.5 per cent in 1974). Further, the number of claims outstanding for over a year were 33 per cent and 31.9 per cent of the total number of claims outstanding as at the end of 1982 and 1983 respectively. The ratio of number of claims outstanding to claims intimated during the year also came down from 66.2 per cent in 1981 to 58.5 per cent in 1982 and 56.3 per cent in 1983."

C. *Analysis of Outstanding Claims*

6.17 Audit has observed that an analysis conducted by GIC in April 1980 of claims as at the end of the year 1978 indicated the following causes for the claims remaining unsettled for more than one year:

		(Percentage of outstanding claims)
(i)	Documents not supplied by clients	36·7
(ii)	Awaiting Survey report / police report . . .	4·5
(iii)	Court cases (including Motor Accident claims Tribunal and arbitration cases)	20·8
(iv)	General average claims and claims pending with overseas agents	2·8
(v)	Non-receipt of claims forms/medical certificate (mostly workmen's compensation claims)	2·4
(vi)	Claims not pursued	10·4
(vii)	Other reasons	22·9
		100.0

6.18 The following points have been high-lighted by audit:

1. There is delay in receipt of Survey Reports.
2. Pending claims are not reviewed monthly and claimants are not reminded wherever compliances are not forthcoming.
3. The system of processing of claim settlement requires simplification. The contents of the forms are not adequately understood by all the concerned people.

6.19 The Corporation stated in November 1982 that the following measures have been taken to bring down the number of outstanding claims:—

1. Services of development staff are being enlisted to help the clients in completion of documents required for settling the claims.
2. In the field of personal insurance, a study has been undertaken to identify the reasons for delay and the remedial steps necessary.
3. Clearance fortnights|months were observed to highlight the importance of speedy settlement of claims and also to clear arrears as much as possible.
4. Certain measures have been initiated for simplification of forms and procedures relating to settlement of claims.
5. Branches which were earlier not authorised to settle claims have now been empowered to do so. Powers of the Divisional Offices in this regard have also been enhanced.

6.20 The Ministry of Finance stated in June 1983 that a cause-wise analysis of outstanding claims over 1 year old as at the end of 1978 showed that 70 per cent of those claims were pending due to reasons attributable to causes beyond the control of their offices. The Ministry further attributed the number of claims settled remaining less than the number intimated during each of the years after 1976 to the increasing non-traditional business of the subsidiaries, wherein the clients took more time to furnish the documents for settlement of claims.

6.21 In this connection, GIC stated in a written reply that the following further measures have also been initiated to bring down the number of outstanding claims and to streamline the procedure for expediting settlement of claims:—

(1) Task forces have been formed at Regional Offices to regularly visit Divisional Offices to help in expeditious settlement of claims.

(2) Special Cells have been set up at Regional Offices to attempt out-of-court settlement of third-party claims wherever possible.

(3) Detailed guidelines have been issued by the Corporation for expeditious settlement of personal claims. Those guidelines also prescribe a time-table for settlement of claims, supply of a check list to each insured indicating steps to be taken in the event of loss or damage giving rise to a claim, and substitute documents to be relied upon in the event of the usual documents in support of claim being not available.

(4) The companies have been advised to undertake a duration-wise and cause-wise sample study of the pending Third Party and Own damage motor claims outstanding on 31st December, 1983 so that further remedial measures could be considered.

(5) Claim form for Motor Own damage claims have been standardised and rationalised, eliminating unnecessary information.

(6) Improved survey report forms have been devised on a standardised basis separately for spot survey and final survey.

(7) In the case of theft of accessories as also loss or damage of the vehicle due to collision, police final investigation report need not be insisted upon.

(8) Where the vehicles are stolen, all claim papers including police FIR are to be obtained and after expiry of 30 days, 'on account' payment equivalent to 75 per cent of the claim may be made in genuine cases against a specially worded 'Discharge' voucher. the balance 25 per cent being made on receipt of final police investigation report. If the vehicle is recovered before final payment. the insured has the option to refund the amount already received and retain the vehicle. In case of difficulty in obtaining final police investigation report, the claim may be settled against a letter of Indeminity.

(9) Periodical review has been prescribed in respect of claims pending for over one year.

6.22 During evidence. the Committee enquired whether any standards had been fixed for various classes of officers for dealing with the question of settlement of claims. The Chairman. GIC stated:

The powers of settlement of claims have been delegated according to the status of officers. The branch officers in rural areas are headed by an Assistant Administrative Officer. His claim settlement power is upto Rs. 2,500|- in respect of cattle, agricultural pumpsets and Janata and Gramin Personal Accident claims, any claim upto Rs. 2500|- can be settled straight-away by him without reference to any other officer provided he is satisfied. Subject to the documents being complete, upto Rs. 2,500|- the claims can be settled by him on the spot. The bigger branches are headed by an Administrative Officer and his claim-settlement limit is Rs. 10,000|- for the above categories of claims and Rs. 15,000|- for motor claims. Then higher limits are those for higher officers."

6.23 When asked whether police report was necessary in cases not involving criminal liability, the witness then *inter alia*, stated:

"We insist on police report only if a third party is injured. If a vehicle has hit a tree or the damage is only to the car and no third party is involved, then it need not necessarily be reported to the police. We insist on police report only in cases of third party injury and for own damage when a commercial vehicle meets with extensive damages, that is, where the claim is likely to be Rs. 40,000 or Rs. 50,000. But for smaller own-damage claims the requirement of reporting to the police has been dispensed with because that was causing a lot of delay. Several steps have been taken and this is one of them that for smaller, own-damage claim the police report is not a must except when the damage is heavy and also in cases of theft where we do not know the circumstances... third party death claims upto Rs. 15,000 can be paid straightway irrespective of going to court and establishing who was liable."

6.24 When asked about the ratio or percentage of claims actually settled, the representative of GIC stated "about 63 per cent of the claims lodged with us are paid within a year."

6.25 When enquired about the measures taken and the improvements suggested in the procedures for expediting settlement of claims, the Ministry of Finance (Insurance Division) in a written note have stated:—

> "The anxiety and concern of the Government had been repeatedly conveyed to the Chairman, G.I.C. and the Chairman-cum-Managing Directors of the subsidiaries for settlement of outstanding claims on very high priority basis. This was one of the listed agenda items considered in the Review Meeting of the Finance Minister held on July 20, 1984 when Finance Minister had also mentioned that the performance of GIC and its subsidiaries often evokes adverse criticism mainly on two counts, namely, delay in documentation and delay in settlement of claims. He pointed out to the danger of overlooking such criticism and of adopting a mere statistical approach in an area of public dissatisfaction for a service organisation.
>
> In the revised proforma devised for the quarterly report to review the working of the GIC and its subsidiaries, a specific item has been included in the GIC's report viz. "Progress in regard to settlement of outstanding claims with reference to outstanding claims as they stood on 31-12-1983 with special reference to outstanding claims of one year or more old claims." As a result of the Government's follow up with the GIC, some of the measures initiated by the GIC and its subsidiaries to minimise the number of pending claims are as under:—
>
> (i) Forms and procedures relating to settlement of personal insurance claims have been simplified.
>
> (ii) Financial authority for settlement of claims has been revised upwards for all categories of officers.
>
> (iii) Development Staff (Inspectors) are being utilised for collection of outstanding documents from claimants.
>
> (iv) Clearance fortnights|months are observed from time to time to clear arrears as much as possible."

6.26. The Committee are concerned to note that not only the subsidiaries of the Corporation are in heavy arrears in documentation but their performance in the field of settlement of claims is also very disappointing. The overall number of outstanding claims in respect of all the subsidiaries has increased from year to year. The number of

outstanding claims which stood at 2,68,972 at the end of 1976 has nearly doubled and reached a record figure of 4,64,515 claims pending settlement as on 31-12-83. Out of this, as many as 3,22,49 claims are outstanding for a period ranging between 3 months to over 5 years. Claims pending for 1 to 3 years, 3 to 5 years and more than 5 years are 1,12,305, 25,768 and 13,840 respectively. Likewise, the total amount of outstanding claims covering the period from 3 months to 5 years and more also touched a high figure of Rs. 525 crores. The total gross premium collected in India in 1983 was Rs. 857 crores. All this depicts very dismal picture of the functioning of the subsidiaries and requires special efforts on the part of GIC to tackle this alarming situation on time-bound programme. The Committee recommend that a time limit for clearance of a claim may be laid down, if necessary, by amending the General Insurance Corporation Act so that the scope for delays may be minimised.

6.27 The ratio of the number of claims outstanding to the claims intimated during the years 1976 to 1983 has also not been satisfactory. In each year, it had been more than 56 per cent which is quite a high percentage. The performance of the subsidiaries with regard to the settlement of claims cannot be termed as satisfactory by any standard.

6.28. The Committee note that GIC has initiated a number of measures for expediting settlement of claims, but they are unhappy to note that the number of measures that have been taken by the Corporation and the subsidiaries to bring down the number of outstanding claims and to streamline the procedure for expediting the settlement of claims, including the delegation of power to officers according to their status etc., have not brought about any appreciable improvement in the position. In this connection, even in the review meeting of the Finance Minister held on 20 July, 1984, the Minister had commented that "the performance of GIC and its subsidiaries often evokes adverse criticisms mainly on two accounts viz. delay in documentation and delay in settlement of claims." In the opinion of the Committee, a service organisation like GIC cannot afford to overlook the criticism and public dissatisfaction and they should take such vigorous measures as could cut down the red tapism and minimise formalities in samll claims so as to eliminate backlog of pending claims within a reasonable time schedule. The Committee need hardly stress that the reputation of the Corporation and its subsidiaries would go up only when the claims are settled promptly.

6.29. The Committee would like that the subsidiaries should take active interest in reminding the claimants where the compliances of the objections raised by them are not forthcoming. The Commitee also desire that the claims pending for over a year should be reviewed monthly by the Corporation and suitable instructions issued to the subsidiaries for rectifying the irregularities, if any, noticed. The Committee hope that such measures as suggested above and other measures already taken by GIC/Ministry for expediting settlement of claims are implemented earnestly in order to bring about positive improvement in the otherwise dismal position of settlement of outstanding claims.

CHAPTER VII

REINSURANCE

7.1 An insurance company apportions or cedes a part of the risk underwritten to other insurance companies so that in the event of loss, the loss too can be apportioned on an agreed basis. This practice is termed as 'Reinsurance'. The amount ceded by way of reinsurance is called a 'Cession', which for the accepting company becomes the 'Acceptance'.

7.2 With a view to obtaining a blanket permission from the Government for foreign exchange remittances and to obtain the best possible terms and to maximise retention within the country after a review of the existing arrangements, the annual programme of the reinsurance arrangements to be followed by the Corporation and its subsidiaries is drawn up in advance and prior approval of the Government is obtained before the same is implemented. The four subsidiaries have their own treaty reinsurance arrangements within the framework of the common programme.

7.3 As per Audit Report, an expert Committee appointed by GIC submitted its report on 12th July 1975 and made the following recommendations:

> The long term objective of the Indian Market should be to establish itself as a Market providing reinsurance capacity for world wide business and particularly for the business emanating from the developing countries, and should also embrace the following:—
>
> (a) being able to quote for all types of reinsurance covers;
>
> (b) being able to provide lead on various covers;
>
> (c) through active reinsurance operation, earn increasing volume of inward reinsurance premium with the object of providing net invisible exchange gain for the country after providing for the cost of outward reinsurances.

7.4 Taking note of the country's acute foreign exchange problem, the expert committee recommended that reinsurance trading operation should be on a selective basis to ensure profitable results over a relatively shorter period of time than is allowed under normal international practice.

7.5 Audit pointed out that the Corporation:

(i) had not quoted for all types of reinsurance;

(ii) had not been able to provide lead on various covers; and

(iii) had not covered increased volume of inward reinsurance premium with the object of providing net invisible exchange gain, as in all the years there was foreign exchange drain from reinsurance accepted, as may be seen from following table which gives the premium received, claims and commission paid, percentage of total outgo during 1976 to 1983:—

(Rs. in lakhs)

Year	Premium received	Commission paid	Claims incurred	Total outgo (3+4)	% of total outgo to premium income
1976	9	3	7	10	111·1
1977	60	13	53	66	110·0
1978	105	28	83	111	105·7
1979	165	42	107	149	93·3
1980	235	59	155	214	91·0
1981	348	89	205	294	84·5
1982	491	143	302	445	90·6
1983	1271	356	863	1219	95·9

7.6 The total outgo from premium income was more than 100 per cent during 1976 to 1978 and more than 90 per cent during the years 1979, 1980, 1982 and 1983.

7.7 The Ministry informed Audit in June 1983 that the capacity of GIC and its subsidiaries to accept reinsurance from abroad is limited and hence lead cannot be provided for various reinsurance requirements of foreign companies. Also, since the world reinsurance results for the last 5 years have been unsatisfactory, a cautious and conservative policy is being followed in accepting reinsurance business from abroad. Providing lead is only a long term possibility, since others may look to India for giving lead only when the Indian

Market gets fully active and is recognised as such in International Market. It is pertinent to note here that even many of the well developed markets like U.S.A., Japan etc. still look to London for lead because of its reputation built over centuries, for expertise and experience.

A. *Net Retention of Business by the Corporation*

7.8 According to Audit, in April, 1976, the GIC set before itself the ojective of maximisation of retention of premium in India, while making the reinsurance arrangements. The table below indicates the position of net retained premium (Indian Business) in respect of the GIC and its subsidiaries for the years 1978 to 1982:—

(Rs. in lakhs)

Dept.		1978	1979	1980	1981	1982
Fire	Percentage of retention	84·44	79·82	80·45	82·02	80·8
Miscella-neous	Percentage of retention	89·85	85·22	89·76	90·60	90·2
Marine	Percentage of retention	75·09	75·96	72·36	74·26	70·6
Total	Percentage of retention	81·23	83·24	82·04	83·50	82·8

It will be seen from the above that the percentage of net retention in the case of Fire and Marine portfolios has declined.

7.9 The following table shows percentage of retained premium for the years 1978 to 1981 in the case of five large fire risks:—

	1978	1979	1980	1981
National Organic Chemical Industries Ltd. Thane.	5·86	5·45	6·30	5·37
Southern Petro-Chemical Industries Corpn. Ltd. Tuticorin	6.73	5.83	6.22	6.21
Indian Petro Chemicals Corpn. Ltd. Baroda	4·11	3·65	4·29	3·59
Gujarat State Fertilizers Ltd. Baroda	4·99	5·68	5·86	5·00
Indian Explosives Ltd. (Fertilizer Factory, Kanpur)	9·25	8·75	10·63	7·08

7.10 It has also been observed that with the increase in size and value of the large industrial risks from year to year, the retention did not increase; on the contrary retention decreased in 1981 in 4 cases out of 5 cases despite major portion of underwriting profit being on Fire portfolio. The underwriting profit was Rs. 5,646 lakhs in Fire portfolio out of total underwriting profits of Rs. 5,987 lakhs during 1981 in the Insurance Industry.

7.11 The Management informed Audit in July 1983 that the fall in the percentage of retention in some years was due to increase in the value of risks. The Management further stated that profitability was not the only determining factor and in addition to the judgement and prudence exercised by the underwriter, some other factors were (a) financial strength based on capital, free resources and liquid assets, (b) premium volume, size and structure of the portfolio and (c) potential variation in the freqency and volume of claims due to catastrophic exposures.

7.12 The Audit Board enquired in June 1983 regarding the measures taken by the General Insurance Industry to increase the retention within the country in different departments from 1978 to 1981. The data furnished by the Ministry in July 1983 revealed that the measures taken were limited in their scope particularly under marine cargo, where only diamond export was covered. According to Audit, despite these measures, the net retention, as a percentage of total premium declined.

7.13 On an enquiry about the future plans of the Company to reduce the drain of foreign exchange, the GIC in a written note furnished to the Committee stated as under:—

> "As individual risks written in any market are not uniform in nature and size, the risks insured in each class of Business have to be balanced in exposure so that losses occurring in a year in respect of any one or few risks do not unduly upset the acceptable claim ratio for that class of business. It is also necessary to ensure through appropriate reinsurance arrangements that the loss potential arising out of a single catastrophic occurrence affecting a large number of individual risks is kept within reasonable limits. Placement of reinsurance outside the market for large risks beyond our capacity is, therefore, inevitable and such reinsurance cessions may not be viewed purely in the light of foreign exchange drain or gain."

B. *Reciprocity of Reinsurance Business*

7.14 One of the objectives of reinsurance policy was that in respect of business ceded outside India, the insurers should secure the best terms and reciprocity. For excess of loss covers, quotations are obtained from the leaders in London by a consortium of brokers on behalf of the GIC.

For others negotiations are carried on by GIC with the leaders either directly or through the brokers for the best possible terms.

7.15 The folowing table given in the Audit Report, 1982 shows the reciprocity and underwriting results of (i) Indian Business ceded outside India, (ii) Reinsurance accepted from outside India and (iiii) Reinsurance retroceded outside India.

(Rs. in lakhs)

	1976	1977	1978	1979	1980	1981	1982	1983
1. *Indian business ceded outside India*								
Premium	1215	1598	1565	1851	2589	3483	4218	4285
Incurred claims	879	619	6070	3717	1096	1052	4522	1922
Commission	154	255	233	265	354	537	590	861
Exchange loss	−12	−2	−8	−10	5	−10	(−)5	
Increase in reserve for unexpired risks	138	218	10	152	492	633	482	50
Exchange Gain (—) Drain (+)	36	448	−4740	−2273	762	1271	−1371	1652
2. *Reinsurance accepted from outside India*								
Premium	9	60	105	165	235	348	491	1271
Incurred Claims	7	53	83	107	155	205	302	863
Commission	3	13	28	42	59	90	143	356
Exchange loss		..	..	..			..	
Increase in reserves for unexpired risks	5	29	26	41	28	78	94	483
Exchange Gain (+) Drain(−)	−6	−35	−32	−25	−7	−25	−48	−433

(Rs. in lakhs)

	1976	1977	1978	1979	1980	1981	1982	1983
3. *Reinsurance retroceded outside India out of (2) above*								
Premium	4	12	25	29	65	70	76	230
Incurred claims	5	16	25	22	70	52	73	265
Commission	—	1	3	1	10	9	2	11
Exchange loss	—	—	—	—	—	—	—	—
Increase in reserves for unexpired risks	2	6	7	2	19	4	5	92
Exchange Gain (—) Drain (+)	—3	—11	—10	4	—34	5	(—)4	(—)138
Net overall results								
Exchange Gain	—	—	4718	2244	—	—	1327	—
Drain	39	472	—	—	735	1301	—	1947

7.16 As to whether the Corporation secured the best terms and reciprocity, the Management informed Audit in November 1982 that the Corporation did not have reciprocal relationship with foreign companies. For excess of loss covers, in view of the large reinsurance requirements, a consortium of leading brokers of London market was utilised who obtained the best possible terms not only from Llyods and the London market but also from the world reinsurance market. The terms that might be offered independently by others, e.g. brokers and reinsurance companies situated elsewhere, would not be sufficient to meet their total cover requirements and might not also give the desired continuity.

7.17 According to Audit, a major portion of the business is ceded by GIC through a consortium of four brokers Sedgwicks, Willis, C.T. Bowring and an Indian broker, J.B. Boda, and about four per cent through individual foreign brokers.

7.18 GIC is reported to have informed Audit in September 1982 that "while a few direct connections are established for placement of reinsurance covers, it is not possible in most cases to contact the reinsurers directly in view of the short time available between finalisation of the terms with the brokers and attachment of the cover....Lloyds market with syndicates specialising in particular class of business can be approached only through recognised brokers and not directly, These brokers also render the important service of collecting loss recoveries from reinsurers spread throughout the world.|"

7.19 In a written note furnished to the Committee, G.I.C. has stated as follows:—

> "As regards reinsurance accepted from outside India, it may be stated that the Indian insurance market has also to develop and provide capacity to various other markets seeking reinsurance covers. But participating activity in reinsurance operations with different markets, a balanced reinsurance portfolio could be built up gradually. Reinsurance relationships are of a long-term nature and a reinsurer has to provide capacity on a continuing basis. Further, reinsurance business all over the world is highly competitive and in the recent past it has been passing through a bad patch of adverse results. Steps have been initiated by leading reinsurers to improve the quality of the reinsurance business."

7.20 GIC has further stated in their note that in view of increasing adoption of high technology, the General Insurance Industry is being called upon to underwrite larger and larger individual risks, e.g. off1shore-oil-drilling platforms, satellites, large aircrafts of national and international airlines, super tankers etc. In the Fire portfolio too, the premium contributed by large industrial risks, such as petro-chemical and fertilizer complexes, super themal power stations and refineries has increased over the years. The size of individual marine cargo risks, particularly on crude imports, has also increased substantially. Increase in the size and complexity of the risks has resulted in more and more reinsurance abroad on a selective basis. But in spite of the above, a judicious reinsurance programme has enabled the Industry to retain within the country as much as 85 per cent of the domestic premium income and thereby minimise the foreign exchange outflow. It may, however, be clarified that larger retentions do not necessarily mean retention of more profits because they also affect recovery from reinsurers in the event of claims.

7.21 The Committee have noticed from the Table given above that the underwriting results of reinsurance accepted from outside India have shown always a foreign exchange drain and also there has been no reciprocity for the business ceded outside India as the business accepted from outside India is not in that proportion. In this connection, the Chairman, GIC stated in evidence:—

> "We have to see from the point of view as to what is the necessity of reinsurance. Whatever we can retain, we must retain and whatever is beyond our capacity, we have to reinsure. This is done in a calculated manner. The amount that is being retained in India by us is 85-86 per cent and it is one of the highest in the whole world. Even countries like America feel the necessity of reinsuring. If our profits can be increased by increasing the retention, I will make it 100 per cent. But I am reinsuring only because retaining the whole thing does not suit me. The presumption that by increasing retention we would be able to increase our profits is not true."

7.22 Explaining the GIC's policy of not keeping large retention in respect of special risks involving huge losses, the witness added:

> "It is not that we reinsure everything....We keep 100 per cent with us with regard to motor insurance; claims are within our capacity. There is no point in reinsuring any part of motor business. In regard to fire, we keep 100 per cent with us where small risk is involved with regard to shops, factories etc. We only reinsure a part of big industrial plants, where we feel that in case of claim, the amount is likely to be large. Our decisions are based on the size of the risk and nature of the risk and how risky that risk is. In the case of petroleum plants, we reinsure more.
>
> In a risk like satellite, it is very highly dangerous kind of risk and we reinsure almost 99 per cent of the value. The chance of loss is very much there. In the case of aeroplanes and Boeings, we reinsure 94 per cent and not 99 per cent because in one crash of Boeing of Air India—the value would be around Rs. 95 crores plus passengers' liability. The other consideration is that the aeroplane has to be replaced with foreign currency. So, I must get my money in foreign currency. Therefore, if I reinsure these aeroplanes, I am safe."

7.23 In this connection, the Additional Secretary, Ministry of Finance (Insurance Division) also stated during his evidence as follows:—

"Every year, the GIC prepares a reinsurance budget. It is sent to the Government because it involves a certain amount of outgo of foreign exchange from the country. It is very closely scrutinised by the Government before it is recommended to the Reserve Bank of India for acceptance. When we finalise it, we certainly keep in mind that there is going to be a certain amount of outgo of foreign exchange. The purpose of re-insurance is to make sure that the risks which we have, are adequately covered. But at the same time, we have to be cautious to see that we take risks without affecting our business interest in India. Further, the nature of risk, the quality of risk, is changing from time to time and each individual risk is so large that it is beyond the capacity of Indian insurance industry. I would like to read out certain risks: off-shore drilling platform, satellites, large size aircraft, super tankers, petro-chemicals and fertilizer complexes, super thermal power stations and refineries. Individually, each of them is very large and if, God forbid, there is a catastrophe or total damage, it will affect the general insurance industry in India. So, we take a very cautious and conservative approach in the sense that we do not retain more risk than we can manage. Over a period of time, the percentage of retention has been going up....Our Policy of being cautious has actually paid off....

In the case of INSAT 1-A, the payment of insurance claim was Rs. 64 crores. When the damage occurred, we were able to recover Rs. 63.5 crores from foreign re-insurers which means we lost only Rs. 50 lakhs. In the case of ONGC Sagar Samrat, the insurance claim paid by us was Rs. 57 crores and we were able to recover Rs. 56 crores from the foreign reinsurer. This only shows that our cautious approach has paid us well. The retention of business has also gone up. In 1982, it was 83.2 per cent; in 1983, it was 84.9 per cent and in 1984, it is expected to be 88 per cent."

7.24 The Committee note than an Expert Committee appointed by the General Insurance Corporation of India recommended in July, 1975 that the long term objective of the Indian market should be to establish itself as a market providing reinsurance capacity for world wide business and particularly for the business emanating from the developing countries and to earn increasing volume of inward reinsurance premium with the object of providing net invisible exchange gain for the country. That Expert Committee had also recommended that in view of the country's acute foreign exchange problem reinsurance trading operations should be on a selective basis to ensure profitable results over a relatively shorter period of time than is allowed under normal international practice. In the opinion of this Committee, the recommendations of the Expert Committee were followed more in breach than in observance as GIC during a span of 8 years from 1976 to 1983 failed to increase the volume of inward reinsurance premium as is evident from the trend of foreign exchange drain during this period. The total outgo from premium income received in India was more than 100 per cent and upto 111 per cent during the years 1976 to 1978 and between 90.6 per cent to 98.3 per cent during the years 1979 to 1983 except, of course, during 1981 when it stood at 84.5 per cent. The Committee feel that keeping in view the past results there seems very little likelihood of GIC turning the corner soon as far as inward reinsurance is concerned as the Ministry had itself admitted that "the capacity of GIC and its subsidiaries to accept reinsurance from abroad is limited and hence lead cannot be provided for various reinsurance requirements of foreign countries."

7.25 The Committee note that in April, 1976, the Corporation had set before itself the objective of maximisation of retention of premium in India while making reinsurance arrangements. On an analysis of the figures of the premium collected and the percentage of retention, the Committee find that during the years 1978 to 1982 the percentage of retention in the case of Fire instead of increasing declined from 84.44 in 1978 to 80.8 in 1982. Similarly in the case of Marine the retention of premium in India came down from 75.09 per cent in 1978 to 70.6 per cent in 1982. It is gratifying to note that the insurance industry retains 100 premium in respect of motor insurance and fire where small risk is involved. It has, however, been observed that in the case of large fire risks involving five Chemical, Petro-Chemical and Fertilizers Industries the retention did not increase during the years 1978—81. In 4 cases out of 5 retention decreased in 1981 despite major portion of underwriting profit being on Fire portfolio.

7.26 The Committee have also observed that general insurance industry is being called upon to underwrite larger individual risks concerning satellites, off-shore oil-drilling platforms, large aircraft of national and international airlines, super tankers, etc. GIC has pleaded that placement of reinsurance outside the market for large risks beyond their capacity is inevitable and such reinsurance cessions may not be viewed purely in the light of foreign exchange drain. In the case of Satellites and aeroplanes where greater risks are involved and the chances of loss are much more, almost 99 per cent and 94 per cent respectively of the total value is reinsured. Instances in view are of INSAT I-A and Sagar Samrat where Rs. 63.5 crores out of Rs. 64 crores and Rs. 56 crores out of Rs. 57 crores of the reinsurance premium were, respectively, recovered. The aproach of the Corporation in this regard is apreciable but there is also no denying the fact that with the advancement in the field of latest technology the chances of mishaps are also becoming less and less. The Committee feel that the Corporation should have thorough review of the reinsurance programme in the light of the latest technical developments in the various fields and find out ways and means to increase retentions keeping national interest in view.

7.27 The Committee note that one of the objectives of reinsurance policy was that in respect of business ceded outside India, the insurer should secure the best terms and reciprocity. From the results of the business ceded outside India, the Committee find that the Corporation has not handed the business according to sound business principles. The outward flow of foreign exchange was much more as compared to the inward flow. It is also evident from the fact that during 1982 the Corporation earned a foreign exchange gain of Rs. 1371 lakhs but in 1983 it suffered a huge exchange loss of Rs. 1652 lakhs. In other words, the Corporation instead of stepping up its gain incurred a cumulative foreign exchange less of Rs. 3023 lakhs (Rs. 1371+1652 lakhs). Similarly in the case of reinsurance business accepted from outside India, the Corporation had been experiencing foreign exchange drain continuously for the last 8 years from 1976 to 1983. From a mere exchange loss of Rs. 6 lakh in 1976 it reached a colossal loss of Rs. 433 lakhs in 1983. There was 802% increase in exchange loss during 1983 alone as from Rs. 48 lakhs in 1982, it reached a stunning figure of Rs. 433 lakhs in 1983. It seems that the Government have not even taken a serious note of this incessant foreign exchange drain. This huge drain itself speaks volumes about how the principal of reciprocity of business ceded outside India worked in comparison to the business accepted from outside India.

7.28 The Committee therefore, feel that unless the outflow of foreign exchange is checked the continuous drain will continue to

adversely affect the foreign exchange reserves of the country. The Committee desire that in view of India's acute foreign exchange problem suitable measures should be taken urgently to increase the inward business so as to strike a favourable balance between the outward and inward flow of reinsurance business.

CHAPTER VIII

INVESTMENTS

8.1 The Corporation generates funds by way of dividend from subsidiaries investment income and business income. The surplus funds are estimated after considering the estimated inflow of funds from the above sources less outgo for expenditure both revenue and capital, tax payments, payments of dividends to Government and redemption of preference shares. These surplus funds (Rs. 43.25 crores in 1981) are invested by the Corporation.

8.2 Prior to nationalisation, the insurance companies were free to invest their surplus funds as long as the provisions of the Insurance Act, 1938, were complied with. These provisions required an insurance company to make investments in "approved investments", which broadly comprised secured debentures|cumulative preference shares on which interest|dividend was paid, or shares on which dividend of not less than four per cent was paid, for the preceding five years. Assets could be invested otherwise than in approved investments within the limit of 25 per cent of the assets and with the consent of all Directors.

8.3 After nationalisation, the investment policy of the General Insurance Industry has been governed by the above provisions of the Insurance Act as well as specified guidelines issued by the Government from time to time. First such guidelines were issued in May 1974, which broadly stated as under:—

(a) At least 25 per cent of fresh accrual of the investment funds should be earmarked for investment in Central Government Securities.

(b) The balance 75 per cent may be invested in 'approved' and 'un-approved' investment as defined in the Insurance Act. Investments in ordinary shares, however, should not exceed 25 per cent of the balance 75 per cent.

(c) Each investment should be considered on its own merit and the question of any consideration of getting insurance business should not influence the decision.

8.4 The above guidelines were reviewed in December, 1976 and revised guidelines for investment were issued as follows, effectives from 1977 onwards:

		Percentage of fresh annual accruals of the investible funds
I.	Central Government Securities	25·00
II.	State Government securities and other Approved Bonds	10·00
III.	Loans to Housing and Urban Development Corporation	35·00
IV	Market Investments . . .	30·00
	Total	100·00

From 1st January 1978, Item No. (II) of the guideline was amplified to include not only State Government Securities and other approved Bonds but also Bonds and Debentures issued by various Public Sector Undertakings.

Item No. III was modified to cover (a) Loans to State Governments for Social Housing Programme to the extent of 20 per cent and (b) Loans to Housing and Urban Development Corporation to the extent of 15 per cent. By a decision taken at an inter-Ministerial meeting in June, 1980, loans to State Governments for capital expenditure on fire fighting equipment were included in the proportion fixed for loans to State Governments for Social Housing Programme.

8.5 The break-up of G.I.C.'s total investments as at the end of years 1976—1983 as given in Audit Report (1982) and updated by the Ministry of Finance in July, 1985 is shown in the statement at Appendix—III.

8.6 The actual investments of the Corporation during the years 1977—1983 under the various categories of investments outlined in Government guidelines are shown in the statement at Appendix—IV.

8.7 The Committee have noted from the statement at Appendix—IV that the guidelines issued by the Government for investment were not followed. The investment in Central Government Securities and State Government Securities was much less or much more than the percentages presecribed in the guidelines. For example, in the years 1979, 1980 and 1983, the investment in Government Securities was 16.2 per cent, 19.6 per cent and 14 per cent only instead of 25 per cent prescribed. In 1982, it was as high as 53 per cent. In case of market investments during 1979 to 1981 and in 1983 the percentage of investment was much more than the prescribed 30 per cent.

8.8 The Corporation informed Audit in November 1982 that the shortfall was due to the reasons that while investments were made in the course of the year depending on availability of suitable avenues of investment from time to time, the figures of net inflow for the entire year were available only after the finalisation of the accounts. As regards the observations about market investment being more than 30 per cent, the Corporation stated that the excess was mainly because the past accretions upto 1976 (prior to application of revised guidelines) were converted into investments in equity|preference shares, debentures and loans to improve the yield.

8.9 On an enquiry as to why the Insurance Companies have not adhered to the prescribed percentage of investments in Government Securities, the G.I.C. in a written note informed as under:—

"The figures of actual investible funds i.e. the "net inflow" for a particular year are available only after the accounts for the year are finalised sometime in May|June of next year. Therefore, investments in the course of the year upto the prescribed percentages are made on the basis of budgeted accretions, and any shortfall|excess in the investments in various categories is made good|adjusted in the subsequent year, the position being specifically brought to the notice of the Board of Directors while presenting the annual investment budgets."

8.10 It has been further stated by G.I.C. that fresh issues of securities are floated only 3-4 times in a year by Central Government and once or twice in a year by the State Governments. As and when new issues are floated, the amount to be invested on each occasion is determined after taking into account the investments already made during the year and available funds as per budgeted accretions. Investments in other approved securities, bonds and debentures of public sector undertakings are also made likewise as and when they are floated. Since the 'net inflow' for the year is determined only after the end of the year, the investments made during the year do not exactly work upto the prescribed percentages, and a spill over from one year to another becomes inevitable. The shortfall|excess is, however, made good|adjusted in the subsequent year, and over a period, the investments made comply with the percentages prescribed in the Govt. guidelines.

8.11 As regards Central and State Government Securities, GIC has stated that some of the State Govt. Securities acquired in the past were sold in 1977 and the sale proceeds were reinvested in other avenues with a view to improve the overall yield. This position was taken note of in a meeting held in the Ministry of Finance on 6th March, 1978 when it was decided that the net total investments in Central and State Govt. Securities as at the end of 1977 should be maintained and further accretions added in future years. The position regarding further accretions from 1978 to 1983 and actual investments made in Central and State Securities during the same period are indicated below:—

	(Rs. in lakhs)
(1) Accretions during 1978 to 1983	22,581
(2) Investments required to be made in Central Govt. Securities at 25% of (1)	5645
(3) Actual investments in Central Govt. Securities during 1978 to 1983	6097
(4) Investments required to be made in state Govt. Securities etc. at 10% of (1)	2258
(5) Actual investment in state Govt. securities etc. during 1978 to 1983	2432

8.12 According to G.I.C. taking the cumulative position over the years 1978 to 1983, the investments in Central Govt. Securities and in State Govt. Securities etc., conform more or less to the prescribed minimum percentages.

8.13 As regards the steps taken to remedy the situation, GIC has stated that in order to bridge the gap between the prescribed percentages of accretions for the year and actual investments during the year as far as possible, they have now introduced a system of quarterly review of accretion of investible funds based on monthly cashflow statements, so that investments in different categories could be adjusted suitably to bring them upto the prescribed percentages as far as possible.

8.14 On an enquiry whether any difficulties have been experienced in implementation of the guidelines laid down for investment of funds, the Chairman of GIC stated in evidence:—

> "The guidelines say that we should invest 25 per cent of our cash in the Central Government securities. I frame budget and on my budgeted cash accretion I decide to invest 25 per cent, but the actual cash generation was more than the estimate; and therefore if I have invested on the basis of estimate, it is a little less than the actual. The difference I carry forward to the next year....Over a period it adjust. There is no shortfall."

8.15 In this connection, the Additional Secretary, Ministry of Finance (Insurance Division) stated in evidence:—

> "At the beginning of the year they make an assessment of the accretions. Sometimes they find that there is wide diffe-

ernce between the anticipated accruals and the actual accruals. I would give you the magnitude.

Year	Budgeted accrual	Actual in crores of rupees
1976	10·75	12·13
1977	14	13·03
1978	13	10·29
1981	25	43·50
1982	52	51·11
1983	44	63·84

This only shows that during the course of the year it is very difficult for the GIC to ensure that at each point of time the investment is in accordance with the percentage laid down in the guidelines. They are able to make out the discrepancy only when the accounts are closed. Over the years it has been ensured that the guidelines have been adhered to. From year to year there is difficulty. The actuals do not necessarily conform to the budgeted accrual figures. Actual accruals to GIC are dependent on the anticipated premium and the claims experience which bring variations over budgeted figures."

8.16 When asked whether there was any deviation from the presbribed norms because of more profitability in investment in the private sector, the witness stated:—

"Sometimes in 1979-80 it so happened that there were more funds with the insurance companies and they were not able to find sufficient investment opportunities. At that stage, they were parking their funds in short terms. Such investments comprise a number of items like preferential shares, debentures, term loans, re-discounting schemes etc. So, when sufficient investment opportunities were not available and a lot of funds were forthcoming immediately we parked those funds somewhere. That is why in certain years, the percentage instead of 30 has become 53.

Secondly, it is on account of inaccurate budgeting and partly because of uncertainty involved in the system itself. The accruals are known at the end of the year whereas the budget is prepared very much in advance. That is why these discrepancies crop up and not on considerations of profitability."

8.17 When asked as to why steps were not taken by G.I.C. to ensure that the funds are invested in the Government securities rather than into the open market investment, the witness *inter alia* stated:—

"There is a peculiarity about the general insurance business. It is very much affected by the claims' experience which varies from year to year. In the case of LIC, my recollection is that accruals and actuals are very close to each other. This happens because in the case of LIC, you have contracts on long-term basis, and one can reasonably anticipate a certain level of claims coming up. That is why there is not much variation between the budgeted figures and the actuals. But the general insurance business is susceptible to a number of factors which do not prevail in the case of life insurance business. That is why there is a wide variation between budgeted figures and the actuals. But I concede at the same time, that there is a need for closer monitoring by GIC so that the variations between budgeted figures and actuals can be brought down substantially."

8.18 In this connection, the Secretary, Ministry of Finance added:—

"The time when the States go to the market for raising loans, etc. is generally fixed. It is not that they go at any time of the year. Even when the Government and other semi-Government organisations go to the market, there is also a fixed time of the year when they are permitted to do so by the Reserve Bank of India. When the surpluses emerge and there is a difference between the estimates and the actuals, these can be invested on a short-term basis on what is available in the market for investment. This would need a little more stricter monitoring to ensure that if not in the same year, at least in the next year, the differences are corrected. We would have to watch over a 5-year period so that whatever is the aberrations of one year it does get corrected in future. From the Government side, we will introduce stricter monitoring of the investment programme."

A. *State-wise Break-up of Investment in State Government Securities and Other Approved Securities*

(i) *State Government Securities*

8.19 The State-wise break up of investments in State Government Securities at the end of 1979 to 1983 is shown in the statement at *Appendix V*

8.20 According to Audit out of 21 State Government securities in which investments were made, investment in five State Government securities accounted for 73.7 per cent. (U.P. 21.4 per cent, Maharashtra 26.9 per cent, Gujarat 9.5 per cent, Andhra Pradesh 8.7 per cent and Kerala 7.2 per cent) of the total investment at the end of 1981 and the balance 26.3 per cent was invested in 16 other remaining State Government Securities.

8.21 G.I.C. informed the Audit in July 1983 that—

"The investments in 1981 in Securities of 5 State Governments mentioned by Audit happened to be in larger amounts because the loans floated by them were also of larger amounts, as compared to others. Steps are being taken to allocate larger amounts for investment in the Securiti[illegible] of less developed States."

8.22. The break-up of investments in State Government Securities and other approved bonds at the end of each year during 1979 to 1983 is shown in the statement at *Appendix VI.*

8.23 From the details shown in statement at *Appendix-VI,* it would be seen that investment in other approved securities of I.D.B.I. and I.C.I.C.I. was 74.1 per cent (I.D.B.I. 48.7 per cent was in other 13 approved securities.
per cent and I.C.I.C.I. 25.4 per cent) in 1981 and the rest 25.9

8.24 The Corporation stated (July 1983) that I.D.B.I. and I.C.I.C.I. were all India Financial Institutions making specific requests for longer support and coming in the market 4 to 5 times in a year with large issues.

B. *Loans to HUDCO, D.D.A. and State Governments for Housing Programme*

8.25 The amount of loans of these categories outstanding at the end of each of the years 1977 to 1983 was as under:—

Year	(Rs. in lakhs)
1977	Nil
1978	405.00
1979	893.10
1980	1609.96
1981	2553.44
1982	3556.42
1983	5039.13

8.26 As per guidelines issued by Government in 1978, 35 per cent of the annual accural of funds had to be given as loans to State Governments for Social Housing Programmes (20 per cent) and Loans to Housing and Urban Development Corporation (15 per cent). By a decision taken at an inter-Ministerial meeting in June, 1980, loans to State Governments for capital expenditure on fire fighting equipment were included in the proportion fixed for loans to State Governments for Social Housing Programme. The position of loans sanctioned and disbursed from 1977 to 1983 was as follows:—

(*Rupees in lakhs*)

Particulars	1977	1978	1979	1980	1981	1982	1983
1. Total accretion of investible funds .	1400	1200	2150	3450	4300	5112	6369
2. Loans to HUDCO and D.D.A.							
(a) Sanctioned . .	485 (34·6%)	175 (14·6%)	200 (9·3%)	300 (8·8%)	450 (10·5%)	500 (9·8%)	420 (8·2%)
(b) Disbursed .		405 (33·7%)	255 (11·0%)	200 (5·8%)	300 (7·0%)	450 (8·8%)	500† (9·8%)
3. Loans to State Government for housing and fire fighting equipments							
(a) Sanctioned . .	..	250 (20·8%)	551 (25·6%)	699 (20·2%)	638 (14·8%)	684 (13·4%)	688 (13·5%)
(b) Disbursed	..	..	250 (11·6%)	551 (16·2%)	699 (16·2%)	562 (11·0%)	1124† (22·0%)
4. Total (Sl. No. 2 &3)							
(a) Sanctioned	485 (34·6%)	425 (35·4%)	751 (34·9%)	999 (28·9%)	1088 (25·3%)	1184 (23·2%)	1108 (21·7%)
(b) Disbursed . .	..	405 (33·7%)	505 (23·5%)	751 (22·1%)	999 (23·2%)	1012 (19·8%)	*1624 (31·8%)

(Figures in brackets represent percentage to total accretion of investible funds).

†Includes disbursement of amounts sanctioned in the previous year.

8.27 It would be seen from the above table that there were wide variations between the amounts sanctioned and the amounts disbursed. It has also been noticed that there was delay of 4 to 6 months in disbursement of loan to HUDCO, DDA and State Governments. Norms of Investments prescribed by the Government were also not fulfilled as indicated below:—

Year	Norm	Sanction	Disbursement
1977 . . .	35%	34.6%	NIL
1978 . .	35%	35.4%	33 7%
1979	35%	34.9%	23.5%
1980 . .	35%	28.9%	22.1%
1981	35%	25.3%	23.2%
1982	35%	23.2%	19.8%
1983	35%	21.7%	31.8%

8.28 The Ministry informed the Audit in June 1983 that—

"Loans to State Governments for housing and to HUDCO are included in the socially oriented sector of the Plan. Their allocation are settled at Inter-Ministerial meetings attended by representatives of the Planning Commission and Ministries of Finance and Works and Housing. The exercise of allocation of these loans is normally taken up in the beginning of the financial year but the process is sometimes delayed due to non-availability of feed-back reports on utilisation of the loans granted during the preceding year. Even after the allocations are made, delays in disbursements may occur as State Governments and HUDCO have to complete certain formalities for lifting of the loans. This accounts for variation between sanctions based on norms and the disbursements in a year.

The variation between sanctions and disbursements in a year as also the difference between accruals based on budget estimates and actuals, do not, however affect the quota for various sections of investments envisaged by the guidelines as the shortfall|excess invested in one year is adjusted in the following year."

8.29 Asked if there was any possibility of alloting these investments to the regions where more business was generated, the representative of the Ministry stated in evidence:—

> "Under the State Government and the Central Government securities the funds are invested in such a manner that every State Government gets a reasonable proportion. No State Government will be able to complain. In the socially oriented Sector the allocation is made by the Planning Commission in consultation with the State Governments. Now some state Governments may not want funds under each scheme. Some State Governments may want funds for sewerage, electricity, housing and so on and so forth in accordance with their own priority. So the Planning Commission does allocation in consultation with the State Governments."

The witness further added:—

> "There are State Governments who under the 'Housing loan' are able to get far more than their share because other State Governments were not vigilant. Some State Governments do not have schemes and they do not project their requirements. Now we are making sure that only a few State Governments do not get away with the lion's share but others also pick up the loans. We are taking a stand that every State Government should get its due share."

8.30 When enquired about the steps taken to correct the imbalance in the State to State investment in their social programmes, such as housing, loans to HUDCO, the G.I.C. in a written note has informed as follows:—

> "Sectoral allocation of funds earmarked by GIC/LIC for investment in housing programmes is decided every year in a meeting of the representatives of LIC, GIC, Planning Commission and Ministries of Finance, Works & Housing, and Transport after taking into account and plan priorities and other factors including the requirements of different States and HUDCO and the position regarding actual utilisation by them of funds allocated earlier."

8.31 The Committee note that the investment policy of General Insurance Industry is governed by the provisions of the Insurance Act, 1938 and the guidelines issued by the Government of India during 1974, 1977 and 1978. According to guidelines issued by the Central Government, the following percentages of fresh annual accrual of investible funds are required to be earmarked for investment during a year in the following manner:—

1.	Central Government Securities	25%
2.	State Government Securities and other approved Bonds and Debentures issued by Public Sector Undertakings	10%
3.	Loans to State Governments for Social Housing Programmes	20%
4.	Loans to Housing and Urban Development Corporation	15%
5.	Market Investments	30%

8.32 The Committee also note that these guidelines have not been scrupulously observed by the Corporation and its subsidiaries in making investments even in the approved sectors. The investments in Central Government Securities and State Government Securities were either much less or much more than the prescribed percentage.

8.33 From the statements at Appendices III and IV, the Committee find that there are wide variations in the investments made in the State Government Securities and other approved Securities from the prescribed norm of 10%. The Committee feel that the very purpose of prescribing norms or for laying down guidelines for making investments is defeated, if these are respected more in breach than in observance. The Committee urge that in future the guidelines issued by Government should be meticulously followed and Insurance Companies should adhere to the prescribed percentage of investment, in approved securities. Wherever a serious departure is to be made, the matter should be brought to the notice of Central Government and its prior approval taken.

8.34 From the investments made in the State Government Securities at the end of each year from 1979 to 1983, the Committee find that some State Governments received preferential treatment at the cost of others. Out of 21 State Goverment securities in which investments had been made, investments in six State Government Securities accounted for 63.5 per cent in 1980, 5 State Government securities for 73.7 per cent in 1981, 4 State Government Securities for 47 per cent in 1982 and 55.1 per cent in 7 state Government Securities in 1983 of the total investments. In 1980 and 1981 the share of 11 State Governments and 14 State Governments respectively was less than even 3 per cent. The Committee are not happy over the wide disparity in the matter of investments in Government securities showing preferential treatment to some States over others. They are also not satisfied with the explanation offered that the figures of actual investible funds for a particular year become available only after the accounts for the year are finalised in May-June of next year. The investments during the year upto the prescribed percentages are made on the basis of budgeted accretions, and any shortfall|excess in the investments in various categories is made good|adjusted in the subsequent year. The Committee feel that this arrangement is not fool-proof for ensuring investments as per norms prescribed and is likely to result actually in imbalances in investments. The Committee urge the Government to evolve a system whereby the accruals may be estimated in a more scientific and realistic manner so that the actuals may turn out more accurately. They would also like that GIC investments are made evenly in State Government Securities. It is, however, heartening to note that with a view to bridge the gap between the prescribed percentages of accretions for the year and actual investments during that year a system of quarterly review of accretion of investible funds based on monthly cashflow statements has been introduced by G.I.C. which may help to some extent in correcting imbalances in investments in different categories.

8.35 Similarly, the investments in other approved securities of ICICI and IDBI accounted for 74.1 per cent and the rest 25.9 per cent was invested in other 13 approved securities in 1981. In 1982 and 1983 the investment in IDBI, ICICI and IFC put together was 86.2 per cent and 79.6 per cent respectively. The remaining investment of 13.8% in 1982 and 20.4% in 1983 was made in other 12 and 15 approved securities, respectively. The Committee are not convinced with the reasons advanced by the Corporation that IDBI and ICICI are all India Financial Institutions making specific requests for longer support and coming in the market 4 to 5 times in a year with large issues. The Committee need hardly stress that the guidelines should be strictly adhered to in future and a few institutions should not get undue share at the cost of others.

8.36 The position regarding loans sanctioned and disbursed to HUDCO, DDA and State Governments during the years 1977 to 1983 is equally disappointing. An analysis of the figures of loans sanctioned and actually disbursed show that the loans actually disbursed during 1978 to 1982 fell far short of the sanctioned amounts. Further there was delay of 4 to 6 months in the disbursement of the loans to HUDCO, D.D.A. and State Governments and the norm of investment of 35%

prescribed by the Government was never fulfilled. The percentage of disbursement of loans to these bodies which was 33.7% in 1977 slumped to 19.8% in 1982. The argument of the Ministry that "there are State Governments who under the Housing loan are able to get far more than their share because other State Governments were not vigilant" has not found favour with the Committee. The Committee feel that it is unfair to favour certain States in disregard of the interests of others. The Committee desire that vigorous efforts should be made to promote housing schemes equally in all the States and steps should be taken to ensure, as far as possible, equitable distribution of loans to States for housing schemes, keeping in view, of coure, the size of the States.

8.37 With regard to delay in disbursement of loans to States etc., the Ministry have stated that the exercise of allocation of loans is taken up in the beginning of the Financial Year but the process is delayed due to non-availability of feed-back reports on utilisation of loans granted during the preceding year. The delays in disbursements also occur as State Governments and HUDCO have to complete certain formalities for lifting the loans. The Committee desire that with a view to overcome these impediments some time-bound programme should be prescribed by the Corporation in consultation with the State Governments and HUDCO to complete all formalities in respect of loans given in preceding year and for lifting loan sanctioned for the current year within a stipulated time schedule to ensure timely disbursement of loans to the State Governments, HUDCO etc. for the desired purpose.

NEW DELHI;
November, 1985
Kartika 15 1907 (*Saka*)

K. RAMAMURTHY,
Chairman,
Committee on Public Undertakings

APPENDIX I

(*Vide* paragraph 4·11 of the Report)

Premium Norms—Opening New Branches/Division Offices

(Rs. in lakhs)

	May 1984	July 1982	July 1981	1973
Branches :—				
(a) A class cities	30	25	20	10
(b) B class cities	20	15	15	(Different classifications were not there).
(c) Other cities and Mofussil areas	10	8	8	
(d) Branches writing exclusively Non-traditional business	5	5	5	(Branches could also be opened with a minimum premium of Rs. 5 lacs initially, which could be developed to Rs. 7.5 lacs and Rs. 10 lacs in 2nd and 3rd years.
(e) No-Branch districts	3	3	3	
(f) Hilly areas	3	..	..	

Divisional offices :	Organised	Composite	Tied/PSB	Organised	Composite	Tied/PSB	Rs. 40 lacs	Rs. 40 lacs.
(a) Metro/A class cities	100	150	200	75	100	150	(Different classifications were not there).	
(b) B—class cities	75	125	150	60	75	125		
(c) Other cities/Mofussil areas	60	75	150					
(d) Hilly areas	40	50	100					

APPENDIX II

(*Vide* paragraph No. 4.51 of the Report)

Tariff Business

Subject	Date from which last revised
I. MOTOR DEPT.	
Indian Motor Tariff	1-2-1982
II. FIRE DEPT.	
(a) All India Fire Tariff	31-12-1978
(b) Consequential Loss (Fire) Insurance Tariff	Feb. 1978
(c) Petrochemical Tariff	31-3-1976
	1-1-1981
	1-1-1977
(d) Explosion (Fire) Tariff	31-12-1978
(e) Household Comprehensive Policy Domestic Multi Risk Policy Shopkeepers Comprehensive Policy Traders Composite Policy	Sept. 1978
III. MARINE DEPT.	
Sailing Vessles (Hull)	1-9-1975
	1-7-1980
Sailing Vessels (Cargo)	Dec. 1975
	12-8-1976
	31-3-1983
Inland Transit Insurance (Basic Cover) Rail/Road	31-3-1983
	31-10-1983
Marine Hull Insurance	July 1982
Fishing Vesseles	1-9-1975
	1-1-1977
	1-12-1981

IV. MISCELLANEOUS DEPT.

(a) Personal Accident Tariff	31-3-1979
(b) Workmen's Compensation (Employers Liability) Insurance	1-5-1982 (20% reduction in rates)
(c) Bankers' Indemnity Insurance	31-3-1978
(d) Carriers Legal Liability	1-9-1977 (Under consideration)
(e) Compulsory Third Party Liability Insurance—Inland Steam Vessels	1-11-1979

V. ENGINEERING DEPT.

Boiler Explosion.	1-4-1980
Contractors Plant & Machinery Tariff . .	1-1-1981
Machinery Breakdown (Electrical item) tariff. . .	1-10-1977
Marine-cum-Erection/Storage-cum/Erection . . .	March 1979

VI. COLD STORAGE (POTATO) TARIFF

(a) Machinery Breakdown	1-10-1977
(b) Deterioration of stocks	1-10-1977

APPENDIX III

(*Vide* paragraph No. 8.5 of the Report)

Statement showing break up of Corporation's total investments as at the end of the years 1976 to 1983

(Rupees in lakhs)

	1976	1977	1978	1979	1980	1981	1982	1983
1. Central Government Securities .	2368	2787	3112	3460	4135	5304	8005	8884
2. State Government Securities, Other approved securities and Bonds/Debentures of Public Sector Corporations .	1190	739	859	984	1194	1829	2180	3027
3. Loans to State Governments for Social Housing Programme	..	..		240	764	1414	2051	2994
4. Loans to Housing and Urban Development Corporation .			405	653	846	1139	1505	2046
5. Market Investments in Equity, Preference Shares, Debentures, Term Loans, Fixed Deposits, Loans to Banks under Bills Rediscounting Scheme and Participation Certificates .	8864	10198	10299	11751	13587	15189	16231	19411
6. Other Investments .	4	5	83	106	125	126	133	129
Total	12426	13729	14758	17194	20651	25001	30110	36491

APPENDIX IV

(*Vide* paragraphs No. 8·6 and 8·7 of the Report)

Statement showing actual investments of the Corporation during the years 1977-1983 under the various categories of investments outlined in Government guidelines.

(Rs. in lakhs)

Particulars	Percentage as per guidelines	1977 Actual Investment	1977 % to total	1978 Actual Investment	1978 % to total	1979 Actual Investment	1979 % to Total	1980 Actual Investment	1980 % to Total
(i) Central Government Securities .	25%	419 (29·9)	32·1	325 (27·1)	31·6	348 (16·2)	14·3	675 (19·6)	19·5
(ii) State Govt. Secruties and other approved securities and unapproved bonds debentures and loans to various Public Sector Corpn. and Semi Govt. bodies	10%	—451 (—32·2)	34·5	120 (10·0)	11·7	125 (5·8)	5·1	210 (6·1)	6·0
(iii) Loans to State Govts. for housing, Loans to HUDCO/DDA and Investment in bonds, debentures and Preference shares of HUDCO . .	20%	Nil	..	..	..	240 (11·2)	9·8	524 (15·2)	15·2
	15%	Nil		405 33·8	39·3	248 (11·5)	10·3	193 (5·6)	5·6
(iv) Market Investmens in equity, Preference Shares, Debentures, Term Loans, FDRS, Loans to Banks under Bills Rediscounting Schemes & Participation certificates . .	30%	1334 (95·3)	102·4	101 (8·4)	9·8	1454 (67·5)	59·6	1836 (53·2)	53·2
(v) Other Investment . . .	..	1	..	78 (6·5)	7·6	23 (1·1)	0·9	19 (0·5)	0·5
Total Net Investment . . .	100·0	1303	100·0	1029	100·0	2436	100·0	3457	100·0

(Figures in brackets indicated the percentage of cash accruals during the year)

(Rs. in lakhs)

Particulars	Percentage as per guidelines	1981 Actual Investment	1981 % to total	1982 Actual Investment	1982 % to total	1983 Actual Investment	1983 % to total
1	2	3	4	5	6	7	8
(i) Central Govt. Securities	25%	1169 (27·2)	26·9	2701 (53·0)	52·8	879 (14·0)	13·8
(ii) State Govt. Securities and other approved securities and unapproved bonds, debentures and loans to various Public Sector Copn. and Semi Govt. bodies	10%	635 (14·8)	14·6	494 (10·0)	9·6	848 (13·0)	13·3
(iii) Loans to State Govts. for Housing, Loans to HUDCO/DDA and Investment in bonds, debentures and Preference Shares of HUDCO	20	650 (15·1)	14·9	5[illegible] (11·0)	11·0	1020 (16·0)	16·0
	15%	293 (6·8)	6·8	443 (9·0)	8·7	463 (7·0)	7·2
(iv) Market Investments in Equity, Preference Shares, Debentures, Term Loans, FDRs, Loans to Banks under Bills Rediscounting Schemes & Participation certificates	30	1602* (37·2)	36·8	909 (17·0)	17·8	3171 (50.0)	49·7
(v) Other Investment		1	..	4	0·1	3	..
Total Net Investment	100·0	4350	100·0	5111	100·0	6384	100·0

(Figures in brackets incidcate the percentage of cash accruals during the year).

* Includes Rs. 2·00 crores as a Special deposit with Central Govt.

APPENDIX—V

(*Vide* Paragraph No. 8·19 of the Report)

Statement showing the State-wise break up of investment in State Government Securities at the end of 1979 to 1983.

(Rs. in lakhs)

State	1979		1980		1981		1982		1983	
	Invest-ment	%to total	Invest-ment	%to total	Invest-ment	%to total	Invest-ment	% to total	Invwest-ment	%to total
1	2	3	4	5	6	7	8	9	10	11
1. Andhra Pradesh .	28·00	7·9	48·00	12·6	70·00	8·7	95·00	11·3	85·00	8·7
2. Assam .	7·26	2·0	13·76	3·6	20·76	2·6	19·93	2·4	49·18	5·1
3. Bihar . .	19·00	5·3	13·00	3·4	20·00	2·5	40·00	4·7	80·00	8·2
4. Gujarat	21·44	6·0	28·52	7·5	75·81	9·5	49·78	5·9	68·83	7·1
5. Haryana . .	12·75	3·6	11·00	2·9	15·00	1·9	20·00	2·4	60·00	6·2
6. Himachal Pradesh .	1·50	0·4	2·14	0·6	1·98	0·2	4·88	0·6	13·88	1·4
7. Jammu & Kashmir	2·36	0·7	3·06	0·8	3·95	0·5	7·00	0·8	15·00	1·5
8. Karnataka .	21·00	5·0	14·82	3·9	10·50	1·3	40·00	4.8	65.00	6·7
9. Kerala .	20·00	5·6	37·25	9·8	57·25	7·2	57·85	6·8	70·00	7·2
10. Madhya Pradesh .	7·46	2·1	10·61	2·8	13·35	1·7	27·50	3·3	48·73	5·0
11. Maharashtra	65.64	18.4	58·47	15·5	215.22	26.9	89.97	10·7	68·19	7·0
12. Manipur	2·50	0·7	4·50	1·2	7·00	0·9	7·00	1·1	17·00	1·7

1		2	3	4	5	6	7	8	9	10	11
13.	Meghalaya . . .	1·00	0·3	1·60	0·4	1·00	0·1	6·00	0·7	10·00	1·6
14.	Nagaland	3·50	1·0	6·50	1·7	10·00	1·2	11·00	1 3	18·00	1·8
15	Orissa	14·00	3·9	11·00	2·9	40·00	5·0	40·00	4·8	65·00	6·7
16.	Punjab	5·31	1·5	9·55	2·5	10·57	1·3	15·12	1·8	45·40	4·7
17.	Rajasthan	26·00	7·3	23·00	6·1	25·00	3·1	60·00	7·2	85·00	8·7
18.	Tamil Nadu . . .	35·50	10·00	31·00	8·2	19·80	2·5	50·00	6·0	80·80	8·2
19.	Tripura	3·50	1·0	3·94	1·4	5·00	0·6	7·00	0·8	15·60	1·6
20.	Uttar Pradesh . . .	46·59	13·1	37·62	9·9	170·55	21·4	149·25	17·8	2·09	0·2
21.	West Bengal . . .	11·68	3·3	8·80	2·3	7·00	0·9	40·39	4·8	12·33	1·3
	TOTAL . . .	355·99	100·0	378·14	100·0	800·14	100·0	839·07	100·0	978·68	100·0

APPENDIX—VI

(*Vide* paragraph No. 8·22 of the Report)

Statement showing the break-up of investments in State Government Securities and other approved bonds at the end of each year during 1979 to 1983

(Rs. in lakhs)

Particulars	1979		1980		1981		1982		1983	
	Invest-ment	% to total	Invest-ment	% to total	Invest-ment	% to total	Invest-ment	% to total	Invest-ment	% to total
1	2	3	4	5	6	7	8	9	10	11
1. Agriculture Ref. & Dev. Corporation, Bombay	34·75	6·7	34·75	4·9	34·75	3·8	24·75	1·8	24·75	1·4
2. Central Warehousing Corporation, Delhi	5·00	1·0	5·00	0·7	5·00	0·5	5·00	0·4	5·00	0·3
3. I.C.I.C.I., Bombay	104·20	20·0	148·98	21·1	233·55	25·4	308·43	22·4	358·43	19·9
4. I.D.B.I., Bombay	183·90	35·4	348·72	49·3	448·28	48·7	727·82	52·9	867·12	48·2
5. I.F.C.I., Delhi	98·25	18·9	58·43	8·3	60·03	6·5	149·75	10·9	205·78	11·5
6. Rural Electrification Corporation, Delhi.	24·75	4·8	24·75	3·5	24·75	2·7	24·75	1·8	24·75	1·4
7. S.I.I.C.O.M., Bombay	..	..	..	..	20·00	2·2	20·00	1·5	60·00	3·3
8. Gujarat State Electricity Board	9·98	1·9	9·98	1·4	9·98	1·1	9·98	0·7	9·98	0·6
9. J&K Electricity Board	10·86	2·1	10·86	1·5	10·86	1·2	10·86	0·8	15·84	0·9
10. M.P. State Electricity Board	7·97	1·5	6·98	1·0	6·98	0·8	6·98	0·5	6·98	0·4

1		2	3	4	5	6	7	8	9	12	11
11	Maharashtra State Electricity Board	7·99	1·5	47·83	6·8	47·83	5·2	47·83	3·4	40·10	2·2
12	West Bengal State Electricty Board	1·99	0·4	1·99	0·3	1·99	0·2	1·99	0·1	1·99	0·1
13	J&K State Finance Corpn.	0·98	0·2	0·98	0·1	0·99	0·1	0·98	0·1	1·98	0·1
14	Maharashtra State Finance Corpn.	29·15	5·6	7·47	1·1	14·93	1·6	22·39	1.6	24·88	1·4
15	A.P. State Finance Corporation	..		..	..	..	..	..	..	..	..
16	Tamil Nadu Ind. Inv. Corpn.	..				..	..	14.93	1·1	14·93	0·8
17	Maharashtra Housing and Area Development Authority					..	..	..	..	100·00	5·6
18	Gujarat Industrial Inv. Corpn.				..	..	..	..	..	20·00	1·1
19	Maharashtra Industrial Development Corpn. . . .	..	..	..	..	..	..	..		15·00	0·8
	TOTAL	519·77	100·00	706·72	100·00	919·93	100·00	376·44	100·00	1797·51	100·00

APPENDIX VII

Statement of Conclusions/Recommendations of the Committee on Public Undertakings contained in the Report

S. No.	Reference to Para No. in the Report	Conclusions/Recommendations
1	2	3
1.	2.16	The Committee note that in pursuance of the recommendations of the Administrative Reforms Commission the Bureau of Public Enterprises had asked the Government Companies, as far back as in November, 1970 to formulate a statement of their financial and economic obligations/objectives clearly. No such statement in the form of a document has so far been prepared by the General Insurance Corporation (GIC) and got approved by the Government. The Chairman of the Corporation clarified during his evidence before the Committee that the full document on the objectives, strategy and action plan etc. was at the draft stage. He, however, stated that the draft 'Approach Paper' for the period 1984—89 has been prepared and broad objectives, the industry has set for itself, have been spelt out therein. The Committee are unhappy over this inordinate delay and desire that the objectives and obligations of the Corporation should be formulated and got approved by the Administrative Ministry without any further delay so that the areas of operation are clearly known and the Corporation and its subsidiaries are able to set targets, frame their programmes and execute them in a pre-determined manner and also assess the growth of their activities at periodic intervals on realistic basis.

1	2	3
2.	2.17	The Committee are also surprised at the information given by the Secretary of the Ministry of Finance in his evidence that the General Insurance Corporation does not come within the purview of BPE on the ground that it is a financial institution and guidelines issued by the Bureau are thus not applicable to the Corporation automatically. The Committee do not see much logic in this argument and are not able to appreciate this line of approach. The Committee are of the view that since BPE instructions are well thought out from commercial angle and are based on important considerations besides bringing about uniformity in practice, it should be desirable on the part of all the public undertakings including nationalised financial institutions to follow them in the normal circumstances. In the opinion of the Committee, there should be no difficulty in following BPE guidelines by undertakings engaged in financial business unless the guidelines are totally unsuitable to the special nature of the business transacted by the undertaking. Where it is not feasible to follow the guidelines, the undertaking should bring the matter to the notice of the administrative Ministry and take their specific approval. In view of the evidence of the Chairman of GIC that the Corporation was at the draft stage of the document on objectives, strategy and action Plan, the Committee feel that the guidelines and instructions issued by BPE should have been followed by GIC in letter and spirit.
3.	2.18	The Committee note that not only Corporation has not formulated its economic and financial objectives but also it has not prepared and got approved the Corporate Plan which could give a proper directive to the Management to watch and satisfy about its performance and growth and also of each of its subsidiaries. The Committee—desire that the Corporate Plan

1	2	3
		which is long over due should immediately be drawn up and got approved by Government. The Committee would like to be apprised of the action taken in this behalf.
4.	3.51 to 3.54	The Committee note that the crop insurance scheme on individual approach basis was first taken up as an experimental measure in 1973 but was abandoned in 1980 after incurring a loss of Rs. 33.34 lakhs, as the scheme was found impracticable. A pilot Crop Insurance Scheme on homogenous approach basis was taken up by GIC in 1979 with the State Governments participating as coinsures to the extent of 25 per cent but the coverage of the scheme till 1981 had been very meagre in as much as the insurance affected was only to the extent of Rs. 2 crores as compared to the total value of agricultural production of about Rs. 20,000 crores per annum in the country. Similarly the area of land covered under this scheme in 1983-84 was 87,296 hectares as against 16,000 million hectares of cultivable area of land available in the country. The claims paid during the years 1981-82 and 1982-83 as compared to the premium collected were very much on the high side and the claim ratio in 1982-83 had reached an astronomical figure of 238.46 per cent.
		The main reasons for the high claims ratio, as stated by Corporation, are heavy rain, water logging, root rot and wilt, low moisture, drought, high velocity winds etc. The high loss ratio is stated to be an inherent feature of this scheme because of its coverage being restricted only to selected areas and selected crops, and the premium rates having been fixed at a low level due to poor paying capacity of the farmers. As a result, the adverse claim ratio was likely to con-

1	2	3
		tinue till crop insurance was not implemented on a country-wide scale.
		The GIC is reported to have brought to the notice of the Government as far back as in October, 1981 that it was not the right agency for transacting crop insurance on a large scale or on a long term basis. The view of the GIC is that the crop insurance which cannot be tied up with commercial business, should be transacted by the State Government on their own account.
		During evidence, the representative of the Corporation has admitted that the GIC was not properly equipped to go into the technical details of the crop insurance and as such they were not the fit agency to undertake that business. Still the Ministry directed the Corporation to continue to conduct the crop insurance scheme on an experimental basis. In this connection, the Committee would like to point out that Crop Insurance involves several factors like flood, drought, inputs etc. which have direct bearing on yield from the soil and affect the crops. An organisation like GIC which was already engaged on many other activities could not be expected to take up detailed study of all these aspects or have technical knowledge on such matters. In the opinion of the Committee, there should be a rural based organisation with the necessary expertise to take up crop insurance schemes.
5.	3.55 to 3.58	The Ministry of Finance has also admitted that under the Government of India Allocation of Business Rules "Crop Insurance" falls under the Ministry of Agriculture and in the absence of any other suitable organisation GIC was asked to take initiative and conduct experimental schemes. The Ministry also informed the Committee that the Ministry of Agriculture had set up a Committee to go into the question of long

1	2	3
		term arrangement for the crop insurance and in its Report, that Committee had, *inter alia*, recommended that the State Governments should take the responsibility of transacting crop insurance throughout the country.
		The Committee are constrained to observe that inspite of the fact that the GIC had expressed its incapability to undertake crop insurance business as far back as October, 1981, GIC was required to carry on with the crop insurance scheme all these years.
		In his evidence before the Committee, the Finance Secretary stated that the Ministry of Agriculture was keen to have such a scheme introduced. He further stated that when GIC administered the scheme on a trial basis in certain selected districts the claims were reported to be very high as compared to the premium and it was thus not possible for GIC or its subsidiaries to meet with the situation. According to him it was the Planning Commission which was taking a view as to what would be the method of introducing crop insurance on a wider scale, what were the financial implications and what would be the best agency for doing so. The Committee were also informed that in the last meeting held on 29 October, 1984, the Planning Commission have not come to a final decision. In this connection, the Committee would like to draw attention of the Government to the UN Study (1981) on "Crop Insurance for developing countries" which has emphasised the need of a Government Unit to be the insuring organisation in Crop Insurance. Crop Insurance programme is stated to be linked with other aspects of national policy which in many countries are considered to fall within the direct responsibility of Government.

1	2	3
		The Committee cannot but deplore the casual manner in which the crop insurance scheme has hithertofore been dealt with by the Government. When GIC was pleading time and again that the Corporation was not the right agency to transact crop insurance and had brought their difficulties to notice, it was the duty of the Government either to give proper guidelines to GIC for implementing the scheme or to find out and set up a suitable alternate machinery.
6.	3.59	The Committee are, however, glad to note that the Central Government have since decided to introduce a comprehensive crop insurance scheme on a country-wide basis (effective from Kharif 1985) which will have a built-in-insurance cover for all crop loans. Under this scheme, the GIC will act as the leading insurer and will establish crop insurance cells at the State capitals and maintain close and constant liaison with the State Governments, Reserve Bank of India, NABARD, State Cooperative Banks, Commercial and Regional Rural Banks. The crops to be covered are rice, wheat, oil seeds, pulses and millets and insurance cover to these crops would be provided to the extent of 150 per cent of the crop loan. Since the uncertainty about the agency which should transact crop insurance business has been settled, the Committee hope that GIC would now provide necessary infrastructure and implement with due vigour and sincerety the newly introduced scheme efficiently. The Committee are sure that Government would provide the necessary guidelines to the GIC so that the past history is not repeated. The Committee would watch with interest the implementation of this new scheme and would like to be apprised of the results achieved thereunder in due course.

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7.	3.60 to 3.61	The Committee find that the working results of another scheme, namely, Janata Personal Accident Policy which was introduced on 31-3-1976 for the benefit of common man are also not very encouraging. The number of policies sold by different subsidiaries of GIC fell steeply from 17.33 lakhs in 1976 to 7.53 lakhs in 1980 and stood at 12.85 lakhs in 1981. There was, however, some increase during 1982 when the number reached at 20.16 lakhs. The claim ratio was also very high as it ranged between 64.1 per cent to 107.5 per cent during the years 1977—1982. The figure of 31.39 lakh people, covered under the scheme upto 1983, is still very insignificant as compared to the total population of 684 million people in the country (according to 1981 census). These figures themselves speak about the popularity or otherwise of the scheme among the people at the lowest rung of the society.
		GIC has admitted in evidence that "Janata Scheme is not progressing much". They have also ascribed the slow tempo of development to the apathy of the sales force in devoting time and energy to sustain the business owing to small earning accruing therefrom. The Committee, therefore, recommend that to make the scheme a success the Corporation should approach the administrative Ministry and through them persuade all the State Governments and Union Territories to have this Policy Cover for all their employees as was once initiated by the Governments of Bihar and Karnataka to cover their employees. The nationalised banks and cooperative banks should also be persuaded to have this cover for all their depositors.

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		The performance of the cattle insurance scheme is also not very satisfactory. The Committee note that as against the total population of 2400 lakh of cattle as per the livestock census of 1977, only 103 lakh have been insured till 1983, since the inception of the scheme in 1974, which is only 20.6 per cent of 500 lakh insurable animals in the country. The Corporation has also not been able to check the high claim ratio which ranged between 66.2 per cent to 85 per cent during 1978 to 1982. The Committee are not satisfied with the progress of the scheme as it is confined only to well organised dairies and in a few cases to milch cattle purchased with Bank or Government loans. The Committee desire that vigorous efforts should be made by Corporation to cover atleast majority of insurable cattle population in the rural areas in the next two years and the total insurable cattle population within five years. Prompt measures should also be taken to minimise the loss occurring as a result of high claim ratio. The Committee would like to be apprised of the measures taken in this regard.
9.	3.63	The Committee also recommend that concrete steps should also be taken to extend insurance protection to more and more individually owned cattle and to entertain proposals even where no bank is involved. Efforts should also be made by the Corporation to create awakening in the minds of the rural masses through the publicity media so that the weaker and poor sections of the society scattered at the remotest corners of the country could be benefited from this scheme.
10.	3.64 & 3.65	Another insurance scheme, namely, Insurance of Agricultural Pumpsets was introduced by Corporation in June, 1976 to provide indemnity to rural farmers against various types of losses *i.e.* by fire, theft, mechanical/electrical break-

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		down, accidental damage etc. and covers both electrical motors and diesel/oil sets. This scheme has also not become popular as only 4.17 lakh pumpsets out of over 35 lakh pumpsets (1976) in operation in the country were insured during the period from 1976 to 1981 and the industry suffered an accumulated loss of Rs. 63.84 lakhs. Even in 1983 the Corporation had insured 1,60,248 pumpsets which is only 4.7 per cent of the total number of pumpsets in the country (in 1976). This precentage will further slip down in view of the increase in the number of pumpsets after 1976. During the years 1977 to 1980 the claim ratio was also ruling very high between 137.7 per cent to 231.3 per cent. There was, however, some improvement during the year 1981 when the claim ratio stood at 68.3 per cent. The Committee note that in order to reduce the incidence of high claim ratio the subsidiaries had made certain suggestions to the Corporation in 1980; out of which three were stated to have been implemented by the Corporation in October 1982 but till August, 1983 the subsidiaries had not issued the necessary instructions in that regard. The Committee take a serious note of this lapse on the part of the subsidiaries and would like to be apprised of the reasons for not issuing the instructions by subsidiaries and remedial steps taken to prevent recurrence of such situations in future.
11.	3.66	On perusal of the performance of the above schemes, the Committee find that the various schemes put into operation by the General Insurance Corporation of India for the weaker section of the society, especially for the agriculturists and the rural people have not borne the desired results and consequently the objective of making these schemes meaningful for the common man has been frustrated. The Committee note from

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		the Audit Report (Commercial)—Part VIII (1982) that in January, 1979 Government had taken a decision in principle to establish a Rural Insurance Corporation on the basis of a feasibility report prepared by the G.I.C. in 1979 and approved by the Board of G. I. C. to cover various insurance schemes like cattle insurance, insurance of agricultural pumpsets, gramin accident policies, insurance of poultry, sheep, bullocks, pigs etc. and farmers package insurance policies for the benefit of rural masses but the Ministry of Finance took four years to examine the report and came to the conclusion in June, 1983 that the Rural Insurance Corporation, as envisaged by G.P.C., was not viable and feasible. The Committee are of the view that since G.I.C. are involved in multifarious activities and in view of the fact that the branches of G.I.C. and its subsidiaries are located mostly in the urban areas, it cannot do justice to the rural people. The Committee, therefore, recommend that Government should give a second thought to its earlier proposal of establishing a Rural Insurance Corporation to implement the various schemes devised for the benefit of rural masses in general and weaker sections in particular. The proposed Rural Insurance Corporation if set up should be provided with the technical expertise necessary for rural insurance. The necessity of such a rural based organisation for doing rural insurance business has already been emphasised by this Committee in earlier recommendation in this Chapter (Para No. 3.54).
12.	4.75 to 4.78	The Committee have observed that there has been an increase of 556 branches of G.I.C. between 1976 and 1983 and 97 per cent of the 432 Districts at the end of 1983 had either a branch or an inspector operating there. At the

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		end of 1984, there were 124 Districts without a branch and 16 Districts without any inspector of any of the four subsidiaries. By the end of 1985, the office network is expected to cover all the 432 districts existing as on 31st December, 1983 by appointing Inspectors in all the 'No Inspector' Districts and opening Branches in all the 'No Inspector' Districts. The Committee have also been informed that the organisational net-work is proposed to be expanded by GIC so as to have as far as possible one regional office in each State thereby increasing the total number of regional offices from 35 at the end of 1983 to 65 by the end of 1989. The number of divisional and branch offices are also proposed to be increased from 1649 at the end of 1983 to 3120 by the end of 1989. While on the one hand the Committee are happy over the increase in the number of branches, divisional and regional offices during all these years, on the other they would like to point out that the Corporation has so far made only a beginning and have yet miles to go for spreading the message of insurance in the rural areas where the people are totally unaware of the concept of general insurance. Therfore, GIC will have to redouble its efforts to carry forward the programme of opening branches in the far-flung areas of the country. So far GIC has covered even the urban and semi-urban areas only partially what to talk of rural areas. The Committee also suggest that if the opening of the branches in certain remote areas is not considered financially viable at present, then GIC should consider the feasibility of extending the jurisdiction of the existing branches so as to bring in more and more backward and

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		under-developed areas within the net-work of General Insurance Corporation. In this connection, the Committee would like to suggest that in order to popularise the various insurance schemes and to meet the insurance needs of the weaker sections of the society, GIC should consider the feasibility of giving some special concessions to them.
13	4.79 & 4.80	The Committee are glad that profitability of insurance industry has been impressive but the performance concerning customer service has been very dismal. The pre-tax profit has gone up from Rs. 38.10 crores in 1973 to Rs. 254.77 crores in 1983. The Committee, however, feel that the profit which no doubt is a legitimate concern of every institution, is at best an only partial indicator of the health of a service organisation like GIC. The earning of the profit should not, however, engender any sense of complacency on the part of GIC as general insurance premium in India is just 0.4 per cent of the GNP as against 4.6 per cent in United States, 2.8 per cent in U.K., 1.5 per cent in Japan, etc. Further, the per capita general insurance premium in India is about Rs. 5.2 as against Rs. 2600 in the United States, Rs. 800 in U.K. and Rs. 540 in Japan. This shows the enormous growth potential in our country. Furthermore, the overall performance of the Corporation has to be judged not only from its earning profits but also with reference to fulfilment of its broad objectives and goals and how far the various schemes introduced by the Corporation have benefitted the backward and weaker sections of the society.
		The Committee need hardly emphasise that it is the weaker section which should get the maximum benefits. Therefore, the Committee recommend that even at the cost of extra ex-

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		penditure and less profitability GIC should try to reach areas where they may not be having business according to their expectation but where they are likely to give benefit to the hitherto neglected rural masses.
14	4.81 to 4.83	The Committee find that Gross National Product of the country for 1975-76 was Rs. 65,692 crores and by 1981-82 it increased to Rs. 1,28,524 crores. The gross premium income which was Rs. 253.74 crores in 1975 increased to Rs. 585 crores in 1981. It increased to Rs. 723 crores in 1982 and further rose to Rs. 857 crores in 1983 resulting in the increase of 18.6 per cent in 1983 over 1982 as against 23.6 per cent in 1982 over 1981.
		The Committee have also observed that the percentage growth of premium income in 1976 was 6.6 per cent and then it progressively increased to 24.7 in 1981. Thereafter, it decreased to 23.6 per cent in 1982 and further decreased to 18.5 per cent in 1983. In this connection, the GIC has explained that the high growth rate of 24.7 per cent in 1981 was due to higher industrial growth and increased imports of oil and cement, newsprint, etc. which are not the normal features. The growth rate of 23.6 in 1982 was also due to increase in motor tariff rates and subsequent fall in growth rate in 1983 was due to textiles strike, recession in shipping industry etc.
		The Committee are not convinced of the reasons advanced by GIC for the decline in the growth of premium income. The Committee are clear in their mind that the Corporation has not done well in regard to premium income and it should not seek alibi for their unsatisfactory performance. The factors stated by GIC to be responsible for the decline in premium income

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		are not unusual and must have been taken into consideration while projecting the increase in premium income. The Committee desire that in order to off-set the loss in premium income GIC should make all out efforts to exercise cost control and to secure more business so as to reach if not exceed the projected premium target of Rs. 1215 crores by the end of 1985.
15	4.84 & 4.85	The Committee note that in 1978 the Fire Insurance Premium charges in Delhi and Calcutta regions were higher than the charges in Bombay and Madras regions. The tariff then existing was rationalised by Tariff Advisory Committee w.e.f. 31st December, 1978 and this resulted in reduction of premium by about 20 per cent.
		The Committee also note that subsequent to the rationalisation of the fire tariff in 1978, the fire claim ratio to the gross premium income increased from 38.9 per cent in 1978 to 49 per cent in 1979. The fire claim ratio then declined during 1980 and 1981 to 31.5 per cent and 32.7 per cent, respectively. It again went up to 39.6 per cent in 1982 and further increased to 43.9 per cent in 1983. In Committee's opinion this is an unwelcome trend, and suitable remedial measures, like strict control and check in undertaking insurance and passing claims should be taken promptly to bring down the fire claim ratio which in turn would reduce the loss in revenue of the subsidiaries. The Committee would like to be apprised of the steps taken in this regard.
16	4.86	The Committee are also informed that the question of further rationalisation and simplification of fire tariff is receiving consideration of GIC and their final view in the matter is expected to emerge shortly. The

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		Committee urge upon GIC to finalise and formulate their views on the proposal at an early date and submit a detailed and comprehensive fire tariff proposal for approval of Government. The Committee need hardly emphasise that the delay in taking timely action would not only result in loss of revenue to the Insurance Companies but would also deprive the insuring public of the advantageous terms in the form of reduction in premium rate etc.
17.	4.87 & 4.88	The Committee find that the controbution of the Fire Insurance Business to gross direct premium income has been continuously decreasing since 1975 and has come down from 36.2 per cent of the gross direct premium in 1975 to 27.1 per cent in 1983. The decline, as explained by Management, is due to the discount allowed in premium for the first time in January, 1978 and rationalisation of the fire tariff from January, 1979.
		The diminution of income from fire Department is unwelcome trend and the Committee are not happy over it. In their opinion, the Fire Insurance is the most profitable Department and should serve to cover even the losses of other Departments. Further, the reasons furnished by the Management for the decrease of income from fire insurance i.e. the discount allowed and rationalisation affected in 1979, are not convincing to the Committee as the decrease in business in terms of percentage is continuous from 1975 to 1983. The Committee, therefore, recommend that the factors responsible for the decline should be thoroughly gone into and suitable remedial measures taken to reverse the adverse trend and to widen the premium base of Fire Department. The Committee would like to be informed of the reasons for giving discount and its commercial justification.

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18.	4.89 to 4.91	The Committee have also observed that the total incurred claims have on an average been increasing during 1976 to 1983 in almost all the Departments of the insurance business. The total incurred claims have gone up from Rs 11,119 lakhs in 1976 to Rs. 52,968 lakhs in 1982 and stood at Rs. 47,184 lakhs at the end of 1983. The Committee also find that the percentage of claim ratios to gross direct premium income in respect of all cases of business has also been increasing since 1976. While in the case of motor insurance there is constant increase upto 1979, in others, the claim ratio has been fluctuating. The claim ratio in motor vehicle insurance rose to as high as 93 per cent in 1979 and thereafter it has shown a declining trend and stood at 86.8 per cent, 86.1 per cent, 73.3 per cent and 76.3 per cent in 1980, 1981, 1982 and 1983, respectively which in itself is quite high. Since a sizeable chunk of direct gross premium income is appropriated in the settlement of incurred claims of various classes of business, the Committee desire that the Corporation should devise ways and means to plug procedural and administrative loopholes without causing inconvenience to geniune claimants and bring down the high claim ratio obtaining in almost all the Departments, especially in motor vehicle insurance in which there is lot of room for irregularities.
19.	4.92 & 4.93	The motor claim ratio in the years 1974, 1975 and 1976 was 63.6 per cent, 61.4 per cent and 53.9 per cent respectively. It went upto 71.5 per cent in 1977, 78.7 per cent in 1978 and 93.1 per cent in 1981. Due to consistently adverse loss experience, the Motor Tariffs were revised upward *w.e.f.* 1st February, 1982, but the implementation of revised tariff was stayed by writ petition

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		moved in High Courts throughout the country challenging the increase in premium The Committee feel that since the review of Motor Tariff is brought about by TAC after a detailed study spread over a number of years, this is a long drawn process and results in heavy loss of revenue to the subsidiaries due to "No Review" even when it is expedient and desirable to do so. The Committee, therefore, recommend that ways and means should be devised for a quicker review so that such reviews could be held at shorter intervals.
20.	4.94	The Committee suggest that the Government devise methods for quicker collection of data and that the data base available with TAC should be suitably strengthened so that the time taken by them for review of tariff etc. is reduced to the minimum possible extent. In this connection, the Committee have also been informed that the question of introducing mechanisation through micro processing unit is under consideration of GIC. GIC is also reported to have entrusted to the Computer Maintenance Corporation the task of conducting the feasibility study. Its report was received by GIC in February, 1983 and considerable work is reported to have been done by them since then. It is also stated that the implementation of scheme will require prior consultation with and agreement of the Employees' Unions. The Committee, therefore, desire that all implications involved in the scheme of introduction of mechanisation should be urgently sorted out with the Employees' Unions and the scheme brought into operation at an early date. The Committee would like to be apprised of the progress made in this regard.
21.	4.95	As regards a regular machinery available with GIC to gauge and assess the resistance and

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24.	5.25 to 5.28	The Indian Insurance Companies are reported to be operating abroad in 20 countries directly through Branches/Agencies and in 9 other countries through Associate or Subsidiary Companies. The subsidiaries of GIC are stated to be making losses in respect of their Units in foreign countries and cumulative loss suffered by the four subsidiaries over a period from 1976 to 1981 was Rs. 516.63 lakhs. The GIC has not wound up the operations of loss making overseas branches although the Government had a thinking for discontinuance of their operations in September, 1975. As regards the loss suffered by subsidiaries in foreign countries, the GIC has informed that the cumulative loss of Rs. 516.63 lakhs over a period from 1976 to 1981 is attributed to the debit of share of Head Office expenses at 5% of gross premium written outside India. If the share of Head Office expenses is excluded, the net result of the foreign operations would not be a loss but a profit of Rs. 1240.83 lakhs over a period from 1976 to 1983. The Committee feel that losses suffered by the subsidiaries of GIC outside India if not merely national are a matter of great concern. They, therefore, desire that the Government should take a fresh and close look into all aspects of the matter and find out ways and means as to how best the performance of continuous losing branches of the insurance companies functioning abroad could be improved upon to wipe out the losses and make profits. The Committee would like to be informed of the steps taken in this regard The Committee would also like that the annual review of this is made and incorporated in the Annual Report of G.I.C. The Committee require

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		that the Government should review at the Ministerial level the operations of all the overseas branches of the insurance companies so as to lay down necessary guidelines and give a new and vigorous thrust to their operations. The review should also identify new areas abroad where business prospects are bright and where new branches could be opened.
25.	5.29	The Committee note that at the end of 1981 more than one subsidiary of GIC was operating in a number of countries including Singapore, Hong Kong, Kuwait, Dubai and Nepal. The Committee feel that in a country where more than one subsidiary of GIC is operating, the business should be carried on only by that subsidiary which has produced the best results. This is necessary to avoid frittering away of precious foreign exchange through unncessary competition or indulging in under-cutting of business of one company by the other. However, where it is found in the interest of the Corporation that more than one subsidiary should function in a foreign territory, there should be complete coordination between them and their representatives should meet at regular intervals to discuss, sort out and coordinate their business problems.
26.	5.30	The Committee are distressed to observe that the 'Oriental' has been working in losses in most of foreign branches during all these years. In its Singapore Branch, a case of loss of Rs. 7.25 lakhs is reported, due to irregular grant of fire insurance cover, without receipt of proposal forms and without recovery of outstanding premium in due time. The Committee desire that this lapse should be looked into in, depth with a view to fixing specific responsibility therefor. The Committee also recommend that consistent losses of

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		'Oriental' should be investigated and suitable remedial measures taken to improve its performance in foreign countries.
27.	5.31	The Committee have also observed that the average commission rates paid by all the companies abroad range from 28 per cent to 34 per cent as against the commission rates in India ranging from 2 per cent to 5 per cent. While the Committee agree that units functioning abroad have to compete with foreign companies in the matter of commission rates, they feel that it is absolutely necessary on the part of the Indian Assurance Company abroad to evaluate, watch and effectively control the quality of under-writings transacted by foreign agencies on their behalf. Suitable measures should also be taken expeditiously to eliminate any bad risks and streamline or eliminate the agencies giving a poor performance.
28.	5.32	The Committee have noted with concern that the amount of Rs. 35.72 lakhs representing dividend and sale proceeds of shares etc. for the period upto 1980, to be remitted to India by two .companies *viz.* (i) New India Assurance Company, Ghana and (ii) British India, Ghana, was outstanding as on June, 1983. In this connection, GIC has admitted that no remittance has been received from Ghana due to restrictions imposed by local authorities. The application for remittance was approved by the Central Government of Ghana but the actual remittance was held up till such time their foreign exchange situation improved. The Committee desire that the matter should be taken up by the Government of India at the highest level with the Government of Ghana to expedite the remittance of the outstanding dues by these two Companies.
29.	5.33	The Committee are also informed that extension of insurance operations outside India is

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		contemplated through Branches/Agencies in some of the developing countries like South Korea, Zimbabwe, Uganda, Brazil and also by opening representative offices in developed countries with large Indian community such as USA and Holland, where business prospects are bright. With the extension of operations in the proposed new territories, the net premium growth is envisaged at 10% per annum by 1989 as against 2% at present and as against estimated premium of Rs. 4120 lakhs in 1983, the premium envisaged for 1989 is Rs. 6705 lakhs. The Committee trust that sincere efforts would be made by GIC to accomplish these objectives. The Committee would like to be apprised of the concrete action taken in this regard.
30.	6.9	The Committee are distressed to note that the number of outstanding documents in respect of all the four subsidiaries has during the years from 1979 to 1983 shot up at an alarming rate instead of decreasing and reached an all time high figure of 31,14,934 in the 4 subsidiaries put together at the end of 1983. Similarly, the percentage of documents issued by the four subsidiaries has also declined from 79.4 per cent in 1982 to 76 per cent in 1983. Till June, 1983, GIC had not evolved norms for issue of documents per staff member. In the absence of norms, it is not understood as to how the subsidiaries exercise effective control over the issue of documents. The Committee, therefore, desire that suitable norms for issue of documents by staff members should be prescribed without further delay so as to reduce, if not liquidate completely, the mounting arrears in documentation. GIC should also ensure that the norms thus fixed are meticulously observed by all concerned and no laxity is allowed on this account.

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31.	6.10 & 6.11	Another disturbing feature which needs immediate attention of GIC is the improvement in the agency cadre. It is a common knowledge that the agents of the insurance companies are only concerned with their commission and do not bother about the service to be rendered to the customers. They are not properly advising the customers in respect of the various schemes of insurance in operation and in fact they themselves are not fully conversant with the latest developments in the field of insurance. In this connection, the Chairman of GIC also admitted during his evidence before the Committee that "there has been a mushroom growth of agents and many of them were not upto the mark." He also informed the Committee that they have taken up a programme of training of agents so that these agents become professionals and are able to render effective services to the clients. The Committee need hardly emphasise that the insurance by itself is not a substitute for customer's service in prevention of risks and for safety consciousness. Customer's service should take the shape of prompt issue of renewal notices, timely issue of policies and friendly advice from time to time on risk management. The Committee recommend that training of agents and Inspectors and orientation programme of Officers and concerned employees should be organised on a regular basis and programmes on scientific lines launched. The Committee hope that the proper training of agents and officers will help a great deal in providing better and prompt service to the customers.
32.	6.12	The Committee are glad to note that in order to improve the rate of documentation and for simplification of the procedure to issue more documents, a single certificate-*cum*-policy system

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		has been devised in the motor department for Third Party Risks as well as for providing a compehensive cover for all classes of vehicles. The Committee hope that this simplified procedure will not only help the customers but to a greater extent it will also help in clearing the arrears in documentation.
33.	6.13	The Committee are also glad to note that the Ministry of Finance have issued instructions to GIC and its subsidiaries to include in their Annual Report in future a Special Chapter on "Customer Relations" highlighting among other things the progress achieved in better customer services, reduction in arrears of documentation and settlement of claims, etc. The Committee feel that this is a step in the right direction and would go a long way in providing better service to the customers.
34.	6.26	The Committee are concerned to note that not only the subsidiaries of the Corporation are in heavy arrears in documentation but their performance in the field of settlement of claims is also very disappointing. The overall number of outstanding claims in respect of all the subsidiaries has increased from year to year. The number of outstanding claims which stood at 2,68,972 at the end of 1976 has nearly doubled and reached a record figure of 4,64,515 claims pending settlement as on 31-12-1983. Out of this, as many as 3,22,490 claims are outstanding for a period ranging between 3 months to over 5 years. Claims pending for 1 to 3 years, 3 to 5 years and more than 5 years are 1,12,305, 25,768 and 13,840 respectively. Likewise, the total amount of outstanding claims covering the period from 3 months to 5 years and more also touched a high figure of Rs. 525 crores. The total gross premium collected in India in 1983 was Rs. 857 crores. All this

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		depicts very dismal picture of .the functioning of the subsidiaries and requires special efforts on the part of GIC to tackle this alarming situation on time-bound programme. The Committee recommend that a time limit for clearance of a claim may be laid down, if necessary, by amending the General Insurance Corporation Act so that the scope for delays may be minimised.
35.	6.27 & 6.28	The ratio of the number of claims outstanding to the claims intimated during the years 1976 to 1983 has also not been satisfactory. In each year, it had been more than 56 per cent which is quite a high percentage. The performance of the subsidiaries with regard to the settlement of claims cannot be termed as satisfactory by any standard.
		The Committee note that GIC has initiated a number of measures for expediting settlement of claims, but they are unhappy to note that the number of measures that have been taken by the Corporation and the subsidiaries to bring down the number of outstanding claims and to streamline the procedure for expediting the settlement of claims, including the delegation of power to officers according to their status etc., have not brought about any appreciable improvement in the position. In this connection, even in the review meeting of the Finance Minister held on 20 July, 1984, the Minister had commented that "the performance of GIC and its subsidiaries often evokes adverse criticisms mainly on two accounts viz. delay in documentation and delay in setllement of claims." In the opinion of the Committee, a service organisation like GIC cannot afford to overlook the criticism and public dissatisfaction and they should take such vigorous measures as could cut down the red tapism and minimise formalities in small

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		claims so as to eliminate backlog of pending claims within a reasonable time schedule. The Committee need hardly stress that the reputation of the Corporation and its subsidiaries would go up only when the claims are settled promptly.
36.	6.29	The Committee would like that the subsidiaries should take active interest in reminding the claimants where the compliances of the objections raised by them are not forthcoming. The Committee also desire that the claims pending for over a year should be reviewed monthly by the Corporation and suitable instructions issued to the subsidiaries for rectifying the irregularities, if any, noticed. The Committee hope that such measures as suggested above and other measures already taken by GIC/Ministry for expediting settlement of claims are implemented earnestly in order to bring about positive improvement in the otherwise dismal position of settlement of outstanding claims.
37.	7.24	The Committee note that an Export Committee appointed by the General Insurance Corporation of India recommended in July, 1975 that the long term objective of the Indian market should be to establish itself as a market providing reinsurance capacity for world wide business and particularly for the business emanating from the developing countries and to earn increasing volume of inward reinsurance premium with the object of providing net invisible exchange gain for the country. That Expert Committee had also recommended that in view of the country's acute foreign exchange problem reinsurance trading operations should be on a selective basis to ensure profitable results over a relatively shorter period of time than is allowed under normal international practice. In the opinion of this Committee, the recommendations of the

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		Expert Committee were followed more in breach than in observance as GIC during a span of 8 years from 1976 to 1983 failed to increase the volume of inward reinsurance premium as is evident from the trend of foreign exchange drain during this period. The total outgo from premium income received in India was more than 100 per cent and upto 111 per cent during the years 1976 to 1978 and between 90.6 per cent to 98.3 per cent during the years 1979 to 1983, except, of course, during 1981 when it stood at 84.5 per cent. The Committee feel that keeping in view the past results there seems very little likelihood of GIC turning the corner soon as far as inward reinsurance is concerned as the Ministry had itself admitted that "the capacity of GIC and its subsidiaries to accept reinsurance from abroad is limited and hence lead cannot be provided for various reinsurance requirements of foreign countries."
38.	7.25 & 7.26	The Committee note that in April, 1976, the Corporation had set before itself the objective of maximisation of retention of premium in India while making reinsurance arrangements. On an analysis of the figures of the premium collected and the percentage of retention, the Committee find that during the years 1978 to 1982 the percentage of retention in the case of Fire instead of increasing declined from 84.44 in 1978 to 80.8 in 1982. Similarly in the case of Marine, the retention of premium in India came down from 75.09 per cent in 1978 to 70.6 per cent in 1982. It is gratifying to note that the insurance industry retains 100 per cent premium in respect of motor insurance and fire where small risk is involved. It has, however, been observed that in the case of large fire risks involving five Chemical, Petro-Chemical and Fertilizers Industries, the retention did not increase during the years 1978—81. In 4 cases out of 5 retention decreased in 1981 despite major portion of underwriting profit being on Fire portfolio.

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		The Committee have also observed that general insurance industry is being called upon to underwrite larger individual risks concerning satellites, off-shore oil-drilling platforms, large aircraft of national and international airlines, super tankers, etc. GIC has pleaded that placement of reinsurance outside the market for large risks beyond their capacity is inevitable and such reinsurance cessions may not be viewed purely in the light of foreign exchange drain. In the case of Satellites and aeroplanes where greater risks are involved and the chances of loss are much more, almost 99 per cent and 94 per cent respectively of the total value is reinsured. Instances in view are of INSAT I-A and Sagar Samrat where Rs. 63.5 crores out of Rs. 64 crores and Rs. 56 crores out of Rs. 57 crores of the reinsurance premium were, respectively, recovered. The approach of the Corporation in this regard is appreciable but there is also no denying the fact that with the advancement in the field of latest technology the chances of mishaps are also becoming less and less. The Committee feel that the Corporation should have thorough review of the reinsurance programme in the light of the latest technological developments in the various fields and find out ways and means to increase retentions, keeping national interest in view.
39.	7.27 to 7.28	The Committee note that one of the objectives of reinsurance policy was that in respect of business ceded outside India, the insurers should secure the best terms and reciprocity. From the results of the business ceded outside India, the Committee find that the Corporation has not handled the business according to sound business principles. The outward flow of foreign exchange was much more as compared to the inward flow. It is also evident from the fact that

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		during 1982 the Corporation earned a foreign exchange gain of Rs. 1371 lakhs but in 1983 it suffered a huge exchange loss of Rs. 1652 lakhs. In other words, the Corporation instead of stepping up its gain incurred a cumulative foreign exchange loss of Rs. 3023 lakhs (Rs. 1371+1652 lakhs). Similarly in the case of reinsurance business accepted from outside India, the Corporation had been experiencing foreign exchange drain continuously for the last 8 years from 1976 to 1983. From a mere exchange loss of Rs. 6 lakhs in 1976 it reached a colossal loss of Rs. 433 lakhs in 1983. There was 802 per cent increase in exchange loss during 1983 alone as from Rs. 48 lakhs in 1982, it reached a stunning figure of Rs. 433 lakhs in 1983. It seems that the Government have not even taken a serious note of this incessant foreign exchange drain. This huge drain itself speaks volumes about how the principal of reciprocity of business ceded outside India worked in comparison to the business accepted from outside India.
		The Committee, therefore, feel that unless the outflow of foreign exchange is checked the continuous drain will continue to adversely affect the foreign exchange reserves of the country. The Committee desire that in view of India's acute foreign exchange problem suitable measures should be taken urgently to increase the inward business so as to strike a favourable balance between the outward and inward flow of reinsurance business.
40.	8.31 to 8.33	The Committee note that the investment policy of General Insurance Industry is governed by the provisions of the Insurance Act, 1938 and the guidelines issued by the Government of India during 1974, 1977 and 1978. According to guidelines issued by the Central Government, the following percentages of fresh annual ac-

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		crual of investible funds are required to be earmarked for investment during a year in the following manner:—

1.	Central Government Securities	25%
2.	State Government Securities and other approved Bonds and Debentures issued by Public Sector Undertakings	10%
3.	Loans to State Governments for Social Housing Programmes . . .	20%
4.	Loans to Housing and Urban Development Corporation . .	15%
5.	Market Investments	30%

The Committee also note that these guidelines have not been scrupulously observed by the Corporation and its subsidiaries in making investments even in the approved sectors. The investments in Central Government Securities and State Government Securities were either much less or much more than the prescribed percentage.

From the statements at Appendices III and IV, the Committee find that there are wide variations in the investments made in the State Government Securities and other approved Securities from the prescribed norm of 10 per cent. The Committee feel that the very purpose of prescribing norms or for laying down guidelines for making investments is defeated, if these are respected more in breach than in observance. The Committee urge that in future the guide lines issued by Government should be meticulously followed and Insurance Companies should adhere to the prescribed percentage of investment, in approved securities. Wherever a serious departure is to be made, the matter should be brought to the notice of Central Government and its prior approval taken.

41.	8.34	From the investments made in the State Government Securities at the end of each year

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		from 1979 to 1983, the Committee find that some State Governments received preferential treatment at the cost of others. Out of 21 State Government Securities in which investments had been made, investments in six State Government Securities accounted for 63.5 per cent in 1980, 5 State Government securities for 73.7 percent in 1981, 4 State Government Securities for 47 percent in 1982 and 55.1 per cent in 7 State Government Securities in 1983 of the total investments. In 1980 and 1981 the share of 11 State Governments and 14 State Governments respectively was less than even 3 per cent. The Committee are not happy over the wide disparity in the matter of investments in Government securities showing preferential treatment to some States over others. They are also not satisfied with the explanation offered that the figures of actual investible funds for a particular year become available only after the accounts for the year are finalised in May/June of next year. The investments during the year upto the prescribed percentages are made on the basis of budgeted accretions, and any shortfall/excess in the investments in various categories is made good/adjusted in the subsequent year. The Committtee feel that this arrangement is not fool-proof for ensuring investments as per norms prescribed and is likely to result actually imbalances in investments. The Committee urge the Government to evolve a system whereby the accruals may be estimated in a more scientific and realistic manner so that the actuals may turn out more accurately. They would also like that GIC investments are made evenly in State Government Securities. It is, however, heartening to note that with a view to bridge the gap between the prescribed percentages of accretions for the year and actual investments during that year a system of quarterly review of accretions of investible funds based on monthly cashflow

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		statements has been introduced by G.I.C. which may help to some extent in correcting imbalances in investments in different categories.
42.	8.35	Similarly, the investments in other approved securities of I.C.I.C.I and I.D.B.I. accounted for 74.1 per cent and the rest 25.9 per cent was invested in other 13 approved securities in 1981. In 1982 and 1983 the investment in I.D.B.I., I.C.I.C.I. and I.F.C.I. put together was 86.2 per cent and 79.6 per cent respectively. The remaining investment of 13.8 per cent in 1982 and 20.4 per cent in 1983 was made in other 12 and 15 approved securities, respectively. The Committee are not convinced with the reasons advanced by the Corporation that I.D.B.I. and I.C.I.C.I. are all India Financial Institutions making specific requests for longer support and coming in the market 4 to 5 times in a year with large issues. The Committee need hardly stress that the guidelines should be strictly adhered to in future and a few institutions should not get undue share at the cost of others.
43.	8.36	The position regarding loans sanctioned and disbursed to HUDCO, DDA and State Governments during the years 1977 to 1983 is equally disappointing. An analysis of the figures of loans sanctioned and actually disbursed shows that the loans actually disbursed during 1978 to 1982 fell far short of the sanctioned amounts. Further there was delay of 4 to 6 moths in the disbursement of the loans to HUDCO, D.D.A. and State Governments and the norm of investment of 35 per cent prescribed by the Government was never fulfilled. The percentage of disbursement of loans to these bodies which was 33.7 per cent in 1977 slumped to 19.8 per cent in 1982. The argument of the Ministry that "there are State Governments who under the Housing

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		loan are able to get far more than their share because other State Governments were not vigilant" has not found favour with the Committee. The Committee feel that it is unfair to favour certain States in disregard of the interests of others. The Committee desire that vigorous efforts should be made to promote housing schemes equally in all the States and steps should be taken to ensure, as far as possible equitable distribution of loans to States for housing schemes, keeping in view, of course, the size of the State.
44.	8.37	With regard to delay in disbursement of loans to States etc., the Ministry have stated that the exercise of allocation of loans is taken up in the beginning of the Financial Year but the process is delayed due to non-availability of feed-back reports on utilisation of loans granted during the preceding year. The delays in disbursements also occur as State Governments and HUDCO have to complete certain formalities for lifting the loans. The Committee desire that with a view to overcome these impediments some time bound programme should be prescribed by the Corporation in consultation with the State Governments and HUDCO to complete all formalities in respect of loans given in preceding year and for lifting loan sanctioned for the current year within a stipulated time schedule to ensure timely disbursement of loans to the State Governments, HUDCO etc. for the desired purpose.

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