COMMITTEE ON PUBLIC UNDERTAKINGS (1986-87)

(EIGHTH LOK SABHA)

GENERAL INSURANCE CORPORATION OF INDIA (MINISTRY OF FINANCE, DEPARTMENT OF ECONOMIC AFFAIRS)

[Action taken by Government on the recommendations contained in the 6th Report of the Committee on Public Undertakings (Eighth Lok Sabha)]

Presented to Lok Sabha on 10 April, 1987

Laid in Rajya Sabha on 15 April, 1987

सत्यमेव जयते

LOK SABHA SECRETARIAT
NEW DELHI

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(1986-87)

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*Elected w.e.f. 22-8-1986 in the vacancy caused by appointment of Miss Saroj Khaparde as Minister of State.

ACTION TAKEN SUB-COMMITTEE OF THE COMMITTEE ON PUBLIC UNDERTAKINGS
(1986-87)

1. Shri K. Ramamurthy—*Chairman*
2. Shri Braja Mohan Mohanty—*Convener*
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4. Shri Chiranji Lal Sharma
5. Prof. C. Lakshmanna
6. Shri Jagdambi Prasad Yadav

INTRODUCTION

I, the Chairman, Committee on Public Undertakings having been authorised by the Committee to submit the Report on their behalf, present this Twenty-third Report on Action Taken by Government on the recommendations contained in the Sixth Report of the Committee on Public Undertakings (Eight Lok Sabha) on General Insurance Corporation of India.

2. The Sixth Report of the Committee on Public Undertakings (1985-86) was presented to Lok Sabha on 25 February, 1986. Replies of Government to all the recommendations contained in the Report were received by 30 December, 1986. The replies of Government were considered by the Action Taken Sub-Committee of the Committee on Public Undertakings on 3 April, 1987. The Committee also considered and adopted this Report at their sitting held on 3 April, 1987.

3. An analysis of the action taken by Government on the recommendations contained in the Sixth Report (1985-86) of the Committee is given in Appendix V.

NEW DELHI;
April 9, 1987
Chaitra 19, 1909 (*S*)

K. RAMAMURTHY,
Chairman,
Committee on Public Undertakings

CHAPTER-I

REPORT

The Report of the Committee deals with the action taken by Government on the recommendations contained in the Sixth Report (Eighth Lok Sabha) of the Committee on Public Undertakings on General Insurance Corporation of India which has presented to Lok Sabha on 25 February, 1986.

2. Action Taken Notes have been received from Government in respect of all the 44 recommendations contained in the Report. These have been categorised as follows :—

(i) *Recommendations/observations that have been accepted by Government*

S. Nos. 1-3, 6-9, 12-13, 15, 16, 18-20, 22-25, 27, 29-33, 35, 40-42 and 44

(ii) *Recommendations/observations which the Committee do not desire to pursue in view of Government's replies*

S. Nos. 4, 5, 11, 17, 21, 28, 34, 36 to 39 and 43

(iii) *Recommendations/observations in respect of which replies of Government have not been accepted by the Committee*

S. Nos. 10, 14

(iv) *Recommendations/observation in respect of which final replies of Government are still awaited*

S. No. 26

3. **The Committee desire that the final replies in respect of recommendations for which only interim replies have been given by Government should be furnished to the Committee expeditiously.**

The Committee will now deal with the action taken by Government on some of their recommendations.

A. *Agricultural Pumpsets Insurance Scheme*

Recommendation S. No. 10 (Paragraph 3.65)

4. The Committee had pointed out in paragraph 3.65 of their Report that claim ratio of Agricultural Pumpsets Insurance Scheme introduced by General Insurance Corporation in 1976 was ruling very high between 1977 to 1980. It was between 137.7% to 231.3%. Some improvement was, however, effected in 1981 when it came down to 68.3%. The Committee had also observed that in order to reduce the incidence of high claim ratio, the subsidiaries had made certain suggestions in 1980,

out of which three were reported to have implemented by the Corporation in October, 1982 but till August, 1983 the subsidiaries had not issued necessary instructions in that regard. The Committee had taken a serious note of this lapse on the part of subsidiaries and had desired to be apprised of the reasons for not issuing instructions by the subsidiaries and also the remedial steps taken to prevent recurrence of such situations in future.

5. In their reply, the Government have stated that the following three suggestions were implemented to the extent possible :—

(a) Restricting business only to areas where the Companies have manpower for pre-insurance inspection as well as at the time of claim;

(b) For large claims, survey assessment of loss should be arranged; and

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

As regards suggestions (a) and (b) it has been stated that pre-insurance inspection was not a normal practice, nor a feasible proposition except in the case of very large risks. Particularly in the case of agricultural pumpsets which were mostly installed in mofussil and rural areas, the cost of an inspection prior to insurance would be more than the premium charged.* As regards (c), the Companies have appointed Rural Representatives in certain rural areas depending on requirements. They procure all kinds of rural business in the areas including agricultural pumpsets insurance business for which separate cadre of rural workers is not necessary. As such, no separate instructions specifically covering the suggestions with regard to agricultural pumpsets insurance were considered necessary by the subsidiaries.

6. The Committee are not satisfied with the justification put forward by the Government to cover up the lapse on the part of subsidiaries for not issuing suitable instructions with regard to the suggestions accepted and implementation by GIC to reduce the claim ratio of Agricultural Pumpsets Insurance. The Committee are of the firm view that such instructions should have been issued by the subsidiaries for the guidance of all concerned. The Committee therefore, desire that instructions on the subject should now be issued forthwith and steps should also be taken to prevent the recurrence of such a situation in future.

*At the time of factual verification the G.I.C. stated "In the event of a claim, however, inspection is invariably done either by the officials of the Company or by Licensed surveyors where the claim amount exceeds Rs. 20,000 as per provisions of the Insurance Act."

[GIC letter dated 6 April, 1987]

B. *Popularising Insurance Schemes in rural areas*

Recommendation S. No. 12 (Paragraph 4.75 to 4.78)

7. The Committee were informed that the number of regional offices of Companies was proposed to be increased from 35 at the end of 1983 to 65 by the end of 1989 so as to have as far as possible one regional office in each State. The number of divisional and branch offices was also proposed to be increased from 1649 to 3120 during the same period. In this connection the Committee had emphasised that GIC would have to redouble its efforts to carry foward the programme of opening branches in the far-flung areas of the country because so far GIC had covered only partially the urban and semi-urban areas. The Committee had therefore suggested that if the opening of the branches in certain remote areas was not considered financially viable, GIC should consider the feasibility of extending the jurisdiction of the existing branches so as to bring in more and more backward and underdeveloped areas within its network. The Committee had also suggested 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 concession to them.

8. In their reply, the Government have stated that in order to accelerate opening of branches in remote and hilly areas, even though they may not be financially viable and to bring the insurance service nearer to the people of these undeveloped and underdeveloped sectors, a lower premium norm of only Rs. 3 lakhs has been fixed against the norm of premium income of Rs. 20 lakhs for 'A' class cities, Rs. 15 lakhs for 'B' class cities and Rs. 8 lakhs for other towns and mofussil areas. To popularise various insurance schemes and to meet the insurance needs of the weaker sections, special concessions in premium were being granted wherever feasible.

9. The Committee appreciate the efforts being made by GIC in opening of branches in remote and hilly areas. However, they would emphasise that even at the cost of extra expenditure and less profitability, GIC should make every effort to reach far-flung areas where they may not be having business according to their expectation but this will definitely give benefit to the hitherto neglected rural masses.

C. *Growth rate of premium income*

Recommednation S. No. 14 (Paragraphs 4.81 to 4.83)

10. The Committee, while pointing out that the percentage growth of premium income decreased from 24.7 in 1981 to 23.6 in 1982 and to 18.5 in 1983, had observed that the factors stated by GIC to be responsible for the decline in growth rate in 1983, like textiles strike, recession in shipping industry etc. were not unusual and must have been taken into consideration while projecting the increase in premium income. The

Committee had desired that in order to offset 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.

11. The Government in their reply have stated that the possible impact of factors like higher industrial growth and increase of imports of oil, cement, newsprints etc. in 1981, increase in motor tariff rates in 1982, and textile strike and recession in shipping industry etc. in 1983, was duly foreseen and taken into consideration while fixing the premium targets for the respective years. There had been no decline in premium income which has actually increased from year to year. The impact of the changing economic scenario each year, however, get reffected in the rate of growth as compared to the preceding year. As regards attaining the premium target of Rs. 1215 crores by end of 1985 it has been stated that the targets envisaged in the "Approach to Corporate Plan" were in the nature of indications of what the organisation was aiming to achieve within a time scale of several years, and were subject to review and revision in the light of changing economic conditions and other relevant circumstances rather than serving a definite yardstick to measure the performance from year to year. In the light of actual experience of 1984, continued disturbed conditions in the country, recession in shipping industry, and failure of monsoon resulting in drought in Gujarat, Maharashtra and Karnataka, the revised target for 1985 had been fixed at Rs. 1169 crores against which the actual completion was Rs. 1158 crores, i.e. 99.1%. For 1986 the growth target fixed in this regard is 20%.

12. The Committee regret to note that instead of stating the efforts made to exercise cost control and to secure more business as recommended by the Committee, the Government have tried to justify the decrease in growth rate of premium income as being due to the changing economic scenario each year. The Committee have no doubt that had sincere efforts been made in this direction, the premium target of Rs. 1215 crores could have been achieved by the end of 1985. They would like to be informed of the growth rate achieved in 1986 against the target of 20% and also the reasons for the shortfall if any.

D. *Review of Motor Tariff*

Recommendation S. No. 19 (Paragraph 4.92 & 4.93)

13. The Committee had pointed out that the review of Motor Tariff, brought about by the Tariff Advisory Committee after a study spread over a number of years, was a long drawn process resulting in heavy loss of revenue to the subsidiaries due to "No reviw" even when it was expedient and desirable to do so. They had, therefore, recommended that ways and means should be devised for a quicker review so that such reviews could be held at shorter intervals.

14. In their reply the Government have stated that "Tariff Review" is a continuing exercise and the trends and experience of different classes of business had to be watched over a number of years before initiating a change. Further, the tariff revision was not always made upward with the object of increasing revenue of Insurance Companies or improving their claim ratio. The revision was often made downward to give a fair deal to insuring public. The Government have also informed that after a review, the Tariff Advisory Committee was reconstituted in 1985 and peridicity of meetings of TAC has also been fixed.

15. The Committee note that the Tariff Advisory Committee has been reconstituted in 1985 and periodicity of its meetings has been fixed. They hope that this would facilitate quicker review of tariffs.

E. *Outstanding documents*

Recommendation S. No. 30 (Paragraph 6.9)

16. Commenting upon the alarming increase in the number of oustanding documents in respect of all the four subsidiaries during the years from 1979 to 1983 and the decline in percentage of documents issued by the subsidiaries during this period, the Committee had desired that suitable norms for issue of documents by staff members should be prescribed without further delay to reduce the mounting arrears in documentation. The norms thus fixed should meticulously be observed by all concerned and no laxity should be allowed on this account.

17. The Government have state in their reply that the number of from outstanding documents in respect of the four subsidiaries has come down 31,14,934 at the end of 1983 to 22,78,854 and 22,44,889 at the end of 1984 and 1985, respectively. The percentage of documents issued by the four subsidiaries has also improved from 76% in 1983 to 83.9% in 1984 and 85.8% in 1985. Regarding norms for issue of documents, it has been stated that staffing norms recommended by the Staff Inspection Unit of the Ministry of Finance for various offices have since been considered. The industry is, however, working much below those norms, but with a tight manpower planning, the output ratio per employee has gone up. With the completion in 1988 of phased programme of introduction of micro processors based computer system in all Regional, Divisional and Head Offices, drawn up for introduction from the current year (1987), a distinctive improvement in the disposal of documents, including issue of documents is expected to be achieved.

18. The Committee are glad to note that the position in respect of outstanding documents has improved to some extent. However, the issue of documents still remains below the norms recommended by the Staff Inspection Unit of the Ministry of Finance. The Committee hope that

all-out efforts would be made to achieve the norms prescribed by the Staff Inspection Unit and arrears in documentation will be liquidated at the earliest.

F. *Retention of premium in reinsurance arrangements*

Recommendation S. No. 38 (Paragraph 7.25 and 7.26)

19. The Committee have noted that in April, 1976, the Corporation had set before itself the objective of maximisation of retention of premium in India in respect of reinsurance arrangements. On analysis of figures of premium collected and percentage of retention, the Committee had found that during 1978 to 1982, the percentage of retention in respect of Fire and Marine had declined. The Committee had also observed that in the case of large fire risks involving five chemical, patro-chemical and fertilizers industries, the retention did not increase during the years 1978-81. In 4 out of 5 cases retention decreased in 1981 despite major portion of under-writing profit being on Fire Portfolio.

20. The Government have in their reply stated that large industrial fire risks were underwritten on the basis of their probable maximum loss (PML). The retention capacity of the Indian market was fixed at a particular mount of PML, which was derived on the basis of a technical analysis of the degree of exposure of a particular risk to loss. As a general rule, an increase in sum insured would also result in increase in PML. However, since the retention of the market was a fixed amount of PML, the retention as a percentage of the gross values at risks would naturally fall as the sum insured went up. Small variations in amounts retained, were caused entirely by the uneven incidence of increases in sums insured within the blocks of a particular risk on the overall PML for the risk. It was, therefore, not appropriate to infer that the retention of the Indian market has reduced, though one could say that the gross sums insured have increased thus resulting in the requirement of a higher amount of reinsurance. With the increase in sums insured, the retention in absolute terms have also increased. However, the percentage reinsured varies from one risk to another depending on the PML of that risk.

21. The Committee note that the retention capacity of the Indian market is fixed at a particular amount of probable maximum loss (PML) which is derived on the basis of a technical analysis of the degree of exposure of a particular risk to loss. The retention as a percentage of the gross values at risk, therefore, falls as the sum insured goes up since the retention of the market is a fixed amount of PML. The Committee, however, feel that a system needs to be evolved whereby the retention of the market is fixed not in absolute terms but in terms of percentage of gross values at risk.

CHAPTER II

RECOMMENDATIONS THAT HAVE BEEN ACCEPTED BY GOVERNMENT

Recommendation (Serial No. 1 Para No. 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 area of operation are clearly known and the corporation and its subsidiaries are able to set target, frame their programmes and execute theim in a predetermined manner and also assess the growth of their activities at periodic intervals on realistic basis.

Reply of the Government

The GIC has since formulated a statement of their financial and economic obligations/objectives and the same has been approved by the Government. A copy of the said statement is enclosed (AApendix-II).

[Ministry of Finance (Department of Economic Affairs)
O.M. No. 57(7)-Ins. I/86 dated 30-12-1986]

Recommendation (Serial No. 2 Para No. 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 conderations 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.

Reply of the Government

The recommendations of the Committee have been taken note of and will be made applicable in all appropriate areas keeping in view the distinctive nature of operations of the General Insurance Industry, the rlevant legislative enactments, the international practice for the industry and all relevant criteria.

[Ministry of Finance (Deptt. of Economic Affairs)
O.M. No. 57(7)-Ins. I/86 dated 30-12-1986.]

Recommendation (Serial No. 3 Para No. 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 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.

Reply of the Government

The GIC has since finalised its Corporate Plan and the same has been approved by the Government. A copy of the said Corporate Plan is enclosed.*

[Ministry of Finance (Deptt. of Economic Affairs)
O.M. No. 57(7)-Ins. I/86 dated 30-12-1986]

*Not appended.

Recommendation (Serial No. 6 Para No. 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 have 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.

Reply of the Government

Government have noted the Committee's observations. To provide necessary infrastructure for implementation of the newly introduced Comprehensive Crop Insurance Scheme and to service this business, the GIC has established twenty Crop Insurance Cells all over India to cover the participating States and Union Territories.

Eleven States and two Union Territories participated in the Scheme for Khariff 1985. The aggregate sum insured was Rs. 543.17 crores producing a premium of Rs. 9.40 crores. About 22.70 lakh farmers cultivating 43.02 lakh hectares of land were covered. The claims so far ascertained amount to Rs. 101.34 crores of which Rs. 63.31 crores have been paid.

For Rabi season 1985-86, the scheme has been accepted by twelve States and four Union Territories. A total of 11.85 lakh farmers cultivating 18.39 lakh hectares of land have been covered. The premium collected amounts to Rs. 3.56 crores. No large claims have been reported so far.

The Comprehensive Crop Insurance Scheme having proved its effectiveness, there is a growing demand from farmers for its extension to other crops including sugarcane, cotton, fruit crops, etc. The proposals are being considered by Government.

[Ministry of Finance (Deptt. of Economic Affairs)
O.M. No. 57(7)-Ins. I/86 dated 30-12-1986]

Recommendation (Serial No. 7 Para No. 3.60 & 3.61)

The Committee find that the working results of another scheme, namely, Janta 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 1977–82. 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 to evidence that "Janta 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 accuring 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.

Reply of the Government

The Janta Personal Accident Insurance business picked up again after 1980, as will be seen from the figures of number of policies sold and amount of premium income given below :—

Year	No. of policies sold (In Lakhs)	Amount of Premium (In Lakhs of Rupees)
1980	7·53	126·93
1981	12·85	192·78
1982	20·16	219·41
1983	30·75	317·00
1984	35·10	361·00

As will be seen from the table below Para 3.24 of the Committee's report, the claim ratio of 107.5% in 1978 was an exceptional feature. The ratio came down from 87.8% in 1979 to 74.49% in 1982 and to 50.96% and 57.23% in 1983 and 1984, respectively.

The figures in the table above would show that despite the constraints mentioned in Para 3.61 of the Committee's report, the coverage has been progressively increasing after 1980. It will, however, be appreciated that the popularity of Janta Personal Accident and similar other insurance Schemes for the benefit of people at the lowest rung of society is linked with their premium-paying capacity which, as is well-known, is still very low. Coverage of such scheme with reference to the total population of the country is, therefore, bound to be a slow process.

The covers obtained by Governments of Bihar and Karnataka were not for their employees but landless labour for which the premium was paid by the States. These covers were discontinued after a year because of absence of any immediate gains to the State Governments.

As regards cover for all depositors of nationalised banks and co-operative banks, it may be stated a scheme of linking Gramin Accident Insurance with depositors on whose behalf the premium was to be paid by banks was evolved at the instance of the Ministry of Finance and the matter was taken up with the Indian Banks' Association and the Reserve Bank of India who, however, did not consider it practical to give free accident cover to depositors.

The Industry continues to make efforts to propagate Janta Personal Accident Insurance Scheme amongst larger groups of vulnerable sections of society. For example group accident insurance policies have been sold to such vulnerable groups as toddy-tappers, army jawans, policemen, rail way porters, members of Fishermen's Co-operatives etc., Group Gramin Personal Accident Schemes at a concessional premium rate have been devised for indemnifying small farmers, agricultural and other landless labourers. Group Personal Accident Insurance Policies have also been sold to farmer members of Mehsana District Co-operative Milk Producers' Union in Gujarat on a long-term basis. Further efforts to propagate such policies among groups of workers, labourers and employees will continue.

A Personal Accident Insurance Social Security Scheme covering all earning members of "poor families" in the age groups of 18 to 55 years was launched in 78 selected districts of the country from 15th August, 1985, and in another 13 districts from 2nd October, 1985. Premium for the cover is borne by Central Government. The Scheme, which provides compensation of Rs. 3000 to the dependents in the event of accidental death of any of the earning members of "poor families" has since been extended to another 99 districts during the current year.

[Ministry of Finance (Deptt. of Economic Affairs)
O.M. No. 57(7)-Ins. I/86 dated 30-12-1986]

Recommendation (Serial No. 8 Para No. 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 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.

Reply of the Government

The number of cattle insured has further gone up to 142.67 lakhs in 1984 and to 158.93 lakhs in 1985. It is hoped that a good portion of insurable cattle population in rural areas will be covered in the next two years and efforts will be made to cover as much of the total insurable cattle population as possible within five years.

The claim ratio has also come down from 85 per cent in 1979 to 67.5 per cent in 1984.

To control the claim ratio and minimise loss, Veterinary Officers have been recruited by the Companies in large numbers. They are posted in areas showing adverse claims experience to verify the existence of insured animals and check their valuation, conduct training courses in the basis of animal husbandry for non-veterinary officers, and maintain more effective liasion with banks to ensure adequate care in recommending animals financed by them for insurance and scrutinising the claims. Arrangements are made with State Government Directorates of Animal Husbandry to secure better co-operation of Government Veterinarians in eliminating possible malpractices in insurance of cattle and processing of claims. Joint dialogues are also held with organised dairies in regard to steps to be taken for reduction of claims.

[Ministry of Finance (Deptt. of Economic Affairs)
O.M. No. 57(7)-Ins. I/86 dated 30-12-1986]

Recommendation (Serial No. 3 Para No. 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.

Reply of the Government

Apart from insurance of cattle financed by banks or subsidized under other Government Schemes such as IRDP, SFDA, MFAL and DPAP Projects, Group Cattle Insurance Schemes have been introduced for 'Amul' and 'Mehsana' Dairies in Gujarat District Co-operative Milk Producers' Unions in Rajasthan and Dairy Authorities in Andhra Pradesh, Tamil Nadu and Sikkim. Efforts are also being made to sell insurance covers to individually owned cattle where no bank is involved. To create awareness in the minds of rural masses, the Companies participate in farmers' rallies, agricultural and cattle shows, village fairs and dairy conferences attended by farmers and rural people. Relevant literature is published in regional languages, and films and other publicity media are utilised to propagate cattle insurance among target groups. The Companies also have mobile publicity vans to carry the message of insurance in rural areas.

]Ministry of Finance (Department of Economic Affairs) O.M. No. 57 (7)Ins./I/86 dated 30-12-1986]

Recommendation (Serial No. 12 Para No. 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 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 Branch' Districts.

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.

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.

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 underdeveloped areas within the network 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.

Reply of the Government

Inspectors have already been appointed in all the 'No-Inspector' districts and Branches have been opened in all but 3 No-Branch Districts. These 3 districts are also expected to be covered by the end of 1986 by opening new Branches.

The number of Regional, Divisional and Branch Offices as at the end of 1985 is indicated in the following table :

Company	Regional Offices	Divisional Offices	Branches
National	11 (6)	149 (106)	462 (229)
New India	13 (11)	185 (134)	555 (340)
Oriental	11 (10)	157 (122)	674 (294)
United India	12 (8)	190 (131)	512 (293)
Total	47 (35)	681 (493)	2003 (1156)

(Figures in brackets indicate the number as at the end of 1983).

The GIC has been advised in regard to the need for spreading the message of insurance and creating insurance awareness in rural areas. For this purpose, the Companies participate in farmers' rallies, agricultural and cattle shows, village fairs, dairy conferences, etc., and also give publicity to rural insurance schemes through mobile vans, films, and other media. Rural representatives appointed in some areas visit farmers and others to explain the various insurance schemes.

As regards Committee's observation in the last sub-para it is submitted that in order to accelerate opening of branches in remote and hilly areas, even though they may not be financially viable, and to bring the insurance service nearer to the people of these undeveloped and underdevelopd sectors, a lower premium norms of Rs. 3 lakhs only has been fixed against the norm of premium income of Rs. 20 lakhs for 'A' class cities, Rs. 15 lakhs for 'B' class cities and Rs. 8 lakhs for other towns and mofussil areas. It may also be clarified that absence of a Branch in any backward and underdeveloped areas does not mean that the insurance requirements of the people of this area are entirely overlooked. These are, in fact, looked after by the nearest existing Branch in an adjoining area.

To popularise various insurance schemes and to meet the insurance needs of the weaker sections, special concessions in premium are; already being granted wherever feasible. Following are a few examples :

(i) Janata Personal Accident Policy providing cover of Rs. 15,000 against death or permanent disability due to accidents is available for a nominal premium of Rs. 12 per annum. Gramin Accident Policy for the benefit of rural population providing compensation of Rs. 6,000 is available for a premium of only Rs. 5 per annum.

(ii) For the benefit of economically weaker sections viz., artisans, village and cottage industries including bio-gas plants, small scale industries and tiny sector where the sum insured does not exceed Rs. 10 lakhs, a comprehensive cover inclusive of the risk of fire, strike, riot, malicious damage, flood, cyclone, earthquake etc., has now been made available at a concessional premium rate of Rs. 1 per thousand sum insured against the normal tariff rates for different classifications of risk ranging between Rs. 2.25 and Rs. 18 per thousand sum insured.

(iii) To Provide maximum protection to small and marginal farmers and other economically weaker sections, a Hut Insurance Policy covering fire and other additional perils like riots, strike, malicious damage, flood, cyclone, earthquake, etc., for the hut as well as its contents has been devised at a concessional premium of Rs. 3 per thousand against the normal premium rate of Rs. 5.50 per thousand sum insured.

(iv) To provide complete all-round protection to beneficiaries of Integrated Rural Development Programme, National Rural Employment Programme etc., in respect of their dwelling premises and other belongings from various hazards including personal accidents to themselves and their families a reasonably priced Composite Package Insurance Scheme has been introduced. The Premium burden is much lower as compared to separate policies for different risks such as fire, burglary, personal accident, cattle, fishing boats, pedal cycles, agricultural pumpsets etc.

Government had appointed an Inter-ministerial Working Group to identify new areas for rural insurance and covers for the benefit of the weaker sections of the society. The Group submitted its report in April, 1985. Some of the recent steps and policy covers mentioned above, have been introduced by the industry in the light of the recommendations of this Working Group.

[Ministry of Finance (Department of Economic Affairs) O.M. No. 57 (7) Ins.I/86 dated 30-12-1986]

Comments of the Committee

(Please see Paragraph 9 of Chapter I of the Report)

Recommendation (Serial No. 13 Para 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 1982. 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. 2000 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 the 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 benefited the backward and weaker sections of the society.

The Committee need hardly emphasise that it is the weaker sections 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.

Reply of the Government

Performance of the Insurance Companies in the area of customer service, mainly the settlement of claims, has been receiving the closest attention of the Corporation and the Government. A number of steps as enumerated in Paras 6.19, 6.21 and 6.25 of the Committee's Report have been taken to speed up the settlement of claims and simplify the procedures. As a result of continuing efforts made by the Companies, the ratio of claims settled to claims intimated has steadily improved from 57.5% in 1980 to 67.0% in 1985 as indicated in the following table :—

Year	Number intimated (including o/s brought forward from previous years)	Number settled during the year	Ratio of number settled to No. intimated %
1980	10,29,475	5,92,001	57·5
1981	11,23,956	6,68,002	59·4
1982	11,85,625	7,49,018	63·2
1983	12,62,125	7,98,661	62·3
1984	13,75,243	9,01,463	65·6
1985	14,44,835	9,68,706	67·0

While noting the Committee's observation that the earning of profit should not engender any sense of complacency on the part of GIC, it is submitted that as percentage of Gross National Product, the general insurance premium in India has steadily increased from 0.34% in 1973 to 0.56% in 1984 as shown below :—

Year	Percentage
1973	0·34
1974	0·35
1975	0·38
1976	0·40
1977	0·38
1978	0·39
1979	0·41
1980	0·41
1981	0·43
1982	0·50
1983	0·50
1984	0·53
1985	0·56

It is further submitted that growth of general insurance is dependent on economic and industrial development of the country, and a comparison with developed countries like United States, U.K., Japan, etc., may not be appropriate. Even compared to these advanced countries, however, the growth rate of premium (Real at 1980 prices) in India would appear to be quite favourable as shown in the following table :—

Year	U.S.A. %	U.K. %	JAPAN %	INDIA %
1978	3·9	5·7	6·6	9·3
1979	—1·3	1·1	10·9	6·3
1980	—6·7	0·5	—0·1	8·6
1981	—5·1	—0·3	2·4	10·3
1982	0·0	0·1	4·1	14·6
1983	2·6	1·2	8·6	6·0

The Committee's observation that the overall performance of the Corporation has to be judged not only from its earnig profits but also with reference to fulfilment of its broad objectives and goals and how for the various schemes introduced by the Corporation have benefited the backward and weaker sections of the society has been duly conveyed to GIC. It may, however, be appreciated that the Corporation and its Subsidiaries have been doing all that is possible to spread the message of insurance to remotest corners of the country and create insurance awareness among the rural population, and have also introduced several low priced insurance covers to meet the requirements of backward and weaker sections of the society. Offices have also been opened in remote areas even at the cost of extra expenditure and less profitability in order to reach out to the hitherto neglected rural masses. There are branches in all but 3 districts of the country which also are proposed to be covered in the current year.

In connection with the above, it would be relevant to add that two major insurance Schemes for rural areas and the weaker sections of the society announced in the Union Budgets for 1985-86 and 1986-87 are the Crop Insurance Scheme and the Personal Accident Insurance Social Security Scheme for poor families. These Schemes are being administered through G.I.C.

[Ministry of Finance (Deptt. of Economic Affairs) O.M. No. 57(7) Ins. I/86 dated 30-12-1986]

Recommendation (Serial No. 15 Para No. 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 percent.

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 38.6 percent in 1982 and further increased to 43.9 per cent in 1983. In Committee's opinion that 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.

Reply of the Government

As mentioned in Para 4.46 of the Committee's report, the claim ratio in general insurance business fluctuates from year to year depending on catastrophic losses due to accidental fire, flood, cyclone etc. Higher claim ratio in 1982 and 1983 was due to such large losses only. The major losses estimated at Rs. 1 crore and above which occurred in 1982 and 1983 are listed below :

Details of loss	Estimated loss (In crores of Rs.)
1982	
1. Fire at Gwalior Rayon Ltd. Nagda	2·17
2. Fire at Neyveli Lignite Corpn. Neyveli.	4·05
3. Fire at IOC's pumping station at Mount Abu	2·22
4. Fire and Central Warehousing Corporation, Ludhiana	5·60
5. Fire and explosion at Calico Mills, Baroda	15·01
6. Fire at Atlas Mills Compound, Bombay	1·45
7. Fire at Southern Petro-chemical Industries Corporation	1·15
8. Fire at Handloom House, Bombay	1·26
9. Cyclone Losses in Gujarat	1·98
10. Fire at Garware Nylons Ltd., Pimpri	1·00
11. Fire at Mukesh Textile mills, Bombay	1·00
TOTAL	36·89

Details of Loss	Estimated loss (In crores of Rs.)
1983	
1. Explosion at Mangalore Chemical Fertilizers Mangalore	3·51
2. Fire at Kesoram Industries Cotton Mills, Calcutta	1·73
3. Explosion in LPG bottling plant of IOC, Delhi	2·03
4. Fire to stock of cotton bales at Wadi Godown, Nagpur	2·57
5. Explosion at Gopla Tower, New Delhi	1·82
6 Flood losses in Gujarat	10·84
7 Fire at Cochin Refineries, Cochin	1·42
8. Fire at J.K. Synthetics, Kota	1·00
9. Explosion at Fertilizer & Chemical Ltd., Ambalamedu	1·50
10. Fire at Obra Thermal Power Station, U.P.	15·00
11. Cyclone losses in Andhra Pradesh	1·59
12. Explosion at Premier Vegetables Ltd., Jaipur	1·50
TOTAL	44·51

Insurance Companies are, however, conscious of the need for controls and rigorous checks in passing claims. For the purpose of inspecting risks and advising clients regarding safety measures to prevent losses, the Companies employ a number of engineers. They satify themselves that the electrical installations are in confirmity with the standards laid down by the Tariff

Advisory Committee. Engineers employed by the Tariff Advisory Committee also inspect large risks periodically on a regular basis. Besides this, the Loss Prevenion Association of India, sponsored by the General Insurance Industry, is engaged in promoting loss prevention activities in the country with a view to minimise losses through accidents. It provides advisory and consultancy services to industrial organisations in areas such as safety audit, setting up of comprehensive loss control programmes and general guidance in all types of safety problems, and disseminates technical information on loss prevention by means of manuals and brochures. The Association also maintains a Fire salvage-Corps at Bombay. Claims on account of fire loss are assessed by technically qualified surveyors licensed by the Government of India and the assessments are scrutinised by officers of the Insurance Companies at different levels before passing them. It may be stated, however, that despite all possible checks and controls, the claims ratio tends to fluctuate on account of losses due to accidents which are fortuitous and unpredictable.

[Ministry of Finance (Deptt. of Economic Affairs) O.M. No. 57(7) Ins./ I/86 dated 30-12-1986]

Recommendation (Serial No. 16 Para No. 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 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.

Reply of the Government

The first phase of rationalisation and simplification of fire tariff in respect of simple non-industrial risks such as dwellings, hospitals, places of worship, educational institutions, hotels, office premises and shops has since been completed. Effective from 1st June, 1985, an in-built cover against riot, strike, malicious damage and natural calamities such as cyclone, flood, earthquake, etc., is now provided long with basic fire insurance cover. The rating structure has been so devised that the premium for additional perils built into the basic cover is much lower. For example, the cover for fire, riot, flood and earthquake in respect of dwelling is now available at a uniform premium rate of Rs. 0.65 per thousand against the earlier rates ranging between Rs. 1.05 and Rs. 6.95 per thousand. Similarly, the cover for the above risks in respect of a shop storing non-hazardous goods is available at a uniform rate of Rs. 3.10 per thousand against the earlier rates ranging between Rs. 4.70 and Rs. 9.30 per thousand. The classifications depending on the nature of occupancy of the premises have been reduced from 19 to 7 categories. The number of conditions has also been reduced from 20 to 11 thereby making the policy easy to operate.

Exercise for rationalisation and simplification of industrial risks and warehouses in the second phase is already underway.

[Ministry of Finance (Department of Economic Affairs) O.M. No. 57-(7) Ins. I/86/dated 30-12--1986.]

Recommendation (Serial No. 18 Para No. 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. 52,963 lakhs in 1982 and stood at Rs. 47,184 lakhs at the end of 1983.

The Committee also find that percentage of claim ratios to gross direct premium income in respect of all classes 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 percent, 86.1 percent 73.3 percent 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 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.

Reply of the Government

Increase in the amount of incurred claims has to be viewed in the context of increase in business. The increase may, however, not be directly proportionate to the increase in premium income because the occurrence of losses, catastrophic as well as others, is purely fortuitous, and the incurred claims ratio as percentage of premium income would fluctuate from year to year due to varying claims experience.

Reasons for the relatively high claims ratio in respect of motor insurance business are indicated in Para 4.35 of the Committee's report.

To control the incurred claims ratio, the Companies employ a large number of engineers who inspect larger risks and suggest steps for risk improvement. Loss prevention and claim minimisation activities are also promoted through the medium of the "Loss Prevention Association of India", a specialist organisation set up by the General Insurance Industry. This organisation provides advisory and consultancy services to industrial organisations in areas such as safety audit, setting up of comprehensive loss control programmes and general guidance on all types of safety programmes. Technical information on loss prevention is disseminated through brochures and mannuals, and training programmes/seminars on fire prevention and protection, cargo loss minimisation, product liability and risk management, road safety and other safety related subjects are organised in different parts of the country. The LPA also maintains a Fire Salvage Corps at Bombay and Cargo Loss Minimisation Cells at Bombay, Calcutta, Madras and Vishakhapatnam to supervise the discharge of cargo.

Losses over Rs. 20,000 are assessed by technically qualified surveyors licensed by the Government of India, and their assessments are scrutinised by the Insurance Companies at different levels before passing the claims. Procedural and administrative loopholes in the processing of claims are plugged on a continuing basis as and when they come to notice. A number of measures to simplify the procedures and systems have also been taken to reduce inconvenience to genuine claimants.

The Companies have recently taken steps to recruit a number of engineers to oversee the assessments by Surveyors and render technical assistance to claim settling officers in scrutinising the survey reports. A number of legal officers and investigators are also being recruited by the Companies to handle motor third party claims more efficiently.

In order to contain marine cargo losses due to use of substandard vessels, GIC approves vesels carrying export cargo from India and additional premium is charged if a vessel is not approved. With effect from 1986, vessels bringing import cargo in full vessel loads are subject to similar approval by GIC.

To sum up, the issue of incurred claims has to be viewed not only in the context of increase in business but the trend and direction of growth as well as the availability of infrastructure facilities. In a developed company with increase in activities on various fronts and the infrastructure facilities lagging behind a situation of relatively larger claims with growth in business seems to be unavoidable. It may also be mentioned that the declining trend of profitability and underwriting business is not peculiar to India only but is a worldwide phenomena because even high technology industrialization results in greater exposure to risk and consequently losses in certain areas.

Notwithstanding the above, Government have specially drawn attention of the Industry on the question of improving its profitability. In a recent review meeting of the General Insurance Industry, taken by the Finance Minister in July, 1986, specific attention of the Chairman, GIC and the Chairman-cum-Managing Directors of the Subsidiaries was invited to this aspect of their operations and they were exhorted to take all possible measures to improve their underwriting profitability results.

[Ministry of Finance (Deptt. of Economic Affairs) O.M. No. 57(7) Ins./I/86 dated 30-12-1986]

Recommendation (Serial No. 19 Para No. 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 petitions 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.

Reply of the Government

Most of the Writ Petitions challenging the increase in motor premium rates have since been decided in favour of the Insurance Companies.

With regard to the Committee's recommendation that ways and means should be devised for a quicker review so that such reviews could be held at the shorter intervals, it is submitted that the experience of different classes of business is kept under constant watch by the Corporation and the Tariff Advisory Committee and steps to introduce appropriate changes are initiated as and when considered expedient and desirable. "Tariff Review" is thus a continuing exercise, and the trends have to be watched over a number of years before initiating a change.

It is further submitted that the tariff revision is not always made upward with the object of increasing the revenue of the Insurance Companies or improving their claim ratio. More often, the revision is made downward, e.g. in fire insurance to give a fair deal to the insuring public and in rural non-traditional insurance to give concessions in premium for the benefit of economically weaker sections of society. The aim always is to give a fair and equitable deal to the insurers as well as the insuring public. It may be added that Government, after a review reconstituted the Tariff Advisory Committee in 1985. Periodicity of meetings of TAC, have since been fixed.

[Ministry of Finance (Department of Economic Affairs) O.M. No. 57-(7) Ins. I/86 dated 30-12-1986].

Comments of the Committee

(Please see Paragraph 15 of Chapter I of the Report).

Recommendation (Serial No. 20 Para No. 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.

Reply of the Government

Several meetings have since been held with different unions of Employees on the subject of introduction of micro processing units in the Industry in a phased manner. Following these meetings, it has been decided to introduce micro processing units in the Head Office of the GIC and the Head Offices of the Companies and their selected Regional and Divisional Offices in Bombay by the end of the current year in the first phase of the programme. Necessary training to Officers for this purpose has been imparted and sites for installation have been selected. Evaluation of the tenders received for equipment will be completed by August 1986. The process of recruitment of Systems Analysts, Programmers and Engineers is also on.

It may be added that Government, after a review, re-constituted the Tariff Advisory Committee in 1985 nominating therein for the first time in recent years senior officers of Government of India. The need for strengthening the data base in TAC had been conveyed by Government representatives to Chairman, TAC. The observations made by the Committee in this regard have been noted by Government and G.I.C.

[Ministry of Finance (Department of Economic Affairs) O.M. No. 57(7) Ins.I/86 dated 30-12-1986)]

Recommendation (Serial No. 22 Para No. 4.96 to 4.98)

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 un-healthy 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.

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

While the Committee appreciate that with the large contingent of inspectors canvassing 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.

Reply of the Government

Guidelines issued by the Corporation in 1977 and reproduced in Para 4.56 of the Committee's report constitute the code of ethics designed to prevent unhealthy competition, quoting uneconomic rates and offering other inducements to lure the clients. These guidelines had the desired effect in as much as the number of reported cases of unhealthy competition progressively came down as shown in the Table below Para 4.59 of the Committee's report and in 1983 not a single such case was reported. The guidelines have, however, been again reiterated to the Subsidiaries for strict compliance.

The Committee's observation that more and more business of non-tariff category should be brought gradually under tariff so as to reduce unhealthy rate cutting among Subsidiaries has been noted. Since nationalisation, several classes of business as mentioned in Para 4.61 of the Committee's report have been brought under tariff or under market agreement. There is also a system of inter-Company consultation for quoting uniform premium rates for public sector business.

Feasibility of bringing other categories of non-tariff business under the umbrella of tariffs or market agreements is considered as a continuing exercise.

[Ministry of Finance (Department of Economic Affairs) O.M. No. 57 (7) Ins. I/86 dated 30-12-1986]

Recommendation (Serial No. 23 Para 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.

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 a bank guarantee/cash deposit wherever they have not done so. The Committee would like to be apprised of the action taken in this regard.

Reply of the Government

Government had issued instructions, in 1985, to GIC that insurance covers may be henceforth granted to public sector units only on advance payment of insurance premium and there should be in future no such accumulation of outstanding premium from public sector units. A special drive was launched to collect outstanding insurance premium from the public sector units by the insurance Companies and the position showed considerable improvement. As suggested by the Committee, fresh instructions have been issued by GIC to the Companies to advise all its operating units :—

(a) to keep the accounts of Bank Guarantee/Cash deposits uptodate, send demand statements to the concerned parties well in advance and ensure that recovery is made within the prescribed limit;

(b) that at the time of next renewal of policies, Government and Semi-Government Departments and Public Undertakings should be persuaded to pay premium in advance or to furnish adequate bank guarantee/cash deposit wherever they have not done so.

The Chairman-cum-Managing Directors of the Companies have also been advised to recover the outstanding dues from the defaulter by pursuing at the highest level, and where necessary, report to GIC for taking up the matter at Ministry's level.

The Ministry of Finance have already addressed letters to all Central Ministries, State Governments & Union Territories and the Bureau of Public Enterprises to ensure that Government Departments, Statutory Corporations and Public Undertakings under their control remit the insurance premium in advance and furnish bank guarantees/cash deposit as per provisions of the Insurance Act/Rules wherever they have not done so. The position is expected to improve substantially as a result of fresh instructions by the GIC to its subsidiaries and also by the Ministry of Finance to the administrative Ministries, State Governments, etc. in the wake of instructions earlier issued by the Government to GIC in 1985.

[Ministry of Finance (Department of Economic Affairs) O.M. No. 57(7) Ins. I/86 dated 30-12-1986]

Recommendation (Serial No. 24 Paras 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 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 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 GIC. 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.

Reply of the Government

The cumulative loss amounting to Rs. 516.63 lakhs over a period from 1976 to 1981 is only notional.

Excluding the share of Head Office expenses which are debited only on a notional 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 indicated in Paras 5.7, 5.8 and 5.27 of the Committee's Report.

The foreign operations are reviewed periodically by the respective Boards of Directors of the Companies as well as by GIC and the Ministry and guidelines as necessary are given from time to time. Departmentwise reviews of the overseas branches are also made as a continuing process and unprofitable business is pruned. Wherever the operations in any territory have not been found profitable for a long period, suitable steps to improve the situation (including closure of business where it is unavoidable) have been taken, keeping in view the fact that it is easy to get out from a given territory but difficult to secure re-entry. In a number of countries as mentioned at Para 5.14 of the Committee's Report, the operations were wound up because of unfavourable experience over a long period The position regarding continuous losing branches has been indicated in Para 5.20 of the Committee's Report. After a further review of the matter, several steps have been taken to improve the situation.

New India has adopted various measures to improve its performance in United Kingdom in respect of business transacted through agencies, such as cutting down London market business. discontinuing property insurance business originating in Canada and U.S.A. restricting treaties, participating in international marine business on a selective basis, etc.

A branch for direct operations has also been opened in London from September, 1985, to capture domestic business from Indian/Asian population resident in U.K. It is expected that the Company's performance in U.K. will improve considerably in the near future.

The operations of Oriental in Kuwait registered a net profit of Rs. 29.14 lakhs in 1984 against losses in all the earlier years. Because of a set back again in 1985 in which a loss of Rs.7.22 lakhs was incurred, the Company has replaced the Chief Agents and appointed another firm in December 1985. In Singapore the Company has been making profits consistently from 1982. The profits from 1982 to 1985 amount to a total of Rs. 224.22 lakhs.

United India has also improved its performance substantially in Hongkonw where it has registered a profit of Rs. 15.57 lakhs in 1984 againsts loss of Rs. 4.98 lakhs in the previous year.

The operations of all overseas branches of the Companies are kept under periodical review to take suitable remedial measures where necessary Indentification of new areas with business potential is also done as a continuing exercise, but opening of new branches in foreign countries is beset with several difficulties, the most important being that due to nationalisation, it is not possible to reciprocate by allowing a foreign country to transact business in India. The GIC has however, been successful recently in securing entry in St. Lucia, Antigua and Liberia through Associate/Subsidiary Companies. Now India's request for licence to operate in South Korea is, however, pending.

As suggested by the Committee, an overall review of the foreign operations of Companies will henceforth be incorporated in the annual report of the Corporation. The Companies have also been advised to incorporate a review of the operations of branches and agencies abroad in their respective Annual Reports.

[Ministry of Finance (Department of Economic Affairs) O.M. No. 57(7) Ins.I/86 dated 30-12-1986)]

Recommendation (Serial No. 25 Para 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.

Reply of the Government

As mentioned in Para 5.3 of the Committee's report, more than one subsidiaries are operating only in Singapore, Hongkong, Kuwait, Dubai and Nepal. Here also, care is taken to see that the subsidiaries do not compete with undercut each other, but function with complete co-ordination between them through periodical meetings. In Singapore and Hongkong, New India and National have been operating jointly since January, 1982.

[Ministry of Finance (Department of Economic Affairs) O.M. No. 57 (7)-Ins. I/86, dated 30-12-1986.]

Recommendation (Serial No. 27 Para 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 underwritings 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.

Reply of the Government

As foreign branches are operating in different countries and each competing with other Companies, they have to follow the market practice in each country regarding commission. However, the quality of underwriting in the overseas branches/agencies is evaluated and watched as a continuing exercise and suitable action as and when necessary is taken to eliminate bad risks or eliminate the agencies giving poor performance.

For example, in the Phillipines, stricter underwriting control and restructuring of portfolio by New India yielded a net profit of Rs. 19.93 lakhs in 1984 against net loss of Rs. 27.02 lakhs in the previous year.

In the U.K. the New India has pruned its London market business, discontinued property insurance business originating in Canada and USA and is now participating in international marine insurance business through its Commercial Union Agency on a selective basis.

In Hongkong where a substantial portion of United India's operations through its Chief Agents comprise of motor insurance, the claim experience in this class of business has improved from 51.04% in 1983 to 43.19% in 1985. The overall claim experience has also improved from 48.37% to 40.82%.

In Kuwait where the performance of Oriental's Chief Agents was not found satisfactory, the Company has appointed another firm as Chief Agents in December, 1985.

[Ministry of Finance (Department of Economic Affairs) O.M. No. 57(7)-Ins. I/86, dated 30-12-1986]

Recommendation (Serial No. 29 Para 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 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.

Reply of the Government

While we do visualise extension of operations in several developing, and developed countries as a long term objective and the industry would make sincere efforts in that direction, the accomplishment of this objective is beset with several difficulties, the most important being our inability to reciprocate by allowing other countries to transact business in India where general insurance is nationalised. Nevertheless the Industry have recently succeeded in securing entry in St. Lucia, Antigua and Liberia through Associates/Subsidiaries. New India's request for licence to operate in South Korea is also pending.

[Ministry of Finance (Department of Economic Affairs) O.M. No. 57(7)-Ins. I/86, dated 30-12-1986]

Recommendation (Serial No. 30 Para 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.

Reply of the Government

As indicated in the enclosed Statement, the number of outstanding documents in respect of the four subsidiaries has come down from 31,14,934 at the end of 1983 to 22,78,854 and 22,44,889 at the end of 1984 and 1985 respectively. This is inspite of the fact that there was an increase in the number of documents issuable during these years as compared to 1983. The percentage of documents issued by the four subsidiaries has also improved considerably from 76% in 1983 to 83.9% in 1984 and 85.8% in 1985.

As further indicated in the Statement, the number of documents issued per Class III employee has also improved from 459 in 1983 to 535 in 1984 and 562 in 1985, and several steps have been taken to further quicken the process of issue of documents.

As mentioned in Para 6.4 of the Committee's report, necessary control over the pending documents is exercised by the Companies through periodical returns obtained from the Branch, Divisional and Regional Offices and through on the spot inspection of field Offices by officers of different levels.

As regards norms for issue of documents, it may be stated that staffing norms recommended by the Staff Inspection Unit of the Ministry of Finance for various offices have since been considered. The Industry is however working much below those norms, but with a tight manpower planning, the output ratio per employee has gone up as stated above.

In view of the planned expansion of marketing net work and substantial growth in business, it is estimated that by 1990 the Industry would be required to handle more than 50 million documents per annum is over 3400 offices throughout the country. The predominently manual systems now prevailing would not be able to cope with this magnitude of the documents to be issued. A phased programme of introduction of microprocessors based computer-system in all Regional, Divisional and Head Offices of the Companies has been drawn up for introduction from the current year. With the completion of this programme by the end of 1988, a distinct improvement in the disposal of documents, including issue of documents, is expected to be achieved.

[Ministry of Finance (Department of Economic Affairs) O.M. No. 57(7)-Ins. I/86, dated 30-12-1986]

Comments of the Committee

(Please see Paragraph 18 of Chapter I of the Report.)

DOCUMENTATION

Year/Company	Documents issuable	Number of documents issued	Number of documents outstanding at the end of the year	Ratio of documents issued to issuable
(1)	(2)	(3)	(4)	(5)
1983				
National	30,39,385	23,18,882	7,20,503	76·3
New India	34,93,865	25,68,860	9,25,005	73·5
Oriental	29,69,315	25,06,583	6,62,732	77·7
United India	34,86,195	26,79,501	8,06,694	76·9
TOTAL	1,29,88,760	98,73,826	31,14,934	76·0
1984				
National	28,66,981	23,25,841	5,41,140	81·1
New India	41,80,943	34,50,191	7,30,752	82·5
Oriental	35,16,475	30,47,728	4,68,747	86·7
United India	35,65,475	30,27,260	5,38,215	84·9
TOTAL	1,41,29,874	1,18,51,020	22,78,854	83·9
1985				
National	34,19,808	28,04,109	6,15,699	82·0
New India	44,94,869	37,80,366	7,14,503	84·1
Oriental	35,04,490	30,43,670	4,61,820	86·8
United India	43,50,515	38,97,648	4,52,867	89·6
TOTAL	1,57,69,682	1,35,24,793	22,44,889	85·8

PRODUCTIVITY

Year	No. of Documents issued per Class III employees	Arrears as percentage of issuable documents
1983	459	%
1984	535	16%
1985	562	14%

Steps for improvement

1. A single certificate-cum-policy has been introduced for third party and comprehensive motor insurance to achieve faster issue of documents.

2. Fire Tariff for simple non-industrial risks has been rationalised to quicken the process of underwriting and issue of documents. Simplification of tariff for industrial risks and warehouses is in hand.

3. First phase of the programme for mechanisation is planned for completion by the year end. The second and third (final) phases are scheduled for completion by the end of 1987 and 1988 respectively.

Recommendation (Serial No. 31 Paras 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, 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.

Reply of the Government

The Committee's observations regarding the need for greater stress on the training of agents and inspectors and orientation programme for officers and other employees have been noted.

Effective measures have been initiated to screen and train agents so that they become fully conversant with the various schemes of insurance in operation and advise the clients properly and render effective service to them as professionals. The Inspectors too are being put through an intensive training programme. They are also required to pass an examination before appointment.

For the Officers and Class III Staff, the Companies organise in-house training and orientation courses on a regular basis in their respective training colleges. Management training courses for senior and middle level executives are organised by the National Insurance Academy.

The computerisation programme which is in progress and is expected to be completed by the end of 1986 is expected to bring about a visible improvement in customer service by way of prompt issue of renewal notices and timely issue of polices.

For the purpose of inspecting risks and advising the clients in the areas of risk management and risk improvement, and regarding safety measures to prevent losses, the Companies employ a number of engineers. Engineers employed by the Tariff Advisory Committee also inspect large risks periodically on a regular basis. Besides this, the Loss Prevention Association of India, sponsored by the General Insurance Industry, provides advisory and consultancy services to individual organisations in areas such as safety audit, setting up of comprehensive loss control programmes, general guidance in all types of safety problems, etc. and disseminates technical information on loss prevention by means of manuals and brochures.

[Ministry of Finance (Department of Economic Affairs) O.M. No. 57(7)-Ins. I/86, dated 30-12-1986]

Recommendation (Serial No. 32 Para 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 a comprehensive cover for all classes of vehicles. The Committee hope that this simplified procedure will not only help the customers but to a great extent it will also help in clearing the arrears in documentation.

Reply of the Government

Apart from a single certificate-cum-policy for third party and comprehensive motor insurance covers, introduction of a Proposal-cum-policy Schedule for Householders and Shopkeepers Comprehensive Insurance is also under consideration. Besides this, the Fire Tariff for simple non-industrial risks has been rationalised to quicken the process of underwriting and issue of documents, and simplification of the tariff for industrial risks and warehouses is in hand. These measures, together with the computerisation programme which is in progress, will not only help the customers but will also speed up the issue of documents.

[Ministry of Finance (Department of Economic Affairs) O.M. No. 57(7)-Ins. I/86, dated 30-12-1986]

Recommendation (Serial No. 33 Para 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 the "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.

Reply of the Government

In the Annual Reports of the GIC and its Subsidiaries, special mention is now being made about matters relating to "Customer Relations" such as progress achieved in reduction of arrears in documentation, settlement of claims, Grievance Cells, changes in tariff, new insurance covers evolved etc.

[Ministry of Finance (Deptt. of Economic Affairs)
O.M. No. 57 (7) Ins. dated 30-12-1986]

Recommendation (Serial No. 35 Paras 6.27 and 6.28)

The ratio of 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 20th 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 small 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.

Reply of the Government

The Government is alive to the pressing need for redressal of grievances and for minimising formalities/red tapism.

In this connection, it may be stated that a Committee appointed by the Government last year to review claim settlement procedures with a view to achieve simplification and flexibility in the processes involved has recommended several measures to minimise formalities and simplify the procedures in order to cut down delays, and thereby avoid public dissatisfaction and criticism. The Committee's recommendations have been accepted by the Corporation and Subsidiaries are being implemented.

Meanwhile, as a result of various steps as enumerated in Paragraphs 6.19 and 6.21 of the Committee's report, the ratio of number of claims outstanding to claims intimated has improved appreciably from 56.3% in 1983 to 50.8% in 1984 and 49.5% in 1985.

The Companies are also recruiting Legal Officers, Claims Investigators and Engineers Primarily to help in settlement of Motor Insurance claims.

Further, all offices of the Companies and the Corporation have set up grievance cells to receive and process complaints from policyholders and claimants. The arrangements were reviewed by Government and strengthened and streamlined w.e.f. 1-1-1986. The insuring public have been notified through the press that if they do not get redressal of their grievances from the Companies at local levels, they may approach the Grievance Cells of the GIC. The heads of all offices including the Chairman-cum-Managing Directors of the Companies are available on a pre-announced day every month to personally hear the grievances of customers and redress them speedily. These arrangements tend to keep the claims settlement officers alert and prevent them from being complacent in the settlement of claims because of the knowledge that any undue delay on their part can be a subject of complaint to higher authorities.

The matter is kept under constant review by the Government.

[Ministry of Finance (Deptt. of Economic Affairs) O.M. No. 57 (7) Ins. I/86 dated 30-12-1986]

Recommendation (Serial No. 40 Paras 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 Govt. 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%

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 sector. 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 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.

Reply of the Government

As will be seen from Para 8.11 and 8.12 of the Committee's report, the investments in Central and State Government Securities over a period conform by and large to the percentages prescribed in Government guidelines, although in individual years there may be variations from these percentages due to certain practical difficulties which are detailed below :

The guidelines required that the Companies should invest accretions to funds during a particular year in that year in a particular manner. The figures of actual accretions for a particular year are, however, available only after the accounts for that year are finalised sometime in May/June of next year. Therefore, as explained in Para 8.9 of the Committee's Report the 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 budget.

As further stated in Para 8.10 of the Committee's Report, 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. Because of the peculiar nature of general insurance business and the uncertainties involved with regard to premium income and claims experience, the actual accretions for the year do not necessarily conform to the budgeted accretions. In the circumstances, 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 Government guidelines. This is demonstrated from the cumulative position over the years 1978 to 1983, indicated in Para 8.11 and 8.12 of the Committee's report which indicate that the investments in Central Government Securities and State Government Securities conformed more or less to the prescribed minimum percentages.

However, 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, a system of quarterly review of accretion of investible funds based on monthly cash flow statements has been introduced as stated in Para 8.13 of the Committee's report.

Government also reviewed the matter and rating, inter alia, the difficulties in strictly adhering to the prescribed percentages on account of inevitable differences between the budgeted and actual accretions, instructions were issued in November, 1984 (Appendix III) to GIC that after a review of the actuals of a year, all out efforts should be made to correct imbalance, if any, in the following year and that over a five year period (coinciding with 5 year plan period) the investments made should conform to the prescribed percentages as laid down in the guidelines. These instructions are being implemented by the Corporation. As will be seen from the following table the investments in Central Government Securities and State Government Securities over the 5 year plan period 1980-84 had also by and large conformed to the minimum percentages laid down in the guidelines :

	(Rs. in crores)
Central Govt. Securities.:	
Accretions (1980-84)	242·49
Minimum investments required to be made (@ 25% of accretions) .	60·62
Actual investments	62.24
Percentage of actual investments to total accretions	25·67%

State Govt. and other approved Securities :

Accretions (1980-84)	242·49
Minimum investments required to be made (@ 10% of accretions)	24·25
Actual Investments	33·06
Percentage of actual investments to total accretions	13·63%

As suggested by the Committee GIC will take prior approval of the Central Government in future whenever a serious departure is to be made from the percentages prescribed in the Government guidelines.

[Ministry of Finance (Deptt. of Economic Affairs)
O.M. No. 57 (7) Ins. I/86 dated 30-12-1986].

Recommendation (Serial No. 41 Para 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 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% in 1981, 4 State Government Securities for 47% 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 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 cash flow statements has been introduced in GIC which may help to some extent in correcting imbalances in investments in different categories.

Reply of the Government

Fresh issues of securities are floated by the State Governments only once or twice in a year. In deciding in which of the State Govt. Securities the investment should be more as compared to others, the Corporation earlier used to follow the criterion of marketability. Consequently, the investment in the securities of certain States having better marketability used to be comparatively larger. Subsequently, this approach was modified and applications were made in proportion to the quantum of fioatation by each State. Since some of the larger States floated larger amount of Securities, investments in their Securities were proportionately higher as compared to others. The disparity in investments in the securities of different State Governments is not because of preferential treatment to some States over others but because the investments are made in proportion to the quantum of floatation by each State. Further, the amount floated by each of the States is allocated by the Reserve Bank of India among the various applicants including GIC and LIC on the basis of applications received from each. If the applications received for securities of certain States aggregate to more than the amounts floated, the allocations are reduced proportionately. On the other hand, if sufficient applications are not forthcoming for the Securities of certain States, it is open to GIC after informal consultation with Reserve Bank to increase the amount originally applied. Thus, the Reserve Bank not only allocates the Securities among various applicants but also advises each of them about the amounts that could possibly be allotted depending on the amount of floatation.

Steps have since been taken to allocate larger amounts for investment in the Securities of less developed States as stated in Para 8.21 of the Committee's report. For this purpose, the States have been placed in three categories (A) those with per capita income of Rs. 1554 (national average) and above (B) those with per capita income between Rs. 1300 and Rs. 1554 and (C) those with per capita income below Rs. 1300, and the percentages of investment in these three categories during the years 1984 and 1985 have been as under :—

	1984	1985
States in category A (Developed States) . . .	18·3	17·3
States in category B (Less Developed States) . .	30·0	26·2
States in category C (Under Developed States) .	51·7	56·5

[Ministry of Finance (Deptt. of Economic Affairs)
O.M. No. 57(7) Ins. I/86 dated 30-12-1986]

Recommendation (Serial No. 42 Para 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 IFCI 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 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.

Reply of the Government

Investments in approved securities, bonds and debentures of public sector undertakings are made as and when they are floated. All India Financial Institutions like IDBI, ICICI and IFCI are engaged in industrial development of the country in consonance with Government Policy of development of backward areas, no-industry districts, etc., and need a longer support. They come in the market 4 to 5 times in a year with large issues which have better yield and marketability. Other Institutions come in the market less frequently and with smaller issues. As and when new issues are floated, the amount to be invested on each occasion so as to comply with Government guidelines is determined after taking into account the investments already made during the year in State Government Securities and others. Since the All India Financial Institutions come into the market more frequently and with large issues, they carry a larger share of the investments. This is not at the cost of other Institutions who come in the market less frequently and with smaller issues and get their due share. In fact, none of these smaller issues have gone unsubscribed or under subscribed in the market.

The Committee's observations that guidelines should be strictly adhered to in future and a few institutions should not get undue share at the cost of others have, however, been noted and efforts will be made in future to reduce investments in all-India Financial Institutions and invest more in the issues of other Institutions.

[Ministry of Finance (Department of Economic Affairs (O.M. No. 57 (7) Ins. I/86, dated 30-12-1986.]

Recommendations (Serial No. 44 Para 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.

Reply of the Government

The Finance Ministry has taken up the matter with the concerned nodal Ministries (Ministry of Urban Development, Home Affairs and Planning Commission) to take necessary action in this regard to enable disbursement of loans before the close of the accounting year.

[Ministry of Finance (Department of Economic Affairs) O.M. No. 57 (7) Ins. I/86, dated 30-12-1986.]

CHAPTER III

RECOMMENDATIONS WHICH THE COMMITTEE DO NOT DESIRE TO PURSUE IN VIEW OF GOVERNMENTS REPLIES

Recommendations (Serial No. 4 Para No. 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 coinsurers 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 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.

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 Governments 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 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.

Reply of the Government

As stated in Para 3.12, the Corporation was asked by Government to conduct experimental Schemes on Crop Insurance as a temporary arrangement in the absence of any other suitable organisation. Accordingly, a number of pilot schemes on individual basis under controlled conditions were implemented by the Corporation as an experimental measure for selected crops in selected areas but they were not found suitable for adoption on a large scale. Subsequently, experimental schemes based on homogenous approach basis (which was considered more appropriate in India conditions) were initiated and suitable modifications in methodology were introduced from time to time. Since all those Schemes were implemented as an experimental measure in selected areas for selected crops, the coverage was naturally small in comparison to the total value of agricultural production and the total cultivable area of land in the country. The coverage also depended on the extent to which the banks and other crop financing institutions could persuade the loanee farmers to take insurance. The corporation by itself did not have the necessary machinery to reach individual farmers. The high loss ratio, apart from being due to elemental reasons like heavy rains, drought, etc. was an inherent feature of the Scheme 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 GIC enlisted the support of Indian School of Political Economy. Since then a comprehensive Crop Insurance Scheme has been introduced by the Government of India from Kharif 1985. The risk is shared in the ration of 2 : 1 between Central & State Governments. The Scheme is being administered by the GIC on behalf of the Central Government. A copy of the Scheme is enclosed (Appendix-IV)

As regards creation of a separate rural based organisation for implementing the Crop Insurance Scheme, together with other insurance Schemes of rural business, the matter has been reviewed by Government. GIC has at present a vast network of Regional, Divisional and Branch Offices spread throughout the country. It has also, over the years, progressively developed its non-traditional business portfolio in rural areas, including cattle insurance, agricultural pump sets insurance, Janata personal Accident Insurance etc. New Areas of rural insurance business initially are likely to be unprofitable and because of the varied nature of business of GIC, it is possible to have cross subsidisation of losses from other more profitable areas. As for crop insuarnce, the Scheme is being administered through GIC in collaboration with the State Governments who are also co-insures and who have their own machinery for crop-cutting experiments, etc., which are being relied on by GIC. It has thus been possible to keep the administrative costs of GIC, on account of the Crop Insurance Scheme, well under control. Much of these advantages are likely to be lost if a separate rural based organisation is set up with a parallel infrastructure and machinery which may have consequently high administrative overheads. The new Comprehensive Crop Insurance Scheme has been introduced in 1985 and would take some time to stabilise. In the view of the Government, the stage is still not ripe for setting up a separate rural based organisation exclusively for crop insurance or rural insurance. The matter, of course, would be reviewed later if found necessary.

[Ministry of Finance (Deptt. of Economic Affairs) O.M. No. 57 (7) Ins. I/86 dated 30-12-1986.]

Recommendation (Serial No. 5 Para No. 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 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.

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.

Reply of the Government

The question as to whether a separate Corporation or a subsidiary of GIC should be set up to administer the Crop Insurance Scheme, as also other items of non-traditional business, was considered in a meeting taken by the Finance Secretary on 22-7-86 with Secretary (Banking), A. S. (Expenditure), A. S. (Agriculture) and J. S. (Insurance) and it was felt that since the overhead administrative costs will be too high, GIC may continue to manage the Scheme as hithertofore. GIC, however, at the behest of the Ministry of Agriculture, has been continuing with the administration of the Scheme. In this connection, in paras 4.24 & 4.26 of the report of the CAG for the year 1982, it had been brought out that till alternative institutional arrangements were made, GIC would continue as the agency for promoting Crop Insurance in the country.

It may, thus, be seen that the Government is fully seized of the criticality of the problem and has been taking appropriate measure for successful implementation of the Scheme. It may be further stated that GIC has not been exposed to any risk on this account and the losses, if any, are shared by the Union and the State Governments.

[Ministry of Finance (Deptt. of Economic Affairs) O.M. No. 57 (7) Ins. I/86 dated 30-12-1986.]

Recommendation (Serial No. 11 Para No. 3.66)

On perusal of the performance of the above scheme, the Committee find that the various schemes put into operation by the General Insurance Corporation of India for the weaker section of the society, specially 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 GIC in 1979 and approved by the Board of GIC 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 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 to 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).

Reply of the Government

The Subsidiaries of the GIC have over the years built a reasonably adequate infrastructure and have entered deep into the rural areas by appointing Inspectors in the remotest corners and have opened the Branches in all but three districts of the country. Lack of adequate capacity to pay premium still remains the major impediment in successful implementation of Insurance Schemes for the benefits of agriculturists and farmers. Coverage of such Schemes with reference to their potential is, therefore, a slow process.

In so far as the proposal to set up a Rural Insurance Corporation to implement various insurance Schemes like Cattle Insurance, Insurance of Agricultural Pump Sets, Gramin Accident Insurance, Insurance of Poultry—Sheep, bullocks, pigs, etc., is concerned, a draft feasibility report was examined in consultation with various Departments, Viz. Planning Commission, Ministry of Agriculture, Plan Finance (Deptt. of Expenditure), Financial Advisor (Deptt. of Economic Affairs) and Bureau of Public Enterprises and there was no consensus in regard to formation of a separate Rural Insurance Corporation. The matter was further considered on 22-7-86 in a meeting taken by the Finance Secretary with Secretary (Banking), A.S. (Expenditure), A.S. (Agriculture) and J.S. (Insurance) and it was felt that since the overhead administrative costs would be too high, the GIC may continue to manage the Scheme hithertofore for the present.

[Ministry of Finance (Deptt. of Economic Affairs) O.M. No. 57 (7) Ins. I/86 dated 30-12-1986.]

Recommendation (Serial No. 17 Para No. 4.87 & 4.88)

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.

The diminution of income from the 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.

Reply of the Government

Share of each class of business to the total business varies with the increase/decrease in the share of other classes of business.

Apart from discount allowed in premium from January 1977, the rationalisation of fire tariff from January 1979 resulted in reduction in premium rates by about 20%. However, the percentage contribution of fire insurance business in the total business declined not because the fire insurance premium had not increased, but because the motor and miscellaneous insurance premium had increased much faster. While the share of fire insurance business declined from 36.2% in 1975 to 27.1% in 1983, the share of motor insurance business increased from 20.4% to 25.8% and that of miscellaneous insurance business (including non-traditional and rural insurance business) increased from 15.4% to 23.3% over the same period.

Although the percentage of fire insurance business to the total business has in fact increased and the premium base widened from Rs. 91.90 crores above, there has been no diminution of income from fire department which has in fact increased and the premium base widened from Rs. 91.90 crores in 1975 to Rs. 232.41 crores in 1985.

As regards commercial justification for the discount in premium allowed from January 1977, it may be stated that this did not have any effect on the overall finances of the Insurance Companies. What was really done was that the commission payable to agents for business emanating from corporate bodies with a paid-up capital of Rs. 10 lakhs and above, co-operative societies with a paid-up capital of Rs. 5 lakhs and above, and charitable trusts exempt from income-tax, was abolished from 1st January, 1977, and the commission thus saved is passed on to the insured in the form of discount from the normal premium payable under the policy.

[Ministry of Finance (Deptt. of Economic Affairs) O.M. No. 57 (7) Ins. I/86 dated 30-12-1986.]

Recommendation (Serial No. 21 Para No. 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 R&D in their organisation for this purpose.

Reply of the Government

The Corporation keeps up constant dialogue with Chambers of Commerce and other representative organisations of trade and industry to assess their insurance requirements, and their reactions to possible changes in Tariff. Regular feedback about requirements and reactions of customers is also received from the Subsidiaries who maintain a close and personal touch with individual corporate clinets in the public and private sector.

The GIC also has an Economics and Statistics Department in charge of a specialised officer of the rank of Asst. General Manager who is a Ph. D. in Economics. This Department collects and analyses all relevant data and statistics available in various publications of Central and State Government Departments which is helpful to the management in taking appropriate decisions with regard to introduction of new tariffs or modification of the existing ones according to needs of the situation. It will be seen from the above that although the GIC does not have a regular Research and Development Section in that name, a machinery is available to gauge and assess the reaction of the customers to any possible changes in Tariff.

[Ministry of Finance (Department of Economic Affairs) O.M. No. 57 (7) Ins. I/86 dated 30-12-1986]

Recommendation (Serial No. 28 Para 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.

Reply of the Government

Remittances from Ghana have been held up due to acute foreign exchange situation and consequent restrictions imposed by local authorities in Ghana.

It may however be stated that due to considerable depreciation in the currency of Ghana, the present value of the dues of the two Companies, viz. Cedi 11.56 lakhs is equal to about Rs. 1.56 lakhs only. Looking to the comparatively small amount involved and the overall business relations with that country, it is felt that steps for recovering the amount should continue at the Company level only without recourse to Government to Government level.

[Ministry of Finance (Deptt. of Economic Affairs) O.M. No. 57 (7) Ins. I/86 dated 30-12-1986.]

Recommendation (Serial No. 34 Para 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 3,22,490 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 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.

Reply of the Government

The overall position of outstanding claims in respect of all the subsidiaries between 1976 and 1983 has been indicated in Para 6.14 of the Committee's Report. As stated therein, the ratio of number of claims outstanding to claims intimated improved from 66.2% in 1981 to 58.5% in 1982 and 56.3% in 1983. Further position relating to the years 1984 and 1985 is shown in the following table :—

Particulars	1984	1985
1. No. of new claims intimated	8,95,865	9,62,617
2. No. of claims settled during the year . .	9,01,463	9,68,706
3. No. of claims outstanding at the end of the year	4,54,775	4,76,129
4. Percentage of no. of claims outstanding to claims intimated during the year	50·8%	49·5%

As will be observed from the table in Para 6.14 of the Committee's Report and the above table, the number of new claims intimated has been consistently increasing from year to year as a result of growth of business. *But at the same time, the number of claims settled has also been on the increase from year to year.* One of the main reasons for the pendency of the old claims is that a large proportion of such claims relate to Third Party claims which are filed with MACTs & remain pending for a long time. As stated in Para 6.16 of the Committee's report, despite increase in the number of intimated claims, as many as 63.2% to 63.4% of the total claims (including those carried forward from previous years) were settled during the years 1982 and 1983. This ratio has further improved to 65.6% in 1984 and 67% in 1985. It will also be observed that the ratio of number of claims outstanding to claims intimated has further improved from 56.3% in 1983 to 50.8% in 1984 and 49.5% in 1985.

As regards claims outstanding for periods ranging between three months to over five years, it may be stated that unlike life insurance claims which are relatively simple to assess, the claims in general insurance business require in-depth examination with reference to policy conditions, and assessment of the quantum of loss also requires detailed scrutiny of the clients books by outside surveyors and other experts. Disputes also arise with clients with regard to the cause of loss as well as its assessment. These disputes sometimes become subject matter of arbitration or litigation in Courts. Most of the long pending claims are due to disputes and differences with clients or non-submission of the required information/documents by them. In any given situation, therefore, there is a hard core of claims which take long time to deal with, and as time passes, these hard core claims tend to swell the number of pending claims. The results of sample analysis indicated in Para 6.17 of the Committee's report would show that a bulk of the claims remain pending for reasons not attributable to Insurance Companies. A number of steps as enumerated in Paragraphs 6.19 and 6.21 of the Committee's report have, however, been taken to bring down the number of outstanding claims and as a result, their percentage to claims intimated during the year has improved considerably over the years as shown above.

With regard to the Committee's recommendations to lay down a time limit for clearance of a claim, it is submitted that the Insurance Company's liability and its quantum in respect of general insurance claims have to be determined on the basis of the fact and circumstances of each individual case. For this purpose, the claims (above Rs. 20,000) are required to be assessed by an independent professional surveyor as per the provisions of the Insurance Act. The time taken by the Surveyor in his assessment would vary according to the complications involved in each case and the degree of co-operation extended to him by the insured in furnishing the required information and documents. The surveyor's assessment in many cases is delayed due to non-submission of required information/document by the claimants. The approach of the surveyors as well as Insurance Companies at present is to give maximum opportunity to the claimants for this purpose. Fixing a time limit for clearance of a claim may lead to denial of this opportunity, and may thus be a disadvantage rather than help to the claimants because, in order to keep up to the prescribed time limit, the surveyors might submit their report without final assessment and the claim might get repudiated on the ground of non-compliance of requirements by the claimant.

Further, even after the claimant has complied with all the requirements and the surveyor has completed his assessment a reasonable time depending on the complications involved in each case, is required by the Insurance Company to scrutinise his report. The claim has also to pass through various levels depending on the limits of financial authority before it can be cleared for payment. In genuine cases of financial hardship due to the time taken in processing the claim, on account payments are generally made on the recommendation of the surveyor.

In view of all the above factors, it would be seen that it may not be desirable to lay down any specific time limit for clearance of a claim. Guidelines have, however, been issued to the Companies prescribing a time table for settlement of personal claims. Also in order to reduce the scope for delays in settlement of all classes of claims, a Committee was set up by Government which has recommended several measures to minimise formalities and simplify the procedures. The Committee's recommendations have been accepted by the Corporation and Subsidiaries and are being implemented. The matter is kept under constant review by Government, targets have been set in the Action Plan of the Ministry for 1986-87 for GIC's claims settlement rate for all claims as also for pending rate of old claims. The performance in this regard is being monitored by the Government.

[Ministry of Finance (Deptt. of Economic Affairs) O.M. No. 57 (7) Ins. I/86 dated 30-12-1986.]

Recommendation (Serial No. 36 Para 6.29)

The Committee would like that the subsidiaries should take active interest in reminding the claimants where the compliance 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.

Reply of the Government

The Government appointed a Committee to review claim settlement procedures with a view to achieve simplification and flexibility in the processes involved in order to cut down delays. This Committee has recommended, among other things, that :

(i) As soon as a claim is reported, the concerned Inspector should be immediately asked to establish contact with the claimant to help and guide him for compliance of various formalities and requirements, and all communications to the claimant calling for information/clarifications should be endorsed to the Inspector for follow-up by personal contact;

(ii) the claimant should be made aware in advance about the steps he should take and the information/documents he should produce in the event of occurrence of a claim so that he may comply with the requirements on his own without having to wait for a communication from the Insurance Company;

(iii) A Manager/Deputy Manager at each Regional Office should be exclusively assigned the responsibility of periodically visiting the claim settling offices in the region to review claims outstanding for over one year (six months in the cases of personal Claims) to see that no claim has remained pending due to inaction on the part of the office.

The above recommendations of the Committee have been accepted by the Corporation and the Subsidiaries and are being implemented. It is expected that these and other measures would bring about a positive improvement in the position regarding settlement of claims.

As regards the Committee's suggestion that the claims pending for over a year should be reviewed on monthly basis, it may be stated that the Companies are already taking suitable action through a Task Force situated at each Regional Office. The overall progress in settlement of claims is also monitored by the Corporation and the Ministry through periodical reports.

[Ministry of Finance (Department of Economic Affairs) O.M. No. 57 (7) Ins. I/86 dated 30-12-1986.]

Recommendation (Serial No. 37 Para 7.24)

The Committee note that 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 preium 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".

Reply of the Government

As stated in Para 7.3 of the Committee's report, the Expert Committee had recommended that the long term objective of the Indian Market should be to establish itself as a market providing reinsurance capacity for worldwise business and particularly for the business emanating from developing countries, and to 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 reinsurance"*. The Expert

Committee had further 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.

It is submitted that the recommendations of the Expert Committee have been scrupulously followed. In furtherance of the long term objective recommended by the Expert Committee, the GIC started accepting reinsurance business from outside India from 1976 and within a relatively short span of 7 years it succeeded in increasing the volume of inward insurance premium substantially from a mere Rs. 9 lakhs in the first year to as much as Rs. 1271 lakhs in 1983 as will be seen from the table in Para 7.15 of the Committee's Report. The GIC's capacity to accept reinsurances from abroad is, however, still very limited and it will take quite some time before it is in a position to provide the lead for various reinsurance requirements of foreign countries. As stated in Para 7.7 of the Committee's Report, providing such lead is only a long term possibility. It is, however, steadily proceeding in that direction and is gradually gaining a foothold in the international reinsurance market even if in accepting inward-reinsurance business from abroad some losses are incurred in the initial stages.

It needs to be mentioned that international reinsurance business is highly volatile. The profit margin in inward reinsurance business is very nominal because of international competition. Representatives of developed markets are consistently on move all over the world to canvass and seek reinsurance business. The GIC has obvious limitations in competing with international reinsurance giants to attract inward reinsurance business. Further, it has to be extremely cautious in booking this business because of its intrinsic low profitability. The cumulative loss of Rs. 611 lakhs in inward reinsurance business over the year 1976-83 may be viewed in this perspective. However, there has been a net gain of Rs. 192 lakhs over the same period from reinsurance retroceded out of this business, and substantial growth of inward business has contributed to an increase in the reserves for unexpired risks amounting to Rs. 485 lakhs in 1983.

It is further submitted that the results of GIC's reinsurance trading operations may not be viewed in isolation with reference to inward reinsurance business alone, but an overall view of the entire gamut of operations needs to be taken. After providing for the results of outward reinsurance as envisaged and recommended by the Expert Committee, the net overall result of our reinsurance trading operations over a relatively short period of 1976 to 1983 has been a foreign exchange gain of Rs. 3795 lakhs as indicated in the table below Para 7.15 of the Committee's report.

[Ministry of Finance, (Deptt. of Economic Affairs)
O.M. No. 57(7) Ins. I/86 dated 30-12-1986]

Recommendation (Serial No. 38 Paras 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 88.44 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.

The Committee have also observed that general insurance industry is being called upon to underwrite larger individual risks concerning satellites, off-shore drilling platforms, large aircrafts of national and international air-lines, 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 fields 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.

Reply of the Government

The Reinsurance Programme every year is designed with the primary objective of retaining as much of the premium and the risk within the country as possible consistent with sound technical underwriting and the capacity of the Indian Market to bear the exposure to loss. The reinsurance arrangements are concluded in a manner so as to achieve maximum economy in foreign exchange expenditure.

In deciding the retention on individual risks the basic consideration is the capacity of the Indian market to bear a particular exposure to loss and the quality and type of the risk being insured. Each class of business is individually evaluated for this purpose bearing in mind the above factors and also the approach of the reinsurance markets to that particular class of business and the costs of the reinsurance covers.

Taking into account the correct percentages of the premiums retained within the country in respect of Fire and Marine insurance business from 1978 to 1983, provided to the Committee in reply to question No. 14 of their questionnaire received under Lok Sabha Secretariat Office Memorandum No. 202/I(I)PU/84 dated 30th August 1984, the position is as follows :—

Year	1978	1979	1980	1981	1982	1983
Fire . . .	84·44	79·82	80·45	82·02	81	87
Marine . . .	75·09	75·96	72·36	74·36	80	86

It will be seen that percentage retentions of the Indian market have increased over the period. Variations in figures in individual years could sometimes be a reflection of the incidence of large risks in that particular year.

In respect of five large industrial risks referred in paras 7.9 and 7.10 of the Committee's Report, the sums insured and the sums retained within the country as well as the percentage of retention indicated on Page 59 of the report of the Comptroller and Auditor General of India are as follows :—

(Rupees in crores)

		1978	1979	1980	1981
1. National Organic Chemical Industries Ltd., Thane.	Sum Insured	170·02	198·46	216·65	243·47
	Sum Retained	9·98	10·82	13·65	13·07
	%age of retention	5·86	5·45	6·30	5·37
2. Southern Petro-Chemical Industries Corpn. Ltd., Tuticorin.	Sum Insured	162·00	178·02	223·01	234·26
	Sum Retained	10·90	10·38	13·87	14·55
	%age of retention	6·73	5·83	6·22	6·21
3. Indian Petro-Chemical Corpn. Ltd., Baroda	Sum Insured	359·17	490·22	557·07	662·59
	Sum Retained	14·78	17·89	23·90	23·79
	%age of retention	4·11	3·65	4·29	3·59

		1978	1979	1980	1981
4. Gujarat State Fertilizers Ltd., Baroda	Sum Insured	197·08	188·73	228·32	259·36
	Sum Retained	9·85	10·72	13·78	12·97
	%age of retention	4·99	5·68	5·86	5·00
5. Indian Explosives Ltd., (Fertilizer Factory) Kanpur.	Sum Insured	162·23	191·78	249·74	319·28
	Sum Retained	15·01	16·28	26·55	22·61
	%age of retention	9·25	8·75	10·63	7·08

It may be clarified in this connection that large industrial fire risks are underwritten on the basis of their probable maximum loss (PML). The retention capacity of the Indian market is fixed at a particular amount of PML, which is derived on the basis of a technical analysis of the degree of exposure of a particular risk to loss. As a general rule, one could say that an increase in sum insured would also result in increase in PML. However, since the retention of the market is a fixed amount of PML, the retention as a percentage of the gross values at risk will naturally fall as the sum insured goes up. Small variations in amounts retained, appearing in the above table are caused entirely by the uneven incidence of increases in sums insured within the blocks of a particular risk on the overall PML for the risk. It is, therefore, not appropriate to infer from the above figures that the retention of the Indian market has reduced, though one can say that the gross sums insured have increased thus resulting in the requirement of a higher amount of reinsurance. It will be observed that with the increase in sums insured, the retentions in absolute terms have also increased. However, the percentage reinsured varies from one risk to another depending on the PML of that risk. Among the largest five risks in the market given above, the lowest percentage retention within the country was in respect of the risk at serial No. 3 and this is because of the substantial exposure to loss on their loss of profits insurance.

Further, as explained in Para 7.13 of the Committee's report, individual risks written in any market are not uniform in nature and size, and therefore, 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 may be stated in this connection that although a major portion of the underwriting profit is on fire portfolio, larger retentions do not necessarily mean retention of more profits because they also carry higher exposures to loss. In the case of large and complex risks such as petro-chemical and fertilizer complexes, super-thermal power stations, oil refineries, air-crafts, satellites, oil rigs and other-shore installations the retention percentages are small because of the very large sums insured and high exposures to loss.

It is true that with the advancement of technology more and more sophisticated safety devices have been evolved to reduce the chances of mishaps. At the same time it is observed that in order to take advantage of economies in scale the individual plants are becoming much larger in size. Many of these plants are being built almost on the borderline of known technology and to that extent carry a greater degree of unpredictability. Besides, in the event of loss, the amounts which are exposed to risk are so large that the losses are substantially larger. A review of the recent record of failures in the launching of satellites will highlight the new risks which accompany new technology. It is, therefore, necessary as part of prudent underwriting to make sure that the amount of exposure to loss carried by the Indian market is controlled at a level commensurate with the industry's capacity and the degree of hazard of the risks being insured.

The reinsurance programme is reviewed every year to make sure that the objectives are fully achieved and the retentions within the market are increased to the extent possible. These efforts have shown results in the increasing percentage retentions within the country and such efforts will continue to be made over the future.

[Ministry of Finance. Deptt. of Economic Affairs, O.M. No. 57(7) Ins. 1/86 dated 30-12-1986]

Comments of the Committee

(Please see Paragraph 21 of Chapter I of the Report)

Recommendation (Serial No. 39 Paras 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 during 1982 the Corporation earned a foreign exchange gain of Rs. 1371 lakhs 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 drains 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.

Reply of the Government

Reinsurance operations embrace outward reinsurance cessions and inward acceptances. The two are independent activities and have to be considered separately on their own merits.

The business ceded outside India is for the purpose of obtaining reinsurance protection for large risks which are beyond the industry's capacity, and the premium paid in foreign exchange is the cost of such protection. It must therefore be accepted that expenditure of foreign exchange is inevitable for reinsurance protection. Whether there is a gain or drain in foreign exchange in a particular year would depend upon occurrence or non-occurrence of claims on risks reinsured by us in that year. It is not possible to ensure that the industry would gain in foreign exchange by recovering claims year after year on its outward placements. The gain to industry is a loss to reinsurers and if the risks reinsured by it give rise to claims year after year more than the premium earned by reinsurers, it will either cancel the reinsurance arrangement and refuse to give cover to it or ask for higher premium. It will thus be seen that in years when there are no claims, the reinsurers gain while the industry loses in foreign exchange, and in years when it is able to make substantial recoveries on its large losses, it is the reinsurers who lose while the industry gains in foreign exchange. Outward reinsurance cessions should, therefore, not be viewed in terms of foreign exchange 'drain' or 'gain' from year to year because a single catastrophic loss may more than compensate the reinsurance premium paid over a number of years. In other words, there may be gain in some years and drain in other years and a long term view has to be taken. It will be seen from the table in Para 7.15 of the Committee's Report, that over the period 1976-83 there was a net gain of Rs. 4215 lakhs in respect of outward reinsurance cessions. It may be pointed out that the exchange loss of Rs. 1652 lakhs in 1983 has to be set off against exchange gain of Rs. 1371 lakhs in 1982. The net result for these two years, therefore, is an exchange loss of Rs. 281 lakhs and not a cumulative loss of Rs. 3023 lakhs (Rs. 1371+1652 lakhs) as stated in Para 7.27 of the Committee's report.

As regards inward acceptance, it needs to be mentioned that international reinsurance business is highly competitive. Representatives of developed markets are consistently on move to canvass and seek reinsurance business all over the world, and the Indian Industry has obvious limitations in competing with international reinsurance giants. Their capacity to meet the cover requirements of foreign countries is still very limited. The GIC started accepting inward reinsurance business only in 1976 and it will take quite some time before the Indian market acquires an acceptable position in the international market to provide the lead for various reinsurance requirements of foreign countries. London market has acquired this position after its reputation for expertise and experience built over centuries. At present, even developed countries like USA and Japan look to London market for lead. In all these such circumstances, it is not possible for the Indian Industry to obtain reciprocal inward business in the same proportion as outward reinsurance cessions. While placing outward reinsurance business, it no doubt, utilises the opportunities to also canvass for inward business, but at the same time it is extremely cautious in its approach. Further, its outward cessions have of late given substantial losses to reinsurers and this has added to its inability to attract profitable inward business.

In respect of inward reinsurance acceptance the increase in the exchange loss from a mere Rs. 6 lakhs in 1976 to Rs. 48 lakhs in 1982 and Rs. 433 lakhs in 1983 may be viewed in the context of increase in the volume of inward premium from Rs. 9 lakhs in 1976 to Rs. 491 lakhs in 1982 and Rs. 1271 lakhs in 1983. Further, the cumulative loss of Rs. 611 lakhs over the years 1976 to 1983 may be viewed against the net gain of Rs. 192 lakhs from reinsurance retroceded out of this business, besides Rs. 485 lakhs representing the increase in reserves for unexpired risks in 1983.

After taking into account the results of outward cessions, the net overall result of reinsurance trading operations over the years 1976 to 1983 has been a foreign exchange gain of Rs. 3795 lakhs as indicated in the table below Para 7.15 of the Committee's Report.

It may not be out of place to mention that the Expert Committee's recommendations of July, 1975, which have been quoted in Para 7.24 of the Committee's report, envisaged earning increasing volume of inward reinsurance premium with the long term objective of establishing the Indian market as a market providing reinsurance capacity for worldwide business. It is submitted that GIC is steadily proceeding in that direction inasmuch as the volume of inward reinsurance premium has increased from Rs. 9 lakhs in 1976 to as much as Rs. 1271 lakhs in 1983 and the Indian market is gradually gaining a foothold in the international reinsurance market even if in accepting inward reinsurance business from abroad some losses are incurred in initial stages.

[Ministry of Finance, Department of Economic Affairs, O.M. No. 57(7)Ins. I/86, dated 30-12-1986]

Recommendation (Serial No. 43 Para No. 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 1983 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 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 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.

Reply of the Government

As explained in Paras 8.28 to 8.30 of the Committee's report loans to State Governments, DDA and HUDCO for housing are included in the socially oriented sector of the Plan. Sectoral allocaion of funds earmarked by GIC/LIC for investment in the housing programmes is decided every year in a meeting of the representatives of LIC, GIC, Planning Commission and the Ministries of Finance and Urban Development. In allocating the funds for housing, the interests and requirements of all the States, including DDA and HUDCO, are kept in view and no favour is shown to some States over others. The plan priorities and other factors including the position regarding actual utilisation of funds allocated earlier are also taken into account. In a particular year, some State Governments may require more funds for Schemes other than Housing such as Sewerage, Electricity etc. in accordance with their own priorities, while some other State Governments may not have any Schemes for housing and hence do not project their requirements with the result that their share goes to other State Governments. In these circumstances, the amounts sanctioned for housing, at times, fall short of the funds earmarked by GIC/LIC as per Government guidelines.

Even after the allocations are made, delays in disbursements may occur because the State Governments etc. have to complete certain essential formalities for lifting the loans sanctioned in their favour. This accounts for variation between the amounts sanctioned and disbursed in a year. Efforts have, however, been made to reduce the time-lag between the sanctions and disbursements and to ensure that the formalities are completed without undue delay and loans sanctioned are, as far as possible, disbursed within the same year. As a result, the loans sanctioned to Gujarat, Kerala, Manipur and Maharashtra in 1984 and to Gujarat, Maharashtra, Madhya Pradesh, Orissa and Kerala in 1985 were all disbursed within the respective years. Only the loans sanctioned to Bihar in 1985 remained undisbursed in that year due to delay in completion of the required formalities by the State Government.

[Ministry of Finance (Department of Economic Affairs) O.M. No. 57(7)Ins. I/86, dated 30-12-1986.]

CHAPTER IV

RECOMMENDATIONS IN RESPECT OF WHICH REPLIES OF GOVERNMENT HAVE NOT BEEN ACCEPTED BY THE COMMITTEE

Recommendation (Serial No. 10 Para No. 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 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 1,60,248 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.

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.

Reply of the Government

The number of agricultural pumpsets insured has progressively increased from a mere 18,000 in 1976 to 1.65 lakhs in 1983. The number insured in 1984 has gone up to 2.36 lakhs. The coverage vis-a-vis the total pumsets in the country is admittedly small. It must, however, be appreciated that due to poor economic condition of the farming community, the progress and impact of the scheme is bound to be gradual. Even so, there has been a quantum jump in 1984 as compared to the previous year, and it is to be expected that the pace will further accelerate in the years to come.

The figures in the table below Para 3.45 of the Committee's report would indicate that the claim ratio has improved considerably after 1978. It came down sharply from 231.3% in 1978 to 137.7% in 1980. Although a further steep decline to 68.3% in 1981 was due to doubling of premium rates from July, 1980 the downward trend has continued in subsequent years. The claim ratio was 50.7% in 1982 and 21.8% in each of the years 1983 and 1984.

With an appreciable improvement in claim ratio, the accumulated profit over the years 1982 to 1984 works out to Rs. 283.16 lakhs, more than covering the accumlated loss of Rs. 63.84 lakhs over the years 1976 to 1981 mentioned by the Committee.

As regards suggestions to reduce the incidence of high claim ratio, the Corporation had informed Audit in reply to their report at the draft stage that the following three suggestions had been implemented "to the extent possible."—

(a) Restricting business only to areas where the Companies have manpower for pre-insurance inspection as well as at the time of claim;

(b) For large claims, survey assessment of loss should be arranged; and

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

As regards (a) and (b), it is clarified that pre-insurance inspection is not a normal practice, nor a feasible proposition except in the case of very large risks. Particularly in the case of agricultural pumpsets which are mostly installed in mofussil and rural areas, the cost of an inspection prior to insurance would be more than the premium charged.* In the event of a claim, however, inspection is invariably done either by the officials of the Company, or by licenced surveyors where the claim amount exceeds Rs. 20,000 as per provisions of the Insurance Act. As regards (c), the Companies have appointed Rural Representatives in certain rural areas depending on requirements. They procure all kinds of rural insurance business in the area including agricultural pumpsets insurance business for which a separate cadre of rural workers is not necessary.

In view of the above position, no separate instructions specifically covering the suggestions with regard to agricultural pumpsets insurance were necessary. The Committee, may, therefore, kindly agree that there was no lapse, as such, on the part of the subsidiaries.

[Ministry of Finance (Department of Economic Affairs) O.M. No. 57(7) Ins. 1/86 dated 30-12-1986.]

Comments of the Committee

(Please see Paragraph 6 of Chapter I of the Report)

*At the time of factual verification, the GIC stated "In the event of a claim, however inspection is invariably done either by the officials of the Company or by licensed surveyors where the claim amount exceeds Rs. 20,000 as per provisions of the Insurance Act" (GIC letter dated 6 April, 1987).

Recommendation (Serial No. 14 Para No. 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 un-satisfactory 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.

Reply of the Government

While noting the Committee's observations, it may be mentioned that general insurance business is dependent on the changing state of economy. The possible impact of factors like higher industrial growth and increased imports of oil, cement, newsprints, etc., in 1981, increase in motor tariff rates in 1982, and textile strike and recession in shipping industry, etc., in 1983, was duly foreseen and taken into consideration while fixing the premium targets for the respective years, and as will be seen from the table below para 4.15 of the Committee's report, the laid down targets, were completed to the extent of 101% in 1981, 99.9% in 1982 and 98% in 1983. There has been no decline in premium income which has actually increased from year to year. The impact of the changing economic scenario each year, however, gets reflected in the rate of growth as compared to the preceding year.

As regards premium target of Rs. 1215 crores by end of 1985 mentioned by the Committee, it may be stated that the targets envisaged in the "Approach to Corporate Plan" are in the nature of indications of what the organisation is aiming to achieve within a time scale of several years, and are subject to review and revision in the light of changing economic conditions and other relevant circumstances, rather than definite yardsticks to measure the performance from year to year. In the light of actual experience of 1984, continued disturbed conditions in the country, recession in shipping industry, and failure of monsoon resulting in drought in Gujarat, Maharashtra and Karnataka, the received target for 1985 was fixed at Rs. 1169 crore against which the actual completion was Rs. 1158 crores, i.e. 99.1%.

For 1986, Government, on a review, have asked G.I.C. to step up efforts for achieving a higher rate of growth in gross domestic premium. The growth target fixed in this regard is 20%.

[Ministry of Finance (Department of Economic Affairs) O.M. No. 57(7) Ins. I/86 dated 30-12-1986.]

Comments of the Committee

(Please see Paragraph 12 of Chapter I of the Report)

CHAPTER V

RECOMMENDATIONS IN RESPECT OF WHICH FINAL REPLIES OF GOVERNMENT ARE STILL AWAITED

Recommendation (Serial No. 26 Para 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 'Oriental' should be investigated and suitable remedial measures taken to improve its performance in foreign countries.

Reply of the Government

In respect of the consistently losing foreign branches of Oriental, necessary remedial action has been taken.

As mentioned in Para 5.20 of the Committee's report, oriental has already wound up its operations in U.K., Mauritius and Hongkong where it had been consistently incurring losses.

In Kuwait, the Company turned the corner by registering a net profit of Rs. 29.14 lakhs in 1984 against losses in all the earlier years. However, because of the operations in 1985 again registering a loss of Rs. 7.22 lakhs, the Company has replaced the Chief Agents and appointed another firm in December 1985.

In Singapore the Company has been making profits consistenly from 1982. The profits from 1982 to 1985 amount to a total of Rs. 224.22 lakhs.

As regards the specific case of loss of Rs. 7.25 lakhs due to grant of fire insurance cover without receipt of proposal form and recovery of outstanding premium in due time, it may be stated that unlike in India, there is no statutory regulation in Singapore requiring pre-payment of premium before assumption of risk. In the instant case, the business as per normal practice was handled by a local Insurance Agency through a Development Officer of the Insurance Company on whose intimation a fire insurance policy for the period 13th July 1978 to 12th July 1979 was issued. The arrangement was that the Insurance Company furnished monthly premium statement with details of policies issued, based on which the Insurance

Company forwarded statements of accounts to the respective clients for payment. In this case, the insured declined payment to the Insurance Agency on the ground that he had not sought the cover. During a discussion arranged by the Insurance Agency on 19th October, 1978, the Insured repeated his stand and, therefore, it was decided to cancel the policy. The practice in Singapore office in such cases was to recall the policy from the insured and thereafter issue a cancellation letter. But before this could be done, the Insurance Agency received on 7th November, 1978, a cheque dated 30th October, 1978 put in an envelope which was post marked 6th November, 1978. Meanwhile, a fire occurred in the insured premises on 2nd November, 1978. The Insurance Agency, therefore, returned the cheque to the Insured with a letter that no contract of insurance existed in view of the discussion on 19th October, 1978. The Insured thereupon initiated legal action for recovery of claim for Singapore $3,25,000. Taking into account the trade practice in Singapore and other relevant circumstances, the solicitors of the Insurance Company advised that there was an enforceable contract when the loss occurred and that it would be in the Company's interests to arrive at a compromise settlement. The matter was considered by the Company's Board of Directors who approved the proposal to arrive at a compromise settlement in view of the circumstances of the case. Accordingly, a compromise settlement for Singapore $2,00,000 equivalent to Rs. 7.20 lakhs (against the insured's claim of $ 3,25,000) was arranged by the Solicitors at Singapore.

The practice of awaiting return of policy before issuing cancellation letter due to non-receipt of premium was discontinued in Singapore Office in November, 1978. The concerned Development Officer left the services of the Company in October, 1979.

Suitable instructions have already been issued to GIC to investigate into the matter & fix responsibility.

[Ministry of Finance (Department of Economic Affairs) O.M. No. 57 (7) Ins. I/86 dated 30-12-1986]

NEW DELHI;
April 9, 1987
Chaitra 19, 1909(*S*)

K. RAMAMURTHY,
Chairman,
Committee on Public Undertakings

APPENDIX I

(*Vide* Para 3 of Introduction)

Minutes of 74th Sitting of the Committee on Public Undertakings held on 3 April, 1987.

The Committee sat from 15.30 hrs. to 16.00 hrs.

PRESENT

Chairman

1. Shri K. Ramamurthy
2. Chowdhry Akhtar Hasan
3. Shrimati Sheila Kaul
4. Shri Satyagopal Misra
5. Shri Braja Mohan Mohanty
6. Shri K. R. Natarajan
7. Shri K. Ramachandra Reddy
8. Shri Chiranji Lal Sharma
9. Shri Krishna Nand Joshi
10. Prof. C. Lakshmanna
11. Shri Jagdambi Prasad Yadav

SECRETARIAT

1. Shri G. S. Bhasin—Senior Financial Committee Officer.
2. Shri Rup Chand—Senior Financial Committee Officer.

OFFICE OF COMPTROLLER & AUDITOR GENERAL OF INDIA

1. Shri K. Ranganadham—Chairman, Audit Board.
2. Shri D. N. Anand—Secretary, Audit Board

2. The Committee considered and adopted the following Reports :—

(1) Draft Report on Action Taken by Government on the recommendations contained in the Sixth Report (1985-86) of CPU on General Insurance Corporation of India, as approved by the Action Taken Sub-Committee.

3. The Committee authorised the Chairman to finalise the draft Reports on the basis of factual verification by the Ministries & Undertakings concerned and Audit and present the same to Parliament.

The Committee then adjourned

APPENDIX II

(*See Reply to Recommendation No.* 1)

GENERAL INSURANCE INDUSTRY

Economic and Financial Objectives

The objective of nationalisation of general insurance as stated in the preamble to the General Insurance Business (Nationalisation) Act, 1972 was "to serve better the need of the economy by securing the development of general insurance business in the best interest 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......"

2. To accomplish the aforesaid objective, a Government Company known as the General Insurance Corporation of India was formed by the Central Government in November 1972 under Section 9 of the Nationalisation Act for the purpose of superintending, controlling and carrying on the business of general insurance, and four General Insurance Companies were set up under Section 16(2) of the said Act as Subsidiaries of the GIC with their head offices at Bombay, Calcutta, Delhi and Madras respectively so as to render their combined services effective in all parts of India.

3. Section 18(1) of the Nationalisation Act specifies the functions of the Corporation to include—

(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.

In issuing any directions under Sub-Section (1) of Section 18 of the Act, the Corporation is required to keep in mind the desirability of encouraging competition amongst the Subsidiary Companies as far as possible in order to render their services more efficient.

4. Section 19 of the Nationalisation Act enjoins the Subsidiary Companies to so function as to secure that general insurance business is developed to the best advantage of the community, and in the discharge of any of their functions to act so far as it may be on business principles and be guided by such directions as may be issued by the Corporation.

5. For the fulfilment of the role assigned to it under the Nationalisation Act, the long term objectives before the general insurance industry are identified as under :—

(1) Orderly growth of general insurance business with particular emphasis on providing general insurance service to the rural sector and the economically weaker sections of society.

(2) Efficient service to customers.

(3) Conduct of reinsurance and foreign operations in the best interest of the industry and the country.

(4) Deployment of investible funds to meet socio-economic objectives and to support the growing volume of operations of the general insurance industry.

(5) Maintaining organisational effectiveness and economic viability of general insurance business.

6. The directions to be followed to accomplish the aforesaid objectives are as under :

(1) *Orderly growth of General Insurance*

(a) Generate greater insurance consciousness.

(b) Meet insurance requirements of the rural sector and the economically weaker sections of society and introduce new covers in response to emerging needs.

(c) Further develop the urban and semi-urban insurance markets.

(d) Maintain sound underwriting practices.

(2) *Efficient service to customers*

(a) Prompt issue of documents and speedy settlement of claims.

(b) Develop staff skills for better servicing.

(c) Set up special cells to redress public grievances.

(d) Ensure equitable rates of premium.

(e) Promote risk management.

(f) Support measures aimed at prevention of losses and national wastage.

(3) *Reinsurance and direct foreign operations*

(a) Optimise retention out of Indian business and obtain best possible terms for outward placements.

(b) Develop inward reinsurance business having regard to its profitability.

(c) Seek expansion of foreign operations selectively.

(4) *Deployment of investible funds*

(a) Adhere to Government guidelines and directions on investments.

(b) Fulfil role as a Public Financial Institution to the extent applicable.

(c) Improve yield on investment consistent with stability of income, safety and need for liquidity.

(5) *Maintaining organisational effectiveness and economic viability*

(a) Earn a satisfactory post-tax profit in order to ensure adequate return to Government.

(b) Maintain the growth in capital and free reserves so as to preserve vitality and support on increasing volume of underwriting operations.

(c) Increase organisational capabilities.

The strategies to be followed to achieve various objectives are spelt out in the Industry's Corporate Plan 1986-89.

7. Quantitative goals for achievement by 1989

		1985	1989
1	2	3	4
1.	No. of Regional Offices	47	70
2.	No. of Divisional Offices	681	1050
3.	No. of Branch Offices	2003	3380
4.	Growth rate in Rural Non-traditional business	15%	25%
5.	Compound growth rate in Gross Direct Premium in India	16·6% (1973-85)	18·8% (1986-89)
6.	Ratio of documents outstanding to documents issuable	14%	10%
7.	Ratio of claims settled to number of claims to be settled	67%	75%
8.	Retention of Indian business	85%	85·5%
9.	Investment yield	10·9%	11·5%
10.	Ratio of profit after tax to capital and free reserves	18·5%	18·8%
11.	Dividend to Government	25%	25%
12.	Ratio of capital and free reserves to net premium income	58·4%	61·4%
13.	Manpower	50559	66100

1	2	3	4
14.	Average No. of documents issued per Class III employee	562	590
15.	Average No. of claims settled per Class III employee	40	45
16.	Productivity of Inspectors premium per head .	Rs. 5·6 lakhs	Rs. 7·5 lakhs
17.	Expenses of management and commission as percentage of net premium	24·4%	22%

8. Financial goals visualised for achievement by 1989

(Rs. in crores)

	1985 (Actuals)	1989 (Target)
1. Additional Investments in :		
Central Govt. Securities	68	179
State Govt. & Other Public Sector Securities	19	72
Soft loans for housing and fire fighting .	130	250
Market Investments . . .	107	214
2. Net premium in India and abroad . .	1190	2351
3. Commission and management expenses .	291	517
4. Underwriting Profits	12	92
5. Gross Investment & other Income (Excluding dividend from Subsidiaries)	223	452
6. Profit before tax (Excluding dividend from Subsidiaries)	235	544
7. Net Profit	129	272
8. Paid-up Capital & Free Reserves (Excluding holding in Subsidiaries)	695	1444

9. *General*

It may be mentioned that creation of various reserves by the Corporation and its subsidiaries in order to strengthen the capital base and the capacity to retain more insurance risks is regulated by relevant statutory provisions in the Income Tax Act, 1961, Insurance Act, 1938, Companies (Transfer of Profits to Reserves) Rules, 1975 and General Insurance Business (Nationalisation) Rules 1973.

The wage structure in the Industry is regulated by Schemes framed by Central Government under Section 16 of the General Insurance Business (Nationalisation) Act, 1972 while the pricing policy involving fixation of rates, terms and conditions for various insurance covers is regulated by the Tariff Advisory Committee, a statutory body set up under Section 64-U of the Insurance Act.

APPENDIX-III

(*See* reply to Recommendation No. 40)

CONFIDENTIAL

A. C. SEN,

JOINT SECRETARY

Government of India
Ministry of Finance
Department of Economic Affairs
New Delhi, the 16th November 1984

My dear Shri Goenka,

RE : *Investment Guidelines*

In the course of oral examination before COPU, Finance Secretary had expressed the view, while reviewing the investment of funds made by GIC in Central Government securities etc. that there had been wide variations between budgeted figures and actuals and the question as to how the gap could be narrowed down by better budgetary control may be gone into. He had also stated that where on account of differences between budgeted and actual figures it has not been possible to adhere to Government guidelines in the matter of investments and Government, securities etc. all out efforts should be made to correct imbalance in the following year. He stated that over a five-year period the investments made by the general insurance industry should conform to the prescribed percentages as laid down in the guidelines on the subject. It would be a propriate if this 5 year plan period would coincide henceforth with the plan period since we are now on the threshold of the 7th plan.

I write this accordingly that you may please take appropriate necessary action in the matter.

Kindly acknowledge receipt of this letter and let us know the action taken by you by the 15th December, 1984 for information of the Government.

With kind regards,

Yours sincerely,
Sd/-
A. C. SEN

Shri Ashok Goenka,
Chairman,
General Insurance Corpn. of India,
Industrial Assurance Building,
Churchgate,
Bombay-400 020.

APPENDIX IV

(*See* Reply to Recommendation No. 4)

Comprehensive Crop Insurance Scheme (1985-86)

I. The Central Government has decided to introduce a country-wide Crop Insurance Scheme commencing from Kharif 1985. The Scheme will be operated through the General Insurance Corporation of India (hereinafter referred to as GIC) with the active involvement of the State Government concerned.

II. *OBJECTIVES*

The objectives of the Scheme are as under :—

(i) To provide a measure of financial support to farmers in the event of a crop failure as a result of drought, flood, etc;

(ii) to restore the credit eligibility of farmers, after a crop failure, for the next crop season; and

(iii) to support and stimulate production of cereals, pulses and oil-seeds.

III. *SALIENT FEATURES*

The salient features of the Scheme are as under :—

1. *Crops to be covered*

(a) Rice, Wheat and Millets.

(b) Oilseeds and pulses.

2. *Farmers to be covered*

All farmers availing of crop loans from Cooperative credit institutions, commercial banks and regional rural banks for raising the aforesaid crops.

3. *Built-in Insurance coverage*

Insurance coverage will be built in as a part of the crop loan for raising crops in areas where the insurance scheme is extended.

4. *Sharing of risk between GIC and State Government*

The coverage in respect of crops insured in any State will be shared between the G.I.C. and the State Government concerned in the ratio of 2 : 1.

5. *States to which the Scheme will be extended*

The Scheme will be extended to all States/Union Territories who would signify their concurrence to participate.

6. *Area Approach*

The Scheme will operate in defined areas for each crop as may be notified by the Union Ministry of Agriculture. A defined area may be a District, Tehsil/Taluk, Block or other smaller contiguous area.

7. *Nature of coverage*

(i) If the actual average yield per hectare of the insured crop for the defined area determined on the basis of crop cutting experiments in the insured season, falls short of the specified threshold yield all the insured farmers growing that crop in the defined area are deemed to have suffered short-fall in their respective yields and the scheme seeks to provide coverage against such contingency.

(ii) Where data of yields obtained through crop cuttings are not available, the methodology for assessing the shortfall will be decided upon by G.I.C. in consultation with the Union Ministry of Agriculture.

8. *Limit of coverage i.e. sum insured*

The sum insured per insured farmer shall be 150% of the loan sanctioned to him for growing the crop in the defined area during the insured season. The insurance charge will be calculated on the sum insured and the insurance charge will be an additionality to the scale of finance already available in respect of a particular crop. The scale of finance is comprised of cash and kind components. The cash component is to be made as ways and means advance and the kind component is meant for quality seeds, fertilisers, pesticides, etc. Estimates have been made in respect of cost of cultivation for the five crops namely, paddy, wheat, millets, pulses and oilseeds. The cost of cultivation is nearly 150% of the present scale of financing in respect of these crops. The costs calculated for purposes of computation are the actual expenses incurred in production by owner operator and rent paid for lease of land. The cost does not include the amount payable by the farmers by way of land revenue, interest on fixed assets, consumption loan required till the next harvest, etc. It also does not include the cost of his own labour. If all these costs and an element of consumption loans are included, the cost of cultivation would be more than 200% of the scale of financing. Under the circumstances the crop insurance cover could be eventually increased to 200 per cent of the crop loan, which would include an element of consumption loan component. However, the question of increasing insurance cover could be considered after evaluation of the present scheme. For the present the crop insurance cover is restricted to 150% of the crop loan.

9. *Insurance Charge (Premium)*

The charges for the built-in insurance coverage shall be 2% of sum insured for rice, wheat and millets crops and 1% of sum insured for oilseeds and pulses.

10. *Basis of Indemnity*

If there is a shortfall in the actual average yield per hectare of the insured crop, each of the insured farmers growing that crop in the defined area will be eligible for indemnity calculated as under.

$$\frac{\text{Short-fall in yield*}}{\text{Threshold yield.}} \times \text{Sum Insured for the farmer.}$$

(*Threshold yield less the actual average yield for the defined area).

11. *Threshold yield of a crop for 'defined area'*

80% of the average yield per hectare of the crop for the 'defined area' during the last five years (or such shorter period as may be decided for specific defined area) for which data are available based on crop cutting experiments or such other alternative methodology as may be adopted.

IV. *Management of Scheme by G.I.C.*

G.I.C. 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 Govts., Reserve Bank of India, NABARD, State Co-operative Banks, Commercial and Regional Rural Banks.

V. *Central Crop Insurance Fund*

The GIC will set up a separate Crop Insurance Fund known as the 'Central Crop Insurance Fund'. The main functions of the Central Fund would be :

(a) to receive crop insurance premiums from the financial institutions and issue policies;

(b) to settle claims promptly;

(c) giving overall technical guidance to State Funds and to undertake inspections of the State Funds;

(d) collecting and analysing Statistical Data received from the States;

(e) to impress upon the State Governments to put in the necessary marketing and publicity efforts and also to link crop insurance with agricultural extension programmes, wherever possible; and

(f) to fund the excess of crop insurance charge over indemnity claims in good crop years so as to enable GIC to draw from the fund to meet additional indemnity claims in bad crop years,

VI. *State Crop Insurance Fund*

(i) The State Governments will set up State Crop Insurance Funds each, with an initial corpus of Rs. 1 to 2 crores to be contributed equally by the State Governments and the Central Government. The size of the State Crop Insurance Fund for each State would be worked out in consultation, with the State Government, Ministry of Finance and Ministry of Agriculture.

(ii) The State Funds will be administered by a Committee headed by the Chief Secretary and consisting of Secretary (Cooperation), Secretary (Agriculture), Secretary (Finance), Director, Bureau of Statistics and Economics, Registrar of Cooperative Societies, Director of Agriculture, representatives of Ministry of Agriculture, Government of India, General Insurance Corporation of India, a representative of the convener Bank for State Level Committee, representative of Reserve Bank of India, representative of National Bank for Agriculture and Rural Development (NABARD) and Managing Director of the State Cooperative Bank. The main functions of the State Fund would be :—

(a) to authorise the Fund to act as a co-insurer to the extent of 33 1/3% in respect of crop insurance schemes introduced in the State;

(b) to administer the in-flow of Fund by way of premium income and out-flow by way of claims;

(c) to ensure proper and adequate conduct of crop cutting experiments on various crops taken up under crop insurance;

(d) to send the yield data for each crop and each defined area to G.I.C. as well as to the Indian Agricultural Statistics Research Institute (IASRI), New Delhi;

(e) to ensure wide publicity of the scheme; and

(f) to send detailed accounts to the Ministry of Finance (Insurance Division), as required under the Insurance Act, 1938. The State Crop Insurance Fund would operate through a Bank Account as being presently done in the case of IRDP to have operational flexibility and avoid delay in the settlement of claims. However, no claims would be settled by the State Crop Insurance Fund without the prior clearance from the G.I.C.

(iii) All expenses incurred by the Fund in connection with the running of the Crop Insurance Scheme shall be defrayed out of the Fund.

VII. *Role of Financial Institutions* :

(i) The Union Ministry of Agriculture would communicate to the Crop loaning Banks viz., Cooperative Banks, Regional Rural Banks and Commercial Banks (under advice to Department of Banking, Union Ministry of

Finance and Reserve Bank of India (RPCD) the list of defined areas and crops to which this scheme would apply, the defined areas having been decided in consultation with the State Governments;

(ii) The insurance charge shall be included as an additionality in the scale of finance and shall, at the time of disbursement, be deducted from all crop loans to which the scheme applies;

(iii) Each Public Sector Commercial Bank shall, with the concurrence of G.I.C. fix nodal points which would deal with GIC on behalf of Branches at District, Divisional or State level as the case may be, in their area. The nodal points for cooperative Banks will be District Central Cooperative Banks and those for Regional Rural Banks their Head Offices;

(iv) *Each such nodal point would submit crop-wise (area-wise) consolidated proposals to G.I.C.'s State Level Cell concerned, in the prescribed form alongwith full insurance charge payable on all Crop Loans coming under the purview of the scheme; and*

(v) The Commercial Banks shall issue appropriate instructions to their nodal points as well as Crop Loan Disbursing branches to ensure smooth functioning of the scheme.

VIII. *Role of State Governments*

The Scheme will be administered jointly and in close collaboration with the State Governments. It would be necessary for the State Governments to :

(i) authorise the State Crop Insurance Fund to act as co-insurer to the extent of 33 1/3% in respect of Crop Insurance Schemes introduced in the State;

(ii) subsidise 25% of the insurance charge in respect of small and marginal farmers insured in the State;

(iii) provide and strengthen infrastructural and administrative support in the matter of crop cutting experiments, assessment, yield data, feed back through field survey, publicity etc.

IX. *Subsidy on Insurance Charges*

(i) For small and marginal farmers 50% of the insurance charges shall be subsidised to be shared equally by the Central Government and the respective State Governments.

(ii) The subsidy on insurance charges in respect of small and marginal farmers would be paid to the financial institutions by the State Government in advance on estimated loaning. The Central Government would remit its share to the State Crop Insurance Funds in advance on the same basis.

(iii) The definition of small and marginal farmers would be the same as the one adopted for IRDP by Govt. of India i.e. ;

Small Farmer : A cultivator with a land holding of 2 hectares (5 acres) or below is small farmer. In the case of Class I irrigated land, as defined in the State Land Ceilings Legislation farmers with 1 hectare (2.5 acres) or less will also be considered as small farmer. Where the land is irrigated but not of the Class I variety, a suitable conversion ratio may be adopted by the State Governments with a ceiling of 2.5 hectares (5 acres).

Marginal Farmer : A person with a land holding of 1 hectare or below is a marginal farmer. In the case of Class I irrigated land, the ceiling will be 1 hectare (2.5 acres).

X. *Phased Programme*

Based on the experience gained, the Central Government would consider extending the scheme in stages to other major crops through a phased programme.

XI. *Monitoring and review*

(i) The operation of the scheme will be monitored closely and reviewed annually. Modifications would be introduced as may be required in the light of such a review. Periodic Appraisal Reports of the Scheme would be prepared by the Ministry of Agriculture.

(ii) During the Seventh Plan period, a mid-term assessment of the financial results of the scheme would be undertaken by GIC and revision of premium rates and coverage required, if any, may be made by GIC in consultation with Union Ministries of Agriculture and Finance.

XII. *Withdrawal of the Pilot Scheme*

With effect from Kharif 1985, the Pilot Crop Insurance Scheme of G.I.C. which has been in operation since 1979-80, stands withdrawn.

XIII. *Procedure for Collection and sharing of Insurance Charges*

(i) Every crop loan disbursing branch of each participating Commercial Bank shall furnish to the nodal point of the Bank concerned details of the aggregate amount of crop loans sanctioned for each insurable crop in each defined area together with the number of farmers, area covered and other particulars as may be required by GIC separately for (a) small/marginal farmers and (b) other farmers together with remittance towards insurance charges payable on such loans.

(ii) Each nodal point of every participating Bank shall consolidate such information and remittances received from Branches and submit crop-wise consolidated proposals and consolidated remittances to the concerned State Level Cell of the General Insurance Corporation of India.

(iii) After each crop season, General Insurance Corporation of India shall remit to each State Crop Insurance Fund the latter's share of insurance charge together with the relevant statement of account.

XIV. *Procedure for Determination and Payment of Claims*

(i) Within one month after crop cutting experiments of each insured crop, the State Government shall furnish to GIC the data of yields for each defined area (together with causes of loss) where the average yield falls short of the threshold yield as per crop insurance policies issued by GIC.

(ii) On receipt of yield data from the State Government, GIC shall (a) identify the defined areas and crops for which claims become payable and (b) determine the amount of claim payable to each Bank in each such defined area.

(iii) GIC shall pay to Banks and designated nodal points of Commercial Banks directly its share of claim.

(iv) Simultaneously GIC shall furnish full details and advise the State Insurance Fund to enable the latter to settle its share of the claim.

(v) On receipt of claim remittance from GIC/State Crop Insurance Fund, the Bank concerned shall credit the claim amount to the account of the loanee farmer concerned.

APPENDIX V

(*Vide* para 3 of Introduction)

Analysis of action taken by Government on the recommendations contained in the 6th Report of the Committee on Public Undertakings (Eighth Lok Sabha)

I.	Total number of recommendations made	44
II.	Recommendations that have been accepted by the Government (*Vide* recommendations at Sl. Nos. 1-3, 6-9, 12-13, 15, 16, 18-20, 22-25, 27, 29-33, 35, 40-42 and 44)	29
	Percentage to total	65·9%
III.	Recommendations which the Committee do not desire to pursue in view of Government's replies (*Vide* recommendations at Sl. Nos. 4, 5, 11, 17, 21, 28, 34, 36 to 39 and 43)	12
	Percentage to total	27·3%
IV.	Recommendations in respect of which replies of Government have not been accepted by the Committee (*Vide* recommendation at Sl. Nos. 10 and 14.	2
	Percentage to total	4·5%
V.	Recommendation in respect of which final reply of Government is still awaited (*Vide* recommendations at Sl. No. 26)	1
	Percentage to total	2·2%

MGIPF—165 LSS/87—23-7-87.—1100,