# R.M.M. Law College, Saharsa

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**L.L.B Part- 2nd**

**Subject- Insurance Act**

**Paper- 8th**

**Date- 27/08/2020**

**Topic- Examine critically the causes of the nationalization of life insurance business in India.**

## Nationalisation of Life Insurance

The nationalisation of life insurance is an important step in our march towards a socialist society. Its objective will be to serve the individual as well as the state. We require life insurance to spread rapidly all over the country and to bring a measure of security to our people. – Jawaharlal Nehru1 The first step towards nationalisation of life insurance was taken on 19 January 1956 by the promulgation of the Life Insurance (Emergency Provisions) Ordinance, 1956. In terms of this Ordinance, the management of the 'controlled business' of insurers was vested in the central government. The period between 19 January 1956 and 31 August 1956 was utilised as a period of preparation to facilitate the subsequent integration of the various insurers into a single State-owned Corporation. Before nationalisation, the insurance industry was organised into 243 autonomous units, each with its own separate administrative structure of office and field staff, its own separate set of agents and of medical examiners. Their offices concentrated in the large cities and their field of operation was confined to the major urban areas. Out of 145 Indian insurance companies, as many as 103 had their head offices in the four cities of Bombay, Calcutta, Delhi and Madras. When the Corporation was constituted on 1 September 1956, it integrated into one organisation, the controlled business of 243 different units, Indian and foreign, which were engaged in the transaction of life insurance business in India. The total assets of the above 243 units as on 31 August 1956 were about Rs 4,110 million and the total number of policies in force was over five million assuring a total sum of more than Rs 12,500 million. The total number of salaried employees was nearly 27,000. These figures give a broad idea of the magnitude of the problem involved in setting up an integrated structure.

When parliament set up a monopolistic public undertaking, it was argued and believed that elimination of competition and the malpractice that competition has given rise to, would lead to:
a) Better and more economical management of the Business of life insurance.

b) Reduction in administrative expenses.

c) Improvement in the quality of service.

d) Increase in volume of business.

e) Maximisation of social advantages that insurance can provide through higher returns on investments of life fund, consistent with safety and liquidity of the invested funds. The Corporation had an Executive Committee consisting of the Chairman, two Managing Directors and two other Members of the Corporation. There was also an Investment Committee consisting of the Chairman, a Functional Director, and five other persons, to advise the corporation in matters referred to it relating to the investment of its funds. The whole country had been divided into five zones and the zonal head offices were located at Bombay, Calcutta, Madras, Delhi and Kanpur. The Central Office of the Corporation was located at Bombay. Every full-time employee of the insurers whose business was transferred to and was vested in the Corporation became an employee of the Corporation. They held the same positions at the same remuneration, upon the same terms and conditions and with the same rights and privileges as before. The Corporation was required, once at least in every two years, to cause an investigation to be made by actuaries into the financial condition of the business of the Corporation, including a valuation of its liabilities, and submit the report to the Central Government. Life insurance offices other than those of Indian insurers were of several types, and of these, the most important group was constituted by non-Indian life offices. Then there were provident societies, which were set up with the view to sell life insurance policies of small amounts to persons of small means. Together, the three life offices transacted on an average Rs 160 crore of business. But the bulk of business was conducted by Indian insurers (88.3%, 1946-1955, post war). Of the 236 life offices operating in the country in 1955, not less than 149 were Indian insurers. Non-Indian offices were only 16.

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A) **On the positive side**, it had

1) spread the insurance culture fairly widely;

2) mobilised large savings for national development and financed socially important sectors such as housing, electricity, water supply and sewerage;

3) acquired considerable financial strength and gained confidence of the insuring public;

4) and had built up a large talented pool of insurance professionals.

B) **On the negative side**,

1) the vast marketing and services network was inadequately responsive to customer needs;

2) insurance awareness was low among the general public;

3) marketing of life insurance with reference to the customer needs left much to be desired;

4) term assurance plans were not being encouraged and unit linked assurance was not available;

5) insurance covers were costly and returns from life insurance were significantly lower compared to other savings instruments due to

a) excessive government directed investments of funds;

b) the marketing organisation was weak and turnover of agents extremely high;

c) development officers concentrated on their incentives to the neglect of training the agents and building up an efficient agency organisation

d) there was excessive lapsation of policies

6) management was top heavy and excessively hierarchical, especially at the central and the zonal offices, and was overstaffed;

7) Work culture within the organisation was unsatisfactory;

8) trade unionism had contributed to the growth of restrictive practices;

9) failure to adequately computerise had seriously affected the efficiency of the organisation and the quality of customer service;

10) the functioning was constrained in some respects as it was covered by the definition of ‘State’ as well as governmental interference.

**The End**