THE BOOK WAS DRENCHED

LIFE ASSURANCE
IN INDIA

By

P. A. S. MANI

WITH A FOREWORD BY

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" The direct contribution of insurance to civilization is made . . . in the intangible and immeasurable forces of character on which civilization is founded."

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FOREWORD

The day when intuition and unsupported assumption were the chief bases of business judgment and administration is long past. Modern business, following the tradition established by Physical Sciences, is conducted by analysis and study on scientific lines of the facts of the past drawing lessons from previous errors and making the advancement achieved in the past progress by successive stages. That the author of this book has amply succeeded in the twin object of providing the facts of the past for us to draw lessons from and serving as a guide for the future will be evident to any one that carefully studies its pages. There are in the field several books on Life Insurance written by distinguished authors but Mr. Mani's message to the community vitally interested in the protection given by Life Insurance and to those associated with its functions as a vital factor in our economy—of production of Insurance, its management and the ultimate distribution of the benefits conferred by Insurance—can best be given only by a book written with an essentially Indian background. In that respect the book does supply a want. The author takes us through phases of Insurance history in this country and others and the development of Insurance is traced with logical sequence as the natural resultant of economic development. The author also has attained a large measure of success in explaining technical matters, short of quoting formulæ, in simple and at the same time telling language. I can confidently recommend the book to one and all interested in the study of Life Insurance in all capacities.

Oriental Buildings,
Bombay.
7th December, 1950.

L S Vaidyanathan

In preparation

FIRE INSURANCE IN INDIA

P. A. S. MANI and CHANDULAL C. KAJI, B.COM., A.C.I.I. (LOND.).

PREFACE

Since this book was in the press, the Insurance (Amendment) Act, 1950 has come into force. And with that life insurance enters a critical phase of its onward march. At this juncture, therefore, it is but right to review the past in its proper setting, to comprehend the general principles that should govern this noble profession and to plan the future in the light of the past, keeping to the path of equity and sound practice. *Life Assurance in India* is an attempt at a review of the past and an exposition of the principles and practices of sound life insurance to serve as a guide to the future.

To the professional insuranceman, *Life Assurance in India* is aimed at providing a proper background to his profession; to the unprofessional general reader, a popular introduction to the subject. The book is written to be intelligible to those who have had no previous study of insurance; for that reason, very few technical terms have been employed, and when such terms were unavoidable, they have been clearly defined when they first occur.

Life Assurance in India is the culmination of five years of intense study of the problems that beset insurancemen. Those problems were very complex and have been further complicated by political and economic developments. That insurancemen themselves are keenly alive to the problems and are anxious to find just solutions to them is amply evident from the periodical pronouncements of responsible insurancemen. Problems such as mortality investigation, substandard insurance, reinsurance and the like call for concerted action, whilst the development of group insurance, extension of insurance to rural districts, limitation of expenses and lapsation (which incidentally is essentially intertwined with individual sales organisations and sales policies) may be the concern of individual offices. To cite only one instance, "the remedy for lapsation," said Mr. A. D. Shroff at the Annual General Meeting of the New India, "lies with each of the parties concerned, namely, the insurer, the agent and the insured, though the responsibility for taking the necessary initiative and maintaining the drive towards the elimination of all avoidable lapsation lies with the insurers. We have to educate the insured . . ." and if *Life Assurance in India* can help towards such education and be of service to the life insurance companies and to the insuring public, my efforts will be amply rewarded.

The immediate need of India is wealth; the immediate problem poverty. I offer this book to the public in the profound hope that it would help to combat poverty at its source, and to banish it from posterity. A companion volume on Fire Insurance is under preparation and will be published during the coming year.

The material for this book has been collected from several sources. I am deeply indebted to the great works of the distinguished authors whose list is appended to this book, and more especially to the technical papers submitted to the Institute of Actuaries. The factual data have been compiled from the various statistical information of the Government of India and from other authoritative sources, and checked as far as possible.

The book would not have taken the shape it has, but for the valuable co-operation and encouragement I received from a host of friends, both in the insurance business and outside. I am deeply thankful for their solicitude. I am particularly indebted to four people—two qualified actuaries, a student of actuarial science and a statistician for valuable suggestions and help. One of the actuaries, especially, placed his entire spare time and immense knowledge at my disposal, at great personal inconvenience I am sure, to go through the manuscript, read through much of the proof, check up all the actuarial data and offer his own suggestions. To him I owe a debt of gratitude.

I am further grateful to Mr. L. S. Vaidyanathan, M.A., F.I.A., J.P., who, in the midst of his multifarious activities, readily consented to go through the book and has contributed a very valuable Foreword. I am also thankful to the management of the Oriental in giving me permission to reproduce their Mortality Table and other data contained in their Mortality Investigations.

Bombay, P. A. S. MANI.
8th December, 1950.

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PART I

HOW INSURANCE WORKS

CHAPTER I

THROUGH THE AGES

INDIA is a land of wide open plains, picturesque hills, valleys, temperamental rivers and five lakhs of villages. Sturdy, hardworking farmers live in mud houses thatched with dried palm leaves or hay and house their gods and goddesses in delightful architectural edifices. The temples abound in wealth but the farmer is poor for the good earth is a poor provider. His ancestors suffered much at the hands of conquering armies who threatened them, terrorised them and took away everything except their soul and the good earth, so they converted all earthly belongings into gold, silver and precious stones, and offered them to their favourite gods. The temple was, and still remains, the only tangible element in the changing order of things. If crops fail more offerings follow, for the farmer firmly believes that in god alone can he seek a remedy. He is indifferent to pain and hunger, philosophically detached and humble to the extreme.

Indus Valley Civilization

About seventy miles from Sukkur in the Sind desert, archæologists have recently uncovered one of the greatest of all Indian cities, Mohenjo-Daro, which flourished in the fourth millennium B.C. Along with palatial dwellings, well-built baths, well-paved dressing rooms and scientific drainage, scientists unearthed 'faience models of rams, dogs and other animals, intaglio engravings on seals distinguished by a breadth of treatment and a feeling for line and plastic form,'[1] exquisite jewellery, finely carved toys and a well-developed civilization dating back to thousands of years to reach that stage. The Indus Valley had regular trade contacts with Persia, Mesopotamia and Egypt, influenced them and was in its turn influenced. "Manufactures from the Indus cities" says Gordon Childe "reached even the markets on the Tigris and Euphrates. Conversely a few Sumarian devices in art, Mesopotamia toilet sets and a cylinder seal were copied on the Indus. Trade was not confined to raw materials and luxury articles; fish regularly imported from the Arabian Sea coasts, augmented food supplies. . . . A surprising wealth of ornaments of gold, silver, precious stones and faience, of vessels of beaten copper and of

[1] Sir John Marshall.

metal implements and weapons has been collected from the ruins." Merchants were wealthy and prosperous. Craftsmen were deft and produced articles for 'the market.' "What, if any, form of currency and standard of value had been accepted by society to facilitate the exchange of commodities is, however, uncertain." Mohenjo-Daro was planned with the precision of a modern architect; years of study, experiment and labour went to perfect their system of trade, industry and communal life and, were fuller details of their living available, wonderful systems of protection against risk and losses to life and property would have been revealed.

Aryan Civilization

A thousand years later came the Aryans from Central Asia and a great fusion of races and culture took place between them and the Dravidians, the original inhabitants of India and probably the direct descendants of the Indus Valley civilization. The early vedic Aryans, full of the zest for life, enriched our beautiful land with rapturous hymns about the beauties of life, and the Vedas shine without parallel to this day "as a poetic testament of a people's collective reaction to the wonder and awe of existence." [1] Much of the present day knowledge of family life and corporal existence in the vedic period is derived from the upanishads and other pre-historic literature. The vedic hymns are full of the wonderous beauties of the external world, of the mists and mysteries of the universe and of the joy and vitality of life, but it is probable that racial and political problems arose out of the contact and conflict between the great Aryan and Dravidian races. Caste system gradually took root and solved many of these problems by dividing society into specialised, functional classes. Out of the large mass of agriculturists grew the vaishyas—agriculturists, artisans and merchants—Kshatriyas who ruled and Brahmins who guided, preserved and maintained the ideals of society. Below these three classes came the shudras or unskilled labour. Learning and erudition always stood high in public esteem and the Brahmin enjoyed the highest respect and honour denied even to the rulers and the richest in the land. Dharma or the innermost conception of obligations, moral duties and righteousness took deep root and formed the central idea of Indo-Aryan culture.

At the end of the Veda, vedanta, we have the philosophy of the Upanishads, dating from about 800 B.C. and immediately after-

[1] Rabindranath Tagore.

wards the two great epics of *Ramayana* and *Mahabharata* took shape. They deal with the remote past when the Aryans were settling down in India and contain various references to social and other functions. The Jataka tales collected and arranged to become an important part of Buddhist literature deal with the period when the Aryan and Dravidian races finally integrated. And from all these great works it is possible to form a satisfactory conception of the life and society of ancient times.

Economic Structure

Autocratic monarchs ruled the State. There was a council of ministers but the king was held responsible for the misfortunes of his kingdom. Village assemblies were self-governing and formed the basic units of government. They were grouped in tens and hundreds and built up the political and economic structure. Wheat, rice, millet and corn formed the principal articles of diet, with flesh as a common food. Metals were mined, metallurgy was perfected and gold, silver and copper were used in coinage. Spinning, weaving and dyeing were highly developed and produced silks, woollens, cotton textiles, rugs, blankets and carpets. Metallurgy, masonry, wood-work, perfumery and medicine were some of the other industries in which the numerous artisans and craftsmen were employed. There were also musicians, teachers, physicians, merchants, actors, pedlars, domestic servants and undertakers.

Partnerships grew up to promote trade and when capital was short, loans were taken on interest. A wonderful system of trade associations and craft-guilds was evolved. They grew, "partly for economical reasons, better employment of capital, facilities of intercourse," and, "partly for protecting the legal interest of their class."[1] The Jataka mention eighteen guilds but specify only four. "Safeguard of corporations (guilds) is union," states the Mahabharata. The merchant guilds were powerful, and even the king had no authority to introduce any law repugnant to their unions. Their leader wielded considerable authority and was the object of royal concern, second only to the priests.

Special settlements or village corporations belonging to particular crafts sprang up near cities, bought over the entire production of the craftsmen and provided their members with the necessities of life. Probably these villages of specialised craftsmen worked on a co-operative basis, bought up the articles, distributed them and

[1] Richard Fick, "The Social Organisation of North-East India in Buddha's time."

prevented losses to the craftsmen. Trade was prosperous within the country and outside. Traders took merchandise in overland caravans to the sea-ports of Broach, or Surat in the west, Kaveripatnam in the South, or Vanga in the East, or to the great cities of Central Asia. Indian-built ships, laden with Indian manufactures, set sail to Egypt, Greece, Babylon, Lanka, China or the islands of South-East Asia. The seas were rough and dangerous, land routes were infested with wild animals and robbers, and fortunate was the man who returned home safe and with his earnings. The merchant guilds and unions had means of insuring the ships and caravans against loss, as also the merchants who went with them and the merchandise they carried. *Manab Dharma Shastra* (Codes of Manu) contain rules for contracts of sea-borne and land traffic whereby loans were advanced at specified rates of interest depending upon the risks to be run and the length of time for which money was required. Technical men skilled in sea voyages or land journeys worked out the rate in proportion to the time required and the risk involved and the rate was specified on the contract. The borrower returned the loan and the interest on successful conclusion of the voyage or journey, but if he was robbed or was unable to deliver the goods in good order at the time and place specified, his liability was cancelled. To the modern conception of insurance, this represents a reverse order of practice. The interest is the premium, a total loss in the form of a loan was paid before the journey or voyage took place and the borrower returned the amount of the loan plus premium when the risk ceased.

The laws of Manu contain the legal position of women in society. They were always dependent—on the father in childhood, on the husband in later life and on the son in old age. But life was good in the village. Marriages were elaborate but family life was simple. Everyone in a house obeyed and followed the head who was the oldest male member. He owned all the land, ordered the younger men about, supervised their work, selected their brides and treated everyone alike. Women cooked, bore children, fussed around the house, prayed and wept. Widows seldom remarried, but chanted more hymns and invoked the blessings of gods to the peace of their menfolk in heaven. None thought of setting up a separate life and no problems therefore of widows or orphans arose.

Thus in the early days of Aryan civilization, village co-operatives insured against any loss of profit and earnings from industry, precise contracts safeguarded risks of carriage by sea or land and a wonderful system of joint family satisfactorily met the needs of the community.

Later Developments

Years rolled on. Out of the mental conflict of man and his environment grew the great Upanishads and a strong current of materialism then swept the land. Out of it again grew the two great faiths of Buddhism and Jainism and the six systems of Indian philosophy. Great leaders like Buddha and Mahavira rose and influenced Indians and their lives; great empires grew up and fell. Internal conflicts and invasion of foreign armies destroyed much that was good in the ancient civilization. Trade and commerce waned and merchant guilds and rules of contract went into disuse. New institutions sprang up in cities and new forms of craft guilds, mercantile associations and banking corporations met the needs. The centre of gravity shifted to agriculture and self-governing village panchayats zealously guarded the liberties and privileges of the common man. A cultivator had the right to till the land and out of the produce a major share went to him, the king or the State took a share and a share was distributed to every functional group which served the village in any way. Invading armies hardly affected the village.

Hunger and suffering shaped a peasant's life. He believed in Gita and Dharma. If his neighbour died he was liberal in his help to the widow and orphans — although they rarely stood in need of such a help — for he believed, and religion strengthened his belief, that therein lay *moksha* or emancipation. He shared his one whole meal with whoever was in need; no man went to him for help and returned empty-handed. Population increased, but cultivable land did not. Some were idle and idle hands were costly then as they are now. The share of the produce given to functional groups was augmented by the immense wealth of the temples, and when necessary voluntary contributions were made towards a central fund. These funds became common and met a specific need. They exist even today in parts of South India.

Brahminism and after

Then the rigid caste system gave the brahmin superior power. He became the spiritual head and wielded considerable authority in all temporal matters. Shrewd, and ambitious, he argued the others into letting him manage the funds. With the sharp brain of a Wall Street investor, he acquired large tracts of good land, tilled them with the help of sudras and fed and educated his heirs and dependents. Sons were taught vedic arts and crafts and priestly rites; daughters were bedecked in silks and jewels and married off, and if, perchance, they became widows, were fed and supported. Additions were made to the fund; religious rites brought in handsome bounties, annual tithes were collected and every conceivable mode of augmenting the fund was practised. The funds exist to this day, but secretaries, committees and even trustees exert a measure of supervision. Benefits have, however, changed much in character and it is rarely that the needy gets a helping hand, although there is much feasting and revelry.

In the march of India's colourful history, her traditional wealth attracted many invaders, opportunists and warring elements. Kingdoms fell before conquering foes and with them families, but most of the simple, almost primitive, village folk met them by the easy method of removing themselves from the enemy's way lock, stock and barrel. Whatever they or their families could carry they took away : whatever they could cash in they converted into gold and other precious metals. Long years of mounting trade and prosperity had made them rich, abject fear of the marauding foe enriched their love of gold. That deep-rooted love for gold remained undiminished until quite recent times. Foreign races brought with them divergent faiths and cultures, but Indian philosophy was so elastic and her religious beliefs so tolerable that the country absorbed every foreign element. The largely self-contained village was strong enough to withstand the onslaught of alien cultures and the victorious armies settled down to the land accepting and adopting the traditional ways of life and culture to a remarkable degree. The joint family system continued until comparatively recent times : the temples largely, and village funds in a smaller way, continued to absorb the surplus wealth of the village and distribute it to the deserving poor; charities sprang up around the temples and a remarkable degree of efficiency was achieved in their administration.

Collective co-operation among persons exposed to a particular risk, in order to share that risk whenever it takes place which we know as Insurance to-day, is as old as humanity. The degree of efficiency achieved in the process depended upon the progress of civilization and culture reached by different races at different times. The Indo-Aryan races perfected a system of village and communal life which was proof against the ravages of time and gave sustenance to everyone: other civilized peoples of the world conceived the idea of collective protection in various ways to suit individual needs.

Bottomry, Respondentia, General Average

Sometime before 2250 B.C. the Babylonians practised a form of transaction, somewhat similar to the Indian contracts of insurance against loss in journeys, but different in many ways. These transactions were indirect forms of insurance and were known as Bottomry and Respondentia Bands,[1] as they are today. In the early days a lender advanced a loan before a voyage started at an agreed rate of interest, on the security of a ship and/or cargo and the borrower had to return the loan plus interest on the successful completion of the voyage. As in the case of the Indian contracts, a trader was given a total loss *before* the event took place, but refunded the amount plus premium *after* the risk ended.

From Babylon the practice spread to the countries of the Levant and to the Greeks, Carthaginians, Phoenicians and Romans. The Greeks developed extensive trade connections with the countries in the Eastern Mediterranean and opened an Exchange at Athens for Bottomry Bond transactions. They also organised a system of marine intelligence for the supply of important information to merchants, market conditions, natural and political events and other affairs to their advantage or disadvantage.

A subsequent development was the practice of General Average, well known to the Rhodians and referred to in the earliest codes of sea law and custom. The City of Rhodes was the centre of shipping and commerce, enjoyed the title of "Mistress of the Seas" from about 500 B.C. onwards and "Rhodian Laws" became the earliest system of marine law. In shipping parlance "Average" means "damage" and General Average meant the losses sustained by the voluntary sacrifice of cargo or part of it and the general sharing of such loss. Justinian's Digest of Roman Law — a collection of Roman Civil Laws — contains a concise but complete definition of the principle of General Averages: "The Rhodian Law decrees that, if goods are thrown overboard to lighten a ship, all shall make good by contribution that which has been given for all." The Roman code, much of which is used as a basis for the modern law of General Average, contained several rules dealing with particulars of losses to be admitted, ransoms given to pirates, computation of losses and methods of recovery of the contributions made. After the fall of the Roman Empire in the Fourth Century

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[1] Bottomry: In maritime law, a conditional obligation in which the ship or its cargo or both are pledged as security for a loan. When the cargo alone is pledged the obligation is known as Respondentia.

A.D. its laws became obsolete but usage and custom among seafaring merchants retained the practice of General Average, confident in the essential equity of the principles. Owners and masters of ships and merchants with sea-trading interests used as much of the rules as tradition and memory enabled them to do, until they eventually appeared in later collection of sea laws.

Hansa and Lombard Traders

With the fall of the Roman Empire, many merchants settled down in the cities of the Baltic and North Sea Coasts and among them the inhabitants of Hamburg and Lubeck started the "Hanseatic League" originally for the defence of these two cities. The league established itself in many other cities and countries, including England, until it became a formidable political and commercial alliance. Membership was limited to the inhabitants of cities on the sea coast or navigable highways and was much sought after for the remarkable advantages its members received. Several commercial codes were framed by the league, including the "Laws of Wisby" and a form of marine insurance was practised, as apart from the system of Bottomry. The constant conferences of merchants at Wisby on the island of Gothland contain many references to Bottomry also.

At the time when the Hansa merchants wielded undisputed commercial supremacy in Northern Europe, the traders of Lombardy held equal sway in the Mediterranean coast. Many believe that insurance, as opposed to Bottomry, was introduced by the Lombards, that is to say, they insured a risk on the payment of a premium. It is, however, known that the Hansa and Lombard merchants met, exchanged views, traded with each other and founded an insurance exchange or market in the city of Bruges about the year 1310 A.D. "On the demand of the inhabitants of Bruges the Count of Flanders permitted in the year 1310, the establishment in this Town of a Chamber of Assurance, by means of which the merchants could insure their goods, exposed to the Risks of the Sea or elsewhere, on paying a stipulated percentage," says an ancient book, *Chronyk van Vlaendern.*

The Ordinance of Barcelona in 1435 laid down rules for the regulation and control of insurance, and traders of most of the maritime countries of Europe followed various mercantile codes, including rules for the conduct of marine insurance. There is little doubt that Marine Insurance, as it is practised today, was firmly established in Europe in the fifteenth century.

When the Jews settled down in England during the Norman period they became the most powerful force in her financial affairs, controlled much of her foreign trade and introduced a form of marine insurance, long before their expulsion in 1290 A.D. Hansa traders (known in England as Esterlings or Easterlings, from which the word "sterling" is derived [1]) then settled down in London and were given special trading privileges. With their advent the system of Bottomry was extensively practised for their marine trade, but it is doubtful whether they used any other form of marine insurance. The Lombards also settled down in England during the thirteenth century and introduced a highly developed system of banking and financial practices, and marine insurance. Lombard Street which they built is still famous as the home of many banking and financial institutions of London. Even after the Hansa traders were eventually eclipsed and expelled with the rise of English trading interests, Lombards continued with limited privileges. The influence of Hansa and Lombard merchants perfected marine insurance to a remarkable degree and their rules for conduct of insurance were recognised as essentially the most fair. Lloyds policies today are worded, in many cases, almost identically with the fourteenth century phraseology, of those traders.

From then on, marine insurance became an essential part of all sea-borne trade. No central organisation existed to undertake insurance until much later, but speculators sprang up who were willing to share the risks. Traders and shipowners drafted policies with the name and date blank, and took them to these speculators for signature at the bottom. From this practice arose such words as "underwrite" meaning to sign at the bottom, "underwritten" and "underwriter". Registration at a central office of Assurance made the documents valid and gave protection against fraud. An Act of Parliament in 1601 set up a Court of Policies to settle disputes arising out of Marine Insurance. "By means of a Policy of Insurance it cometh to pass that upon the loss or perishing of any ship there followeth not the undoing of any man but the loss lighteth rather easily upon the many rather than heavily upon the few, and rather upon them that adventure not rather than on those which do adventure, whereby all merchants, especially the younger sort, venture more easily," says the preamble to the Act. The turning point in the history of marine insurance was the birth of that world-wide organisation "Lloyds of London".

[1] Another theory is that 100 years before Esterlings settled in London, the penny was called "sterling" or "little star" from the star on the pennies of Norman times.

The First Life Policy

The progress of marine insurance inevitably led to considerations of a more comprehensive cover such as the life of a merchant, master mariner and crew, the underwriters who accepted the marine risk insuring them too. The "policy" would cover the nominated person against the risk of death during a voyage. Later the masters and captains of vessels trading in the Eastern Mediterranean stipulated "with their merchant freighters or others for the restitution of their persons, in case they were captured; and this they can do even for the people of their crew". "On account of the fear which they have of galleys, fustes and frigates of the army of the Turk or Corsairs" they made arrangements for the payment of ransom; "in such a case the master must in the policy estimate his ransom and that of his companions at so much per head". Another kind of insurance also was practised by which "certain sums were paid to the heirs and creditors of those who deceased upon the voyage".

Death during a voyage and payment of ransom in case of capture formed the basis of the early "Marine" types of "Life" policies. They were issued without regard to age and the only governing factors were the length of the voyage and the route of the vessel. The earliest available record of a policy of this type is on the life of one William Gybbons, a citizen and salter of London effected on the 18th June 1583. Richard Martin, an Alderman of the City of London issued a policy to Gybbons for a sum assured of £383-6-8 for a period of twelve months at £30-13-4 (representing eight per cent) on the following condition :

> "If it happen (as God defend) the said William Gybbons to dye or decease out of this present world by any ways or means whatsoever before the full end of the said xii months be expired."
>
> "God send the said William Gybbons health and long life."

This policy also became the first recorded case on Life Assurance before the English Courts of Justice. On the death of Gybbons on the 345th day of the policy, the underwriters protested that the twelve months specified on the policy were of the lunar variety and had expired at the date of death. But the Courts rejected the plea and ordered the underwriters to make good the amount.

Guilds : Poor Relief

The early Middle Ages saw the formation of organised associations in many towns of England called "Merchant Guilds" to regulate the trade and prevent unfair dealing. Frith Guilds which were partly religious, social and industrial and to some extent, political, were believed to be the earliest kinds of such associations. "Membership was confined to followers of the common religion," writes F. J. Maclean. "All classes seem to have been united in the Frith Guilds and each man paid a fixed amount to the common fund, which was expended on feasts, fines, mass for the dead, burials and brothers in need." When life in the towns became complex, Frith Guilds gave way to Merchant Guilds. All the traders in a town seem to have joined the Merchant Guild, which, in consequence, became rich and exclusive, but its power waned when its common regulations failed to meet the needs of the expanding individual traders. Journeymen and master craftsmen could not, for instance, gain admission to the Merchant Guilds, so they formed themselves into Craft or Trade Guilds which, in course of time, regulated trade in every detail and safeguarded the interests of producers and consumers. By the end of the fourteenth century the authority of Merchant Guilds declined and their place was taken up by Craft Guilds, wielding considerable power and authority in the regulation of production and sales, enforcement of law and order and protection of life and property.

The Great Plague (Black Death) of the fourteenth century lead to a violent agitation throughout England and practically abolished serfdom. A Statute of Labourers passed in 1351 applied equally to craftsmen and workers in agriculture and regulated labour and wages. The conclusion of the Wars of the Roses made many soldiers destitute and the dissolution of the monastries intensified general distress. By 1388 legislative acts gave sustenance to the impotent poor from the benevolent charity of the rich or of the church and the method continued for nearly two hundred years. In 1536 a law was passed to give work to the unemployed and relief to the deserving poor through organised charities. Collections in churches were made compulsory and the proceeds were regularly distributed. In 1552 two collectors were appointed to each parish "gently to ask and demand" so much per week from each man and woman. Those who refused were admonished by the bishop and in 1563 the magistrates were given legal powers to assess the contribution of those who still refused. The Poor Relief Act 1601 replaced all earlier statutes and was a most comprehensive measure dealing with authorities, funds, recipients and methods. A tendency towards competitive and "famine rent" left the occupier of a farm only a bare living, and indeed in many parts of England spinning wheels and looms supplemented the income of the farmer and enabled him to live. Each parish was made responsible for the maintenance of its own poor and for the administration of its own poor relief. An overseer was chosen from, if not by, the parish vestry and took orders from the authorities who were the Justices of the Peace. The number of poor persons were estimated and funds were raised by a compulsory rate levied upon the householders of the parish; those who refused were severely punished. Hemp, wool, iron and other materials were regularly stocked, the able-bodied were set to work on them, idlers were punished and the "poor in very deed" received relief. The children of the poor were taught specific crafts. The unit of administration was the parish, but poor parishes were helped by an assessment on the "hundred". The main principles laid down in these laws formed the main basis of English poor law system until altered by the Rating and Valuation Act, 1925, which abolished overseers and the parish as the poor law unit.

Comparative peace reigned but competitive rent and diminishing yield kept the farmer on "starvation wages". The system of poor law relief led to the formation of groups in some of the parishes to give voluntary relief to the heirs and dependents of poor farmers who died, principally to meet funeral expenses, and out of this tendency grew a system of equal levy on the surviving members of the group to raise a fund for the dependents. The chief defect of the practice lay in the fact that members of the group were called upon to pay as many contributions in a year as there were deaths in that year, and younger men, consequently, paid many more contributions during their life than those who joined the group at older ages, although the benefits were the same for all age groups.

This defect was, to a small measure, remedied in the schemes of the earliest regular company formed in the first quarter of the eighteenth century. Established in 1706 by Royal Charter, the Amicable Society is the oldest life assurance company to be registered in the world and its charter gave permission to some 2,000 citizens to form a corporation in order to provide a scheme of permanent assurance for their mutual benefit—the forerunner of present-day life assurance. The society issued shares to its members, entitling them to a small annual dividend out of the profits and to a larger sum as benefits payable to their nominees on death. Each shareholder paid an annual sum of £5 to the society, throughout his life without any consideration of age and the total net amount collected during any one year was equally divided among the nominees of those who died during that year. Benefits consequently varied from year to year, but in 1757 were raised to

£125 and in 1770 to £150. The plan was in effect a scheme of Whole Life Assurance for a sum of £150 for an annual premium of £5, with the fundamental difference that every policyholder had to pay the same amount of annual premium irrespective of age.

The Royal Exchange and the London Assurance incorporated in 1720 under the Royal Charter of George I specifically to transact fire and marine insurance, had no connection at all with speculative business, which was rampant at the time. They had their charter extended in 1721 to include life assurance and transacted a limited amount of life business on marine lines, issuing policies for a short term (usually not more than a year) at the fixed premium of £5 irrespective of age. The London Assurance is known to have limited the sum assured to £500 on any one life, the term to twelve months or less and, at the discretion of the Directors, restricted travel outside Great Britain. The following extract of instructions to the agents of the company is interesting:

> "All persons whose lives are to be assured must first appear before you, and then you are to take a convenient time to inquire after their state of health and manner of life; either by persons in their neighbourhood, or by such means as you can best inform yourself.
>
> You are to be particularly careful that the person who appears before you is really the person whose life is to be assured.
>
> It is always to be inquired whether the person whose life is to be assured hath had the small-pox.
>
> If a woman's life is offered, whether she be married or not, because child-bearing women and persons not having had the small-pox must pay a higher premium.
>
> If the person for whose benefit the assurance is made is unknown to you, you are to learn, if possible, the reason why the assurance is made, for unless there are good reasons why the assurance is made the person assured may be in a worse state of health than you apprehend. When you have satisfied yourself in the foregoing enquiries and are of opinion an assurance may be made, you are to take 5s. for the policy and for the premium as followeth :
>
> > For any person in good state of health having had the small-pox and not exceeding fifty years of age or under ten years—five guineas per cent.
> >
> > For persons of the like ages not having had the small-pox and child-bearing women—six guineas per cent."

These earlier policies made no difference in premium rates for people of different ages, although mathematicians were alive to its necessity. As far back as the fourth century A. D. Ulpian, a Roman Jurist, had prepared a rudimentary mortality table. In

1671 the Dutch Government used a table prepared by one De Wit to raise funds by the sale of annuities; in 1693 the Astronomer Dr. Halley submitted a paper to the Royal Society on the estimate of the Degree of Mortality of mankind from the 'bills of mortality' (registered deaths) in the city of Breslau. He deduced a valuable principle for the calculation of premiums, viz., 'the price of insurance upon lives ought to be regulated and the difference discovered between the price of insuring the life of a man of twenty and fifty for example, it being a hundred to one that a man of twenty dies not in a year and but thirty-eight to one for a man of fifty years of age."

From then on mathematicians got busy and produced several mortality tables from registers of deaths and funerals in the large towns of England. One James Dodson, a teacher of mathematics at Christ's Hospital prepared a table of mortality from the records of deaths in London between the years 1728 to 1737 and based premium rates thereon. On its incorporation in 1762, the Equitable Life Assurance Society of London issued policies based on the table and became the world's first life assurance company to adopt scientific principles which are the basis of modern life assurance. When a valuation was made of the Society's assets in 1776 and accrued profits distributed, life assurance progressed a step further in its onward march.

The first quarter of the eighteenth century was also remarkable for the serious economic crisis in England consequent upon a wave of unbridled gambling and fantastic speculation. Every kind of business was affected, numerous bogus companies were floated with fantastic claims, thousands of citizens were made to invest their savings in them, and unscrupulous promoters 'vanished' with their ill-gotten gains. One such was the South Sea Company, and its crash in 1720 (the much publicised "South Sea Bubble") drove many honest citizens to the verge of penury. The fantastic speculative mania let loose at this time resulted in the formation of about a hundred insurance companies which did a large volume of highly speculaitve business in the City of London. Policies were issued, for instance, on such transactions as "insurance from highwaymen", "Rum insurance", "Assurance on Female Chastity", "insurance on the life of the Prime Minister" and other public men both famous and infamous. Any event of public interest was made the basis of a policy more for its gambling value than anything else. These indiscriminate acts of gambling led to the enactment of the Gambling Act of 1774 "for regulating insurance upon lives and for prohibting all such insurances except in cases where the persons insuring shall have an interest in the life or death of the person insured." This important act not only abolished gambling from the scope of insurance but also laid down one of the fundamental principles on which modern life insurance is based, viz., insurable interest.

At the beginning of the nineteenth century there were barely eight companies transacting life insurance, by 1855 the number rose to 192, but in the next fifteen years nearly half of them failed. Half a century of notoriously bad company finance saw the flotation of many financially unsound companies. Helped by the ease with which incorporation was made possible by a Parliament which yielded to the demands of the commercial community, unscrupulous company promoters exploited financially unsound schemes and cheated the public. Insurance too suffered but a few of the companies formed at the time such as the Norwich Union, Scottish Widows and Sun Life Assurance Societies, survived and made large contributions to the progress of life assurance.

In America

The establishment of life assurance in America was an offshoot of marine insurance which was practised by those merchants who followed in the wake of early Colonial settlers. These merchants got together in coffee houses to transact their business and were met by individual underwriters who offered their services in protecting ships and/or cargo. The practice grew, public insurance offices were established in Philadelphia, Boston and New York where underwriters issued policies for the protection of ships and cargo and extended the cover to provide funds for the payment of ransom in case of capture during a voyage or occasionally to meet the risk of death. The policies were for short terms of usually a year or six months and the customary rate was five per cent per annum, irrespective of age.

In 1759 the Synod of Philadelphia established the Presbyterian Ministers' Fund which is the first organised society in America to provide benefits payable on death. The church funds available for providing pensions for the families of those Presbyterian Church ministers who died were inadequate and the fund enabled them to receive additional annuities which ranged from £10 to £35 for an annual premium of one-fifth of the annuity. Voluntary subscriptions augmented the fund and extended the benefits to others, the premiums being deemed sufficient to provide the annuities. Originally limited to clergymen of the Presbyterian Church, the fund was subsequently extended to students of Presbyterian colleges and later, rules permitted the issue of regular life and endowment policies to those qualified for membership. The fund still exists and successfully operates on a limited section of the population.

Aided by prosperous business conditions the closing years of the eighteenth century saw the flotation of about thirty insurance companies, of which five had power to issue life assurance, but only one actually did so. Incorporated in 1794 the Insurance Company of North America became the first company to transact life assurance business, but in five years its business was limited to six policies issued by individual underwriters and in 1804 it discontinued life business altogether. During the short period of its existence, arbitrary rates of premium were charged and no attempt was made to adopt the graduated rates of premium according to age, which had already been introduced in Europe.

Several individual underwriters who issued policies on the marine principle disputed claims which fell due or were unable to meet their liabilities, and many of the large number of proprietary companies which were established during the first forty years of the nineteenth century, went into liquidation after a brief existence. Public confidence which was greatly shaken by these occurrences, was revived by the formation of a few large companies with sufficient share capital to represent a substantial guarantee of payment, and their success led to the organised progress of life assurance in that country on scientific lines. The first of the successful companies was the Pennsylvania Company for Insurance on Lives and Granting Annuities incorporated in 1809 with a capital of $500,000, and it is also the first commercial company in America organised for the sole purpose of issuing life assurance policies and annuities, and the first to transact life assurance on a scientific basis, requiring medical examination and charging premium rates which increased with age.

No authentic records of the introduction of life assurance business in India exist, but it is believed that no underwriters came to India in the days of the East India Company, nor were policies issued on the marine principle. It is probable that in the closing years of the eighteenth century a few policies in sterling were issued on the European residents in India by English Companies and it is recorded that by the first quarter of the nineteenth century insurance companies existed to issue life policies.

CHAPTER II

FUNDAMENTALS

Civilization evolved chiefly as a result of mutual help and co-operation, and life assurance, as of course the various other classes of insurance, has as its basis this great principle of co-operation. Modern insurance with its highly scientific framework, amazing elasticity, and well-organized methods of operation, is a definite stage in the evolution of human civilization. It may be interesting, therefore, to examine rapidly how the basic human instincts of mutual dependence and mutual aid had their earlier stages of slow development before reaching this decisive stage.

Origin of Mutual Aid

It is a reasonable presumption that the fight against lower animals segregated nomadic men into tribes and the inroads of hostile tribes led members of a tribe to co-operate and offer resistance. Later, this co-operation gave a corporal shape to communal life and the individual emerged as a " family " man. Families grew in numbers, grouped together by ties of mutual affinity. Barter gave way to a monetary system of values for trade and exchange of commodities, individual families began to amass personal possessions, as distinct from weapons of attack and defence, attached intrinsic values to those possessions and evolved practical ideas of protecting them. Society produced social needs and mutual help took monetary shape to meet those needs. Alms for the impotent poor, benefits for the dependents of the dead and funeral expenses [1] were probably the earliest of the social needs which the march of time produced, and social clubs and communal groups pledged to raise voluntary contributions were perhaps the first attempts to meet them. Records go to show that the members of the earliest of these clubs collected contributions whenever a death occurred in the community and the total sum thus collected was paid out to the widow and the children. Benefits paid therefore depended

[1] Long before organised charities were started in England records exist of a club for making provision for funeral expenses in the time of the Roman Emperor Hadrian. The club paid the burial expenses of the deceased member and followed the body to the grave. A contract of membership was drawn up, and one interesting proviso was the repudiation of liability in the case of suicide; members in arrears with their subscriptions were expelled.

upon the number and amount of contributions paid and so varied, but, later, when the needs were put on a more rational basis, the amount of benefit paid at each death was definitely fixed. When this was done a fund was needed out of which benefits could be paid out whenever death took place, and to create the fund collections were made from the members of the clubs once a year in advance and the system of collecting contributions whenever a death took place ceased. Thus a stage was reached when members of a club paid one fixed sum at the beginning of the year depending upon the disbursements made in the previous year, and out of the fund thus created, a fixed sum was paid out to the beneficiaries upon the death of a person.

The evolution of a chartered company to take charge of the collection and distribution of benefits was a natural sequence, and when the Amicable Society was founded it became the first organised association to make definite monetary payments on the death of any member from the funds created by fixed annual contributions from each member. *Mutual aid thus took a definite shape and life assurance emerged as a planned scheme of sharing the losses of an individual by the equal contributions of a group.* The basis of such a plan of mutual aid was equity—equity in the sense that all who were members were insured, shared the losses incurred in meeting the claims, and shared them equally.

Mortality

Then followed scientific evolution of insurance. The scheme of the Amicable Society was admirable in many ways and met a definite need, but the enlightened public raised a demur. By its rules the Society required every member to pay an annual sum of £5 to assure for his dependents on his death a definite sum of £150. Equality of annual contributions was thus ensured but people realised that when a member joined the Society at a very early age, he had to pay much more than another who joined it later in life and this absence of equality in the total amounts of contributions paid to the Society by different members was a matter for concern. It was soon realised that as a man grows older his annual contributions should correspondingly increase in order to equalise the total contributions of every subscribing member, that is, people for the first time began to feel the implications of mortality.

Mathematicians entered the field at this stage and endeavoured successfully to give a definite inerpretation to the preliminary ideas of 'mortality'. They averred that the basis of a man's contributions should be linked up with his age. They observed the number of deaths in successive years among a group of people all of whom had attained a particular age. They studied the phenomena of life and death, made actual calculations from the registers of births and deaths kept at the town and municipal registeries and concluded, after considerable research, that the percentage of deaths during a year among a group of persons all of the same age (1) remained fairly constant, and (2) increased with age; in other words, the 'mortality' (that is 'death-rate' or 'susceptibility to death') remained fairly constant for a given age, and increased with age.

The Mortality Table: The Rate of Mortality

Basing their calculations on these basic conceptions of mortality and with a view to employing them for an accurate assessment of the amount of benefits to and contributions from persons seeking life assurance cover, the early life offices in England caused 'Mortality Tables' to be constructed from data readily available to them. The earliest mortality tables, like the Northampton and Carlisle Tables, were constructed from insufficient and meagre data in the shape of incomplete and imperfect returns of births and deaths recorded in the Town Registers and, in consequence, seldom gave the desired degree of accuracy to the figures of benefits and contributions calculated from them. With the passage of time actuarial science emerged as a living subject for research and actuaries rose in numbers to give a scientific basis to life assurance technique. Better and more accurate tables of mortality were evolved from the most accurate data available to replace the old and imperfect ones. Such are the tables in use today by the established life offices in India as elsewhere to base all their calculations. Tables of mortality and other mathematical and monetary tables based on various rates of interest for use in life offices and allied calculations are indispensable instruments of the modern insurance technician.

A table of mortality has essentially three columns: (a) the age, (b) the number of persons living at the commencement of the year of age and (c) the number of persons dying during the year of age. Additional columns the values of which are calculated directly from columns (b) and (c) may be included and the chief of these is the 'rate of mortality' which, for any age, is the proportion of people who die within a year of attaining it, to the total number entering it. It is thus the result of dividing the figure in column (c) by the corresponding figure in column (b).

Premiums

To illustrate the process by which premiums (a premium may be defined as the sum, whether single or periodical, payable in consideration of an assurance) were evolved, let us turn for a moment to the All-India Life Table of Males (1931 Census), part of which is given below:—

TABLE No. 1.

Life Table—All India (Males)

Age x	Living at age x	Dying between ages x and x plus 1	Mortality per cent	Living between x and x plus 1	Living above age x	Mean after life time at age x
(1)	(2)	(3)	(4)	(5)	(6)	(7)
0	100,000	24,874	24.87	85,443	2,690,881	26.91
20	51,203	649	1.27	50,878	1,513,935	29.57
30	43,931	850	1.93	43,506	1,036,776	23.60
40	34,563	1,017	2.94	34,054	642,884	18.60
50	24,348	998	4.10	23,849	348,436	14.31

If 10,000 people all aged 30, of the same state of health, desired to form a group to secure a sum of Rs. 1,000 each, if death occurred before they attained age 31, every man in the group would have to bear an equal share of the cost of the benefits paid to the 193 [1] persons who would die in that year, provided the death rate coincided with that indicated by the above table. The benefits to be paid would then total Rs. 193,000 and if the expenses of operating the scheme were eliminated, a payment of Rs. 19.3 from every member would become necessary. Similarly for the 40-year old people, the rate would be Rs. 29.4 and for the 20-year olds Rs. 12.7. If the insurance cover required for every member for one year was only Re. 1, the rate of contribution from every member would be Re. .0193 for the 30-year old people, Re. .0294 for the forty-year old and Re. .0127 for the 20-year olds. If, therefore, the rate of mortality were to be expressed as the proportion of deaths per unit, instead of per hundred, it would be found that the unit rate of death for any particular age would become the premium (or contribution) for a temporary assurance [2]

[1] Column (4) of the above Table shows 1.93 as the death rate per hundred at age 30, so the number of deaths for 10,000 people would be $\frac{10,000}{100} \times 1{\cdot}93 = 193$

[2] Also called 'term assurance'.

of Re. 1 for one year. A point of the highest importance in these calculations is that this would be true only if large numbers of people grouped together, as otherwise the death rate may not conform to the assumptions.

Let us take the case of a group of persons numbering 1,00,000 born in any year. Past experience from the census report would show that 24,874 would die in the first year and only 51,203 live to attain the age of 20. If, however, all these 51,203 persons take out a temporary assurance for one year the rate of mortality being .0127, a sum of Rs. .0127 would be required to be paid by each one of them to secure an assurance of Re. 1 for one year, or Rs. 12.7 for an assurance of Rs. 1,000. When all the 51,203 persons pay this sum of Rs. 12-11-3 each, the total sum of approximately Rs. 6½ lakhs thus collected would provide Rs. 1,000 to the representatives of each of the 649 persons who, according to the mortality table, would die during that year. If the survivors of those who applied for insurance for one year at age 20 desired to continue the arrangement for another year, each member had only to pay another premium based on the death rate for age 21 instead of age 20 and so on until all the people died. Mathematicians prepared tables of mortality and corresponding tables of premiums for all ages and sought to apply them to the life assurance companies formed at the earliest times.

These rates of premium increased with age. Despite this, a scheme was prepared for life assurance under which a man took out an insurance contract or 'policy' for life paying increasing amounts of premium at every succeeding age, to secure for his dependents a definite sum on his death. The contract, in some cases, provided for insurance protection for a specified number of years and contained a schedule of the successive premiums payable. The scheme provided a workable plan of assurance subject to yearly increasing premiums, and there was no necessity for the accumulation of any fund beyond a small margin for working expenses and other contingencies, as the premiums paid during any year paid for the death claims occurring in that year. In theory, the scheme was workable (and is still being used to a limited extent as the yearly-renewable-term assurance, particularly group insurance and the net-risk plan of reinsurance, although important practical limitations preclude its more extended application) but in practice it failed. For when it was continued without any limit of age, many and eventually all the older policyholders dropped out, as they were unwilling or unable to pay the prohibitive rates of premiums. Those in poor health were tempted to keep their insurance in force as long as possible in spite of excessive cost but those in good health withdrew, thus creating an artificially increased mortality rate among the older age groups, until a stage was reached when the rate of mortality went beyond that provided for.

Assessment Plan

Because of the limitations and the practical deadlock that was experienced, a slightly modified scheme was evolved by the large numbers of assurance societies formed towards the end of the eighteenth and at the beginning of the nineteenth centuries. The scheme, as modified, and called the 'assessment plan' implied that if a sufficient flow of new members at younger ages were obtained the average age of the whole group would remain fairly constant and therefore the total death rate would not increase, so that if an equal assessment were made from all survivors to meet the death claims in one year, the annual rate would be about the same.

Unfortunately they were working under a fallacy. Their assumption was that with new members entering at younger ages and old members going out as a result of death, the average age would remain constant, and hence, they assumed, the death rate would also remain constant, so that an assessment might remain fairly constant. In actual practice the average age did not remain constant, and even if the average age remained constant the death rate did not remain the same. Nevertheless many companies persisted with the scheme. For the first few years the death rate was negligible as the number of deaths was few and no difficulty was experienced in inducing new members to join, but as years passed on, death rate increased, the proportion of claims became larger, assessments were accordingly higher and some of the younger and those in good health even among the older members gradually dropped out. Thereafter fewer new members were obtained which inevitably led to a further and more rapid increase of death rate and the assessment companies found it impracticable to continue.

Lack of proper realisation of the importance of taking age into account was the chief defect of the assessment plan. There was a time when the plan was modified to include age, but then the assessment was made in proportion to the number of deaths among people who entered at the same age without making any adjustment for the attained age at death, with the result that all schemes of assessment assurance ended in failure. It is now generally accepted throughout the world that any plan of life insurance for successful operation indefinitely should recognise the principle that the cost to each member should be based on his attained age.

Level-Premium Plan

The practical disadvantages of the assessment plan led to the evolution of the 'level-premium plan' under which a rate of premium is determined on the basis of attained age (or age next birthday) and is payable throughout the period of the policy—the same amount of premium every year. If a mortality table is selected upon which the probable death rate the company will experience can be based it is possible by a purely arithmetical process, to determine a uniform or level premium for each of the persons insured which will be sufficient to meet the claims when they occur. This is the basis of the level-premium plan. Under the yearly-renewable-term plan the premium in the earlier years is small and increases with every succeeding year, but under a levelling process the premiums are constant and will be greater than the actual cost of insurance in the earlier years and less in later years. This is the most practicable plan of insurance yet devised and is the only plan suitable for whole-of-life insurance or insurance extending upto advanced ages. This is the plan which is universally adopted by all the regular life insurance companies throughout the world for most of the insurances issued.

It will be evident that in the earlier years premiums in excess of the actual cost of insurance for those years will form a fund to counteract the inadequacy of the premiums as the life gets older. The level-premium plan therefore introduces an entirely new element into the scheme of operation, viz., the invested fund, which is called the Reserve on the policy. This is not a 'Reserve' in its strictly commercial sense implying 'surplus' but is a fund formed by the excess amount paid over the actual cost of insurance for the age, and maintained by the company at compound interest to pay for the death claims as and when they occur; the company must maintain it if it should function solvently. When a policyholder dies the Reserve on his policy will be available as part of the amount payable, and as the Reserve increases every succeeding year by the accumulation of such excess payments, the actual cost of insurance, or the amount 'at risk' (which is the value of the policy less the Reserve on the policy) correspondingly decreases. Increasing death rate is offset by a decreasing effective amount of insurance, the actual cost of insurance is kept down to practical levels and insurance companies are able to operate the scheme indefinitely on a solvent basis. The level-premium plan is thus a combination of investment and insurance and not pure insurance like the yearly renewable term plan or pure investments like savings bank accounts.

Interest

The accumulation of the Reserve introduces an entirely new element into the calculation of premiums, viz., interest, for right from the date on which the first premium has been paid, a reserve is created on which the company earns compound interest. This interest increases the amount of the Reserve and correspondingly decreases the cost of insurance to the insured and to that extent credit is given in calculating rates of premium. In a level-premium plan the rate of mortality and the rate of interest determine the amount of 'net' premium which can be defined as that premium which, in the aggregate, will be exactly sufficient to pay all claims. In the preparation of net premiums, it is assumed that death takes place in accordance with the mortality table adopted as a basis of calculations and that the amounts of premium paid to the company are invested immediately on receipt at the rate of interest which the company hopes to realise. The net premium provides funds necessary to meet all the claims of the policy whether by death or otherwise or upon surrender.

In the preparation of premium tables it is customary to calculate the net single premium (one lump sum) necessary to secure the desired assurance and to determine annual premiums on the basis of such single premiums. In all theoretical work it is also usual to assume that death claims are paid at the end of the policy year in which death occurs and, although in view of the fact that claims are nowadays paid immediately upon proof of death and title, the above assumption may not strictly be in accordance with facts, the presumption simplies calculations. The amount of interest lost in such an assumption is really negligible for some of the deaths take place at the end of the year and some at the beginning so that an average loss of about five months' interest will be what is actually experienced. This loss is sometimes taken into consideration when fixing the final premiums payable by an individual.

So far we have been confining our discussion to a mortality table constructed on the basis of population statistics, but actually for reasons explained in the chapter on 'Mortality' population figures are unsuitable for life assurance calculations. and the companies use special mortality tables constructed on the actual experience of life offices. In India almost all the companies now use the Oriental (1925-35) Mortality Table [1] and for the purpose of illustrating the calculation of the net single premium required let us assume that this table is being made use of. According to this Table if 1,000,000 people enter at the age of 20, 4,200 would die before they reach 21, leaving a balance of 995,800 people at the beginning of the second year. 4,182 would die in the second year, leaving 991,618 to continue insurance at the beginning of the third, and if this process is continued all of them would have died before 102. When they group together to effect insurance, all of them pay the appropriate premiums at the beginning of each year, and the representatives of those who die receive the sum insured at the end of the year. That is to say, if there were 1,000,000 people taking out policies at the age of 20, all of them would have to pay the premium at the beginning of the year, and out of this group 4,200 would have to be paid the amount of insurance at the end of the year, but as all the premiums would have been received at the beginning of the year they would earn interest during that year. If the insurance is for Re. 1 only, the amount required to pay the death claims of Rs. 4,200 at the end of the year would be Rs. 4,200 less the interest earned during that year. An interest table would show that Re. 1 invested at 3 per cent would amount to Rs. 1.0300 at the end of the year, and conversely a sum of Rs. .97087 invested at the beginning of the year would amount to Re. 1 at the end, so that in order to enable a company to pay Rs. 4,200 at the end of the year a sum of Rs. 4,200 x .97087 or Rs. 4,077.654 need only be collected from all these people taking out policies. If the insurance is for Rs. 1,000 the amount to be collected from them would be Rs. 4,077,654. Similar values can be calculated for all subsequent ages.

In this we have assumed that interest will be earned at the rate of 3 per cent., but the actual rate earned by a company will depend upon various circumstances, and it is the duty of the actuary of a company to determine the rate of interest to be assumed in these calculations. We shall take for granted that the rate of interest assumed is 3 per cent. In order to illustrate further what the net single permium should be, let us assume that the insurance is commenced at age 95 so that arithmetical calculations would be considerably reduced. From the table given in Chapter VI it would be found that 1850 people enter that age out of whom 683 die in that year leaving 1167 people to enter age 96.

[1] See Chapter VI for details of the Table.

The figures given below, taken from a compound-interest table, give the present values of Re. 1 due in the number of years at 3 per cent :

Table No. 2.

Present value of Re. 1 at 3 per cent. compound interest.

Number of years.	Present value of Re. 1 due in number of years stated.
1	.97087
2	.94260
3	.91514
4	.88849
5	.86261
6	.83748
7	.81309
8	.78941

The table shows that .97087 invested for one year at 3 per cent. will amount to Re. 1 at the end of the year and that Re. .94260 invested for two years at the same rate would amount to Re. 1 at the end of two years and so on.

If a one-year term policy for Rs. 1,000 is taken out at age 95 by each of the 1850 people living at the beginning of that age, and if the actual death rate among them was as given by the Oriental Mortality Table, the sum required to pay death claims in that year would be Rs. 683,000. Although these claims occur throughout the year, it is assumed that they would be paid at the end of the year and the whole of this money would be available for investment in that year, so that in order to pay Rs. 683,000 a sum of Rs. 683,000 x .97087 would have to be collected at the beginning of the year. This amounts to Rs. 663,104.21 or Rs. 663,104 (correct to the nearest digit) would be required, and everyone of the 1850 people living at the beginning of the year would have to pay the same amount of premium. This premium therefore would amount to Rs. 358.43 (683,104÷1850) which is the net single premium for a one-year term assurance at age 95 according to the Oriental Mortality Table and 3 per cent interest. If the 1167 people left over at the beginning of age 96 continued the arrangement similar calculations would prove that a sum of Rs. 432,653 would have to be collected now to pay for the death claims occurring in that year and so on, and a final table as given below could be prepared:

Table No. 3.

Calculation of Net Single Premium for Whole Life Policies for Rs. 1,000. Age 95. Oriental (1925-35) Ultimate Mortality Table. 3 per cent interest.

Year (1)	Number living (2)	Number dying (3)	Death claims (4)	Present value of Re. 1 (5)	Present value of Death claims (4) x (5)
1	1850	683	Rs. 683,000	.97087	Rs. 663,104
2	1167	459	Rs. 459,000	.94260	Rs. 432,653
3	708	296	Rs. 296,000	.91514	Rs. 270,881
4	412	183	Rs. 183,000	.88849	Rs. 162,594
5	229	108	Rs. 108,000	.86261	Rs. 93,162
6	121	60	Rs. 60,000	.83748	Rs. 50,249
7	61	41	Rs. 41,000	.81309	Rs. 33,337
8	20	20	Rs. 20,000	.78941	Rs. 15,788
			Total present value of death claims		Rs. 1,721,768
			Single premium for each of the 1850		Rs. 930.7

Chart No. 1.

Year	Number living at successive years	Present value of claims paid	NUMBER OF CLAIMS PAID AT THE END OF: 1 year	2 years	3 years	4 years	5 years	6 years	7 years	8 years	Total claims paid
			683	459	296	183	108	60	41	20	1,850
1	1850	Rs. 6,63,104	Rs. 6,83,000								
2	1167	4,32,653		Rs. 4,59,000							
3	708	2,70,881			Rs. 2,96,000		SUM ASSURED = RS 1,000				
4	412	1,62,594				Rs. 1,83,000					
5	229	93,162					Rs. 1,08,000				
6	121	50,249		YEARS DISCOUNTED				Rs. 60,000			
7	61	33,337							Rs. 41,000		
8	20	15,788								Rs. 20,000	
Total present values of all claims	17,21,768÷1850 (Number assuring) =Rs 930 7 net single premium.							Total claims paid			Rs 18,50,000

Diagrammatic illustration of calculating net single premium. *See Table 3.*

This will mean that a net single premium of Rs. 930.7 will have to be paid by each of the 1850 people taking out insurance for Rs. 1,000 at age 95, the insurance to be continued until all of them die. If, however, another type of insurance is taken by which, after the insurance has been in force for five years, those living do not continue payment of the premium but receive the amount of the insurance then, (that is to say they create an 'endowment' of Rs. 1,000 payable after five years) the same calculations would hold good except that all the amounts would become payable at the end of five years, as given in the following table :

Table No. 4.

Calculation of Net Single Premium for Endowment Policies for Rs. 1,000. Age 95. Oriental (1925-35) Ultimate Mortality Table. 3 per cent interest.

Year (1)	Number living (2)	Number Dying (3)	Death claims (4)	Present value of Re. 1 (5)	Present value of Death Claims (4) x (5) (6)
1	1850	683	Rs. 683,000	.97087	Rs. 663,104
2	1167	459	Rs. 459,000	.94260	Rs. 432,653
3	708	296	Rs. 296,000	.91514	Rs. 270,881
4	412	183	Rs. 183,000	.88849	Rs. 162,594
5	229	108	Rs. 108,000	.86261	Rs. 93,162
Maturity claims of 121 living at the end of 5 years			Rs. 121,000	.86261	Rs. 104,375

Total present value of death and maturity claims Rs. 1,726,769
Single premium for each of the 1850 Rs. 933.39

The above illustration shows that if all the 1,850 people at age 95 group together for the purpose of effecting endowment assurances for Rs. 1,000 to be paid at the end of five years or on earlier death, the net single premium which each of them would have to pay would be Rs. 933.39. Similar premiums can be calculated for all ages and for all kinds of assurances issued and these calculations are done by the actuaries.

Net Annual Premiums

So far the calculations have been limited to payment of a single lump sum at the beginning of the term of insurance to provide either a whole life or endowment policy by every one of the people taking out insurance. The calculation of the net annual premiums is more complicated, and in practice mathematical formulae are used, but for the non-mathematical reader it may be stated that the annual premium is a life annuity payable by the assured to the company. An annuity is an annual payment and if the present value of a life annuity of Re. 1 (i.e. net single premium for an annuity of Re. 1) is determined, the net annual premium equivalent to any single premium can be calculated. These calculations are beyond the scope of this volume as they involve complicated mathematical calculations.

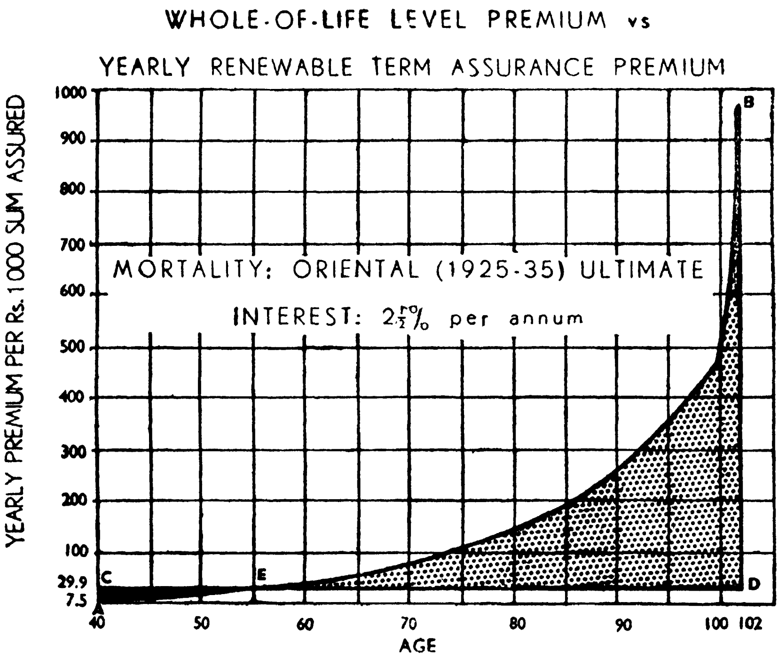
Level-premium plan vs.
yearly-renewable-term plan

In the case of all those who die before the age of about sixty the yearly increasing premium plan would be cheaper. In actual life the chances of death before 60 is small, but, if it does not occur before sixty, the probability of death becomes a certainty during the period after that age. Every man has an equal chance of living upto a ripe old age and such persons as live after 60 will have to pay considerably enhanced premiums in later years under the yearly increasing premium plan than the other method, at a time when their financial position is none too good. Under the level-premium plan, on the other hand, the insured is actually 'insuring himself', that is to say, accumulating reserves of a steadily increasing amount each year to pay for insurance in later life. It is not purely insurance as it requires larger payments than are required for pure insurance in the beginning, but the insured builds up an investment as represented by the reserve.

Under the level-premium plan the company is never 'on the risk' for the full sum insured at any time but only for the face value less the accumulated excess payments made by the policy-holder. The plan is thus a combination of increasing investment with decreasing insurance, the two amounts being mathematically computed in such a way as to make their sum equal to the face value of the policy at any time. The financial operation of a level-premium plan is not so simple as these observations imply and entails much mathematical work which only the technical man or actuary is qualified to undertake, but this is the fundamental principle of modern insurance. The level-premium plan is the only scientific way in which it is possible to provide insurance payable at death, no matter when it occurs, without the possibility of the cost being prohibitive. The whole calculation is based on the assumption that a sufficiently large number of policyholders will be enlisted in order to ensure average results on which alone will the assumptions made in calculating the premium come true. The level-premium plan is now recognised both by the public and the governments as the only practicable way of effecting insurance permanently and equitably : it is equally applicable to whole of life and all other plans of insurance which cater to individual requirements.

It has been observed that the basis of the level premium plan is the accumulation of reserve, and the basis of the plan and its

Chart No. 2.



advantages can best be illustrated by means of a diagram. In this graphical illustration, the figures are based on the Oriental 1925-35 (Ultimate) Table of Mortality with interest at 2½ per cent. The curved line A to B shows the increasing premiums to be paid at successive ages to provide for an insurance of Rs. 1,000 in each year from age 40 until very old ages. At age 40 the premium is Rs. 7.5, at age 60 Rs. 41.8 and at age 90 Rs. 262.4 ! The curve shows that in the beginning the cost of insurance under a yearly-renewable-term plan is very low, at about the age of 56 it becomes equal to the level-premium (represented by the line CED), then it becomes high and rapidly increases from that point, and from about the age of 70 or 75 it becomes utterly prohibitive. The level premium at age 40 on the assumed Table of Mortality and interest for an ordinary whole life policy is Rs. 29.87. At no stage is the premium prohibitive, and so the insurance can be continued without strain until death. From age twenty to about fifty the level-annual-premium for ordinary life insurance is higher than the yearly increasing premium.

Loading

We have so far confined our discussion only to a consideration of the abstract principle of insurance and its working, but when insurance is arranged through a company, which is the only way in which it can be secured, provision has to be made for the expenses of operating the scheme, for profits of those who operate it and for other contingencies of any kind not reflected in the basic assumptions of mortality and interest. It thus becomes necessary to modify the net premium by the addition of the amounts required to cover expenses together with an allowance for contingencies and profit. This addition is called 'loading' and the net premium increased by the loading is the 'gross premium' which is paid by all those taking out insurance. But before considering all the factors that go into the loading, and before attempting to discuss the actual premiums paid, let us pass on to the organisation of a company, and all the different types of policies issued.

CHAPTER III

TYPES OF INSURANCE COMPANIES

A life insurance company may be organised as a 'Proprietary Company' or as a 'Mutual Office'. The earlier Indian companies were registered under the Indian Companies' Act X of 1866 : they are now registered under the Indian Companies' Act 1913. A majority of the companies transact life insurance business only, but 47 companies (on 31 December 1948) transacted other classes of business in addition to life: in the case of these offices, known as 'Composite Companies', the Life Funds[1] are kept separately from the other funds and are not liable for the claims of other departments.

Mutual Offices

A Mutual Life Assurance Company is a co-operative association of individuals incorporated for the specific purpose of effecting insurance on their own lives. No separate shareholders control it, but every policyholder is a 'shareholder', if such a term can be applied to a member. The primary object of a mutual office is not to make profits but to offer insurance. In America, Mutual Offices incorporated in the State of New York are prohibited, by law, from issuing policies within the State which do not participate in profits, although they do so outside. This has no scientific basis as a mutual office can reasonably operate a department writing insurances at 'fixed cost' for those who prefer them. In India mutual offices transact both types of insurances: technically, however, non-participating policyholders of a mutual office are not members (i.e. shareholders) in the sense that the profit or loss of business is shared only by the participating policyholders.

Closely allied to the Mutual Offices are the Co-operative Life Assurance Societies, the essential difference being that the latter confine their activities to the limited field of the co-operative movement. The Co-operative Insurance Societies have to register themselves under the Provincial or Central Co-operative Societies' Acts, in addition to the Indian Companies Act and the Insurance Act. They are an adjunct to and work in close collaboration with

[1] See Chapter VII for definition of Life Fund.

the co-operative societies and there is no restriction on the amount of insurance under a single policy issued by them.

The origin of co-operative insurance may be traced to the Annual Co-operative Conference held in 1867 representing all the co-operative societies of Great Britain. That conference resolved to form an Insurance Institution for the benefit of those societies and their members to underwrite fire, life and fidelity guarantee business. The first Co-operative Insurance Society was formed on 29 August 1868 and started active life assurance in 1886 on the principle of dividing profits from life business exclusively among life policyholders.

Started towards the end of the last century under Government auspices primarily to extricate the peasants from indebtedness, the co-operative movement in India had made much headway before the first co-operative insurance society was formed. The origin of this insurance was the formation of a Thrift Society intended to promote the habit of saving among the urban middleclasses. The society collected regular monthly savings from members for a period of two or three years and then returned the total amount plus interest at the end of the period. Regular co-operative life societies were evolved out of this practice and they have now made much progress in Bombay, Madras and Hyderabad. The first in the field, however, was the Bengal Co-operative Insurance Society Ltd. at Calcutta, but after various vicissitudes, it was finally forced to amalgamate with a Proprietary company soon after the Insurance Act 1938 was brought into operation.

The Bombay Co-operative Insurance Society was formed in 1930, worked in the beginning on a small scale issuing policies for Rs. 150 and Rs. 500 without medical examination. It was intended to bring life assurance on economic terms within the reach of small income groups in both the rural and urban areas. The venture was so successful that it has considerably widened the scope of its activities, developed an all-India organisation and writes policies for larger amounts and all types of life assurance.

The South Indian Co-operative Insurance Society, Madras, was started in 1932 and has, likewise, made considerable headway. The Hyderabad Society, however, confines its activities to that State. There are a few more co-operative insurance societies with restricted fields of operation among certain classes and professions only.

The co-operative insurance society works through co-operative societies and caters only to their members: every policyholder has to be a member of a recognised society before he is insured. The co-operative movement has a definite place in the society and in the country's economy and the development of co-operative insurance is a distinct and laudable offshoot of the co-operative movement: insurance offered by the societies helps to complement the other activities of the co-operative societies. It is gratifying to note that co-operative insurance has begun to enter the general fields of insurance also.

Proprietary Companies

Proprietary insurance companies are organised as joint stock companies with shares subscribed by the public to such sufficient amount as to start the business. Like any other business the promoters—or shareholders—of a proprietary life assurance company run it primarily for the purpose of making a profit for themselves out of transacting insurance business, and generally issue both participating and non-participating policies. Indian proprietary companies distribute[1] ninety per cent of the profits as bonuses among participating policyholders—a practice which has received allround approbation throughout the insurance world. These profits (surpluses) are actuarially ascertained at intervals. The Indian Insurance Act 1938 makes it obligatory for proprietary companies transacting life insurance business to elect at least one-fourth of the total number of directors from among the policyholders to enable them to have an effective voice in the conduct of the company.

Organisation

No special organisational procedure governs the formation of a life office; it is formed just like any other joint stock company. Those who decide upon its floatation, determine its location, define the objects, the powers and how they will be exercised, settle internal organisation, the amount of capital (if it is a proprietary company) and all other legal details and incorporate them in the Memorandum and Articles of Association. Proprietary companies limit the issue usually to one class of shares, viz., ordinary shares, and the latest amendment to the Insurance Act 1938 prohibits life offices from issuing more than one class; with the further stipulation that the face value and called-up amount of every share should be the same and the voting right of every shareholder is strictly proportionate to the number of shares held by him. It is the usual practice to have a part only of the face value of a share

[1] Insurance (Amendment) Act, 1950 limits the share of the shareholders' profits to 7½% of the surplus.

called-up in order to make the uncalled part of it an additional reserve for the liabilities of the company, especially during the initial years. After a period of satisfactory operation this uncalled capital has no practical value, as the reserve accumulated out of the excess payments made by policyholders creates a fund many times larger than the shareholders' capital itself. In some cases it is not so; and any deficit in valuation is usually met by calling up this reserve liability or if all the shares have been fully paid-up, by introducing fresh capital.

Capital Structure

Under the provisions of the Insurance (Amendment) Act, 1950, no person (which expression includes a public or private limited company, partnership firm, or their executives, or a private individual) can hold, either for his own benefit or for the benefit of others, shares of a company the value of which exceeds five per cent of the total paid-up share capital : in the case of a banking or investment company this percentage is further limited to 2½ per cent. Companies are required to (1) maintain registers of actual and beneficial owners and (2) refuse transfer of shares if the total paid-up holdings of one individual, either for himself or on behalf of others, exceed the percentage prescribed. All holders of shares either in individual capacity or for the benefit of others, and all beneficial owners are required to file declarations with the companies regarding the extent of interest in the shares: default in the filing of these declarations would deprive them of their voting rights. Reasonable time and facilities have been provided to the existing shareholders to dispose of their excess holdings.

Prior to the enactment of the Insurance Act 1938 life offices were permitted to have Managing Agents, and usually had them. That Act abolished the system altogether and since then properly elected directors manage the affairs of the company.

Registration

When the organisers have filed the necessary papers with the Registrar of Joint Stock Companies and obtained a certificate of incorporation, they are in a position to receive the actual subscriptions to the capital in the case of a proprietary company or to receive applications for insurance and premium amounts in the case of mutual companies, but they cannot as yet issue policies. Before issuing them, companies have to obtain certificates of registration from the Controller of Insurance, which are issued only when the capital, the necessary minimum amount of statutory deposit and working capital have been received and when such a deposit has been made with the Reserve Bank. Under the Insurance Act 1938 the Statutory Deposit in respect of a life assurance company, whether proprietary or mutual, is Rs. 2 lakhs and, in addition, a net working capital of Rs. 50,000 has to be collected, exclusive of any sums payable as preliminary expenses. There was no separate insurance law prior to 1912, and no question of deposit or minimum capital, therefore, arose. The Indian Life Assurance Companies Act, 1912, made an initial deposit of Rs. 25,000 in Government securities obligatory, this amount to be increased by annual payments of a third of the annual premium income until it reached a lakh of rupees and thereafter by annual payments of a third of the increase in life insurance fund until it reached Rs. 2 lakhs. These provisions were extremely liberal and enabled promoters to float life assurance companies with comparative ease, while the absence of provision for any minimum subscription of capital induced many of them to start with no funds at all to meet organisational expenses, with the result that such expenses were met from premium incomes without adequate provision for them in the loading. It is evident that the principle of meeting the statutory deposit required by law, and organisational expenses, if any, from the premium income is highly unsatisfactory, since the premiums are required for claims and ordinary expenses.

Preliminary Expenses

In the case of a proprietary company preliminary expenses are easily met by the sale of shares which, under favourable conditions, may be sold at a premium, thus creating an immediate surplus fund in excess of the statutory capital out of which preliminary expenses of organisation can be met. During the war, a few companies were able to adopt such a procedure, and get subscriptions of capital, at a premium, much in excess of their actual requirements.

The situation is different with mutual companies and presents a difficult problem. It is often not easy to obtain a sufficient number of applications from persons willing and able to insure with a new company so as to utilise the premium amounts towards the deposit required by law and the capital needed for registration. Further considerable expense is involved in the details of preliminary organisation like rent, stationery, wages, printing, legal fees and so on all of which have to be paid in cash. The combined expenses will generally exceed the possible income from the preliminary application for insurance and are usually met by a loan from the organisers, with provision for redemption with interest when the surplus funds of the company are sufficient for that purpose. In the case of all companies it is usual to write off the preliminary expenses out of actuarially ascertained surpluses at the time of valuation as early as possible.

Preliminary Operation

The premiums charged by a life assurance company, whether mutual or proprietary, are based on the theory of averages and probabilities, and on the assumption that past experience *may* repeat itself in future. This is possible only where there is an adequately broad basis of operation, and it is desirable to follow two guiding factors in the formation of companies: (1) a definite plan of organisation to secure insurances from sufficiently large numbers to eliminate the possibility of any deviation from the expected average experience, and (2) provision of enough capital to offset any unfavourable experience. It is a good plan to create a general contingency reserve fund out of the capital from the beginning to provide for unforseen unfavourable fluctuations of mortality and claims, and this can be provided out of the share capital of a proprietary company. In the case of a mutual office such a fund can be created only from borrowings in which case the loan is considered as a loan to policyholders and redeemed with interest when the surplus funds from the company's operation is sufficient to meet them.

Mutualisation

It therefore follows that it is easier to promote a proprietary company than a mutual association, for the simple reason that it is easier to raise the money required for preliminary expenses of organisation by public subscription of capital than by immediately securing a large number of persons willing to take policies in a new concern, or by securing loans. Later, when the company has become a going concern and has been in successful operation for some years, the accumulated funds make the security of payments furnished by the shareholders' capital less important, and even unnecessary. In a proprietary company with a good record of successful operation for quite a number of years the shareholders' capital, although a substantial amount, is eventually small, compared to its total liabilities; it is possible therefore for the policyholders, to entertain a desire for its control in view of their greater stake in the finances. The impending purchase of a large block of shares by undesirable financiers in order to gain control of the huge reserves of a company may also sometimes influence the management to initiate mutualisation of proprietary companies. In all such cases the company creates a fund out of the policyholders' reserves to purchase the shareholders' interests. Such a mutualisation scheme should have the consent of both the policyholders and shareholders and when a majority of them agree to the sale and to the terms of purchase, the scheme is put into operation with the sanction of the Central Government.[1] It may sometimes happen that a minority of recalcitrant shareholders refuse to sell and in such cases the shares already sold are temporarily held by trustees for the policyholders who receive the bonuses when they are declared and pay them back to the policyholders. The company would then be technically a proprietary company, and as the trustees would be in a majority, they would have the actual control of its affairs and work it, for all practical purposes, as a mutual company, until all the shares have been purchased.

Control

A proprietary company is owned by the shareholders and is controlled by the directors elected by them, through the executives. For all practical purposes, control usually vests with the holders of the majority shares, who may be a small group or an individual; this position might change considerably in the future. The directors statutorily elected by the policyholders to the extent of twentyfive per cent of the total number of directors, are in a perpetual minority and have no effective voice in the management. Insurance (Amendment) Act 1950 vests power with the Government to appoint two additional directors if necessary.

In mutual companies control theoretically rests with the policyholders but they are too numerous, scattered all over the country and, in many cases, ignorant of their rights and responsibilities as owners of the company. There are innumerable practical difficulties in taking united action (the absence of any convenient method of intercommunication is only one of them), so that, for all practical purposes, a mutual company is controlled by the officers and directors. For the purpose of electing or re-electing the directors, proxies are collected from eligible policyholders by sending them a proxy form together with the notice intimating the

[1] New Section 6C, Insurance (Amendment) Act, 1938. This section gives the right of appeal to the High Court to any person aggrieved by a scheme of mutualisation sanctioned by the Central Government.

holding of the meeting at which the election is scheduled to take place.

Continuous concentration of control has its advantages, for where a quick decision is needed, as it very often happens, the management will be able to act immediately and effectively. Further, frequent changes in management are usually bad for the proper conduct of business, and where an efficient and responsible administration has secured power, it is undesirable and often deleterious to the interests of sound business to effect a change. On the other hand, if an unscrupulous group of individuals gain control of a company, either by the purchase of a block of shares (in proprietary companies) or by influencing a majority of policyholders, it is possible for them to disregard the interests of policyholders, but such a situation will rarely occur in the case of large and well-established offices. The fact that directors and executives of a proprietary company owe no allegiance or responsibility to policyholders is often used as a strong reason to advocate the elimination of proprietary concerns from the whole business of life insurance, but the allegation is baseless for no executive or director can afford to ignore the legitimate interests of the policyholders with immunity and without jeopardising his institution. The shareholders' share of the profits is very negligible, and, compared to the mutual companies the bonuses declared by Proprietary Companies have not been in any way unfavourable. Further the close supervision exercised by the Controller of Insurance acts as a stabilising factor against common malpractices, and policyholders have absolutely no cause for fear under the existing systems of control. All the same, the prevailing tendency in the world is for the mutualisation of proprietary companies.

Organisation in Foreign Countries

In the establishment of life offices, almost the same procedure is followed all over the world, except in the matter of initial deposits and paid-up capital required by law. In America, for instance, it is necessary to secure advance applications from 500 persons for a total insurance of $1,000,000 before a mutual company can be organised, and a further initial deposit of $100,000 has to be made with the Superintendent of Insurance before it can proceed to do business. Preliminary expenses of organisation, apart from the deposit required by law, are usually met by raising a loan, and in view of these strict provisions, no new mutual company has been organised in New York for some considerable time, but many of the stock (proprietary) companies have since been mutualised, the largest insurance companies there being run on the mutual basis now.

In the case of proprietary companies, the law in force in the State of New York requires that the share capital shall not be less than $100,000 and that before the company commences operation, the paid-up share capital and a further sum of $50,000 earmarked as 'surplus' should be collected: this surplus serves to meet the preliminary expenses of organisation and is usually obtained by selling the share at a premium. The statutory deposit required to be paid in is $100,000 and the capital—either the whole or part of it—may be used towards this payment, but not to meet the surplus. The stipulation of the amount of $50,000 needed to be collected for organisational expenses as distinct from the share capital puts considerable practical difficulties in the way of organising a new company unless the promoters are able to sell the shares at a premium.

The Assurance Companies Acts of 1870 and 1871 in the United Kingdom stipulated a deposit of £20,000 for all new life assurance companies floated in that country, more to counteract the promotion of financially unsound institutions than to offer any safeguard to policyholders' liabilities. The Assurance Companies' Act of 1909 retained the provisions but the Assurance Companies' Act of 1946 dispensed with the requirement of a deposit. This development is a further step in the principle of free trading in insurance with healthy publicity on which the United Kingdom laws of insurance are based, and has been hailed in British insurance circles as an invitation for other countries to follow. At no time has there been any statutory provision for a stipulated minimum paid-up capital and there is a company working in that country with a paid-up capital of only £25,000.

CHAPTER IV

TYPES OF INSURANCE CONTRACTS

INSURANCES AND ANNUITIES

Participating and Non-participating

In the early days of life assurance, most of the offices based premium calculations on the Northampton and Carlisle Tables which were unscientific and showed very high rates of mortality. Consequently premiums were higher than were actually needed to meet the risks involved, and when large surpluses accumulated in course of time, a portion of those surpluses was distributed as 'bonuses' to policyholders. Later, premiums were charged in excess of that required to meet the risk involved and the expenses incurred in pursuance of a deliberate plan, with the stipulated intention of paying back that excess as bonuses. Naturally, all those who took out insurance were not prepared to pay such higher rates of premium, nor were they keen on the benefits of a bonus and to meet the needs of those who demanded protection at a minimum cost, anothr type of policy was offered without any share in the profits of operation. Thus were evolved two types of policies, and with rare exceptions, Life Insurance is today offered under two great classes: (1) those which share in the profits called "With Profit" or "Participating" policies, and (2) those which do not share in the profits called "Without Profit" or "Non-participating" Policies.

Despite the fact that the holders of participating policies pay a slightly higher premium to get a share in the business profits the actual advantages obtained largely depend upon the efficiency of administration, economy, skilful and even fortunate investment of funds and the general economic condition of the country which has a direct bearing on the interest earned by the company. It is the usual practice of all offices to include the reserves of all policies in one fund. Profits accruing from non-participating policies, either due to favourable mortality experience, higher interest earnings or economic management, go back to the general surplus to be distributed among the participating policyholders. For all practical purposes, therefore, in favourable circumstances, and in the case of well-managed offices, the bonus received by participating policyholders will represent considerably higher value than the additional premium they pay for securing the benefit of a share in the profits.

But favourable, or even normal conditions, rarely exist for any length of time and it is possible that at any time there may be a tendency towards increased mortality, rising expense or falling interest rates; the rates of bonus will then be automatically reduced and insurance will become costlier to the participating policy-holders. In other words they share in the losses too. The experience of companies during and after the war is illustrative of changed conditions affecting the cost of insurance. The actual expenses of management were higher and interest rates lower than those assumed in the pre-war contracts and as the premiums of existing policies could not be altered, bonuses were drastically cut down or discontinued altogether.

Non-participating policies, therefore, have certain advantages. In the first place they offer insurance at a guaranteed annual cost, which is constant and not subject to any variation. Secondly, insurance is offered at a rate of premium which is fixed at as low a level as it can safely be made. No company can afford to charge a premium less than the expected actual cost, but the difference between the net cost of insurance and the actual premium charged is kept down to meet the necessary margin of safety, solvency, and legitimate profits. In participating policies, on the other hand, premiums are admittedly higher than the net cost, and no attempt is made to fix them with exactitude since the excess is usually refunded as bonuses.

The periodical payment of bonuses during a period of years results in a lower net cost to the participating policyholder, but reductions in bonus rates due to lower interest yields in recent times have resulted in net costs which are ostensibly higher than non-participating policies. This is a factor which has to be reckoned with when deciding upon the class of policy taken. A compensating advantage of a participating policy is the extra margin of safety both to the company and the policyholder due to the higher premium.

Normal Classification of Policies

The universal recognition of life assurance as an essential adjunct of social life has resulted in the evolution of various types of policies designed to meet individual requirements. All first class life offices continuously evolve progressive types of policies to meet changed conditions. The one predominant feature of all policies evolved in the past or to be evolved in the future is that an *insured pays for exactly the kind of benefit he gets, nothing more and nothing less.* Insurances can be effected on a single life, on more than one life and on a group of individuals, and generally fall under three broad heads:

A. Standard forms of life assurances
B. Standard forms of annuity contracts
C. Miscellaneous contracts, and combinations of assurances and annuities.

A. STANDARD FORMS OF LIFE ASSURANCE CONTRACTS

They are issued on the life of a single individual or on the lives of two or more individuals, the principal forms of assurances being (1) Whole life (2) Endowment and (3) Term.

Whole Life

Whole Life Assurances by premiums payable throughout life are the most popular and widely issued contracts in the United States at present, and for many years previously the most popular in the United Kingdom. They have never been particularly popular in India. In 1914, for instance, only 12.5% of the total new business transacted by Indian companies were under this plan, and the percentage gradually fell and stood at 7.43 in 1919, 7.90 in 1924 and 7.40 in 1927. After 1927, separate figures for different classes of insurance were not published by the Government, but comparatively very few people show any active interest in assurances for whole of life, with premium payable throughout. Under this policy, in return for premiums payable annually, half-yearly, quarterly or even monthly, throughout life, the company agrees to pay a specified sum at the death of the insured, whenever it may occur. Being the most ideal type of policy for those who require a plan of insurance protection for an indefinite period, it purchases for a given sum an insurance cover that is, in most cases, larger than that under any other form of permanent assurance and enables a man to make a definite provision for his dependents on death. The without-profit policy under this plan is real life assurance. It is a perfect plan of assurance for those who can afford to pay only a limited amount of premium and wish to secure the largest protection with it, and the most adaptable to meet the needs of changing circumstances and special requirements. Inherent in the scheme, however, is the drawback that the premium has to be paid even at a period of a man's life when he is usually unable to do so.

"Special" Whole Life Policies

The present tendency is to replace the ordinary whole of life assurance by a very long term "special" whole life policy, with payment of premium ceasing at very old ages, usually 65 or 70, the sum insured becoming payable only at death.

In living to the ripe old age of 75 or 80, an assured, as a rule, is likely to pay an aggregate amount of premium far in excess of the sum assured under the regular whole life plan, but not under Special Whole Life, for it is specially devised to make it fully paid-up when the aggregate premiums paid amount to just less than the face value of the policy. The age at which this happens and the policy becomes fully paid-up generally coincides with his age of retirement from active life and the possibility of having to pay premiums at a period of his life when his income has practically ceased, is also eliminated. When the premiums have ceased and the policies have become fully paid-up, they generally participate in future declarations of bonuses under the participating plan.

Whole Life, limited payment

The inherent drawback of the ordinary whole life plan, namely, the liability to pay premiums at extreme old ages, is eliminated in this scheme by limiting premium payments to a specified number of years, the amount of insurance being payable at death. Policies are issued providing for a specified number of premiums such as 10, 15, 20, 25 or 30 or for payment of premiums upto a specified age, such as 40, 50, 60 or 70 and the companies are usually willing to issue a limited payment policy with any desired number of premiums. The benefit of being able to arrange for the premiums to cease at the anticipated retirement age makes it an ideal policy to provide protection for the family, as, on retirement from active business life, the insured is in possession of a fully paid-up policy. Usually they carry a rider to provide for their surrender for a substantial cash payment when all the premiums have been paid. With Profit Policies generally participate in profits even after the premiums have ceased.

For the same amount of outlay the sum assured that can be obtained under the whole life limited payment scheme is substantially greater than on an endowment assurance maturing at the time the premiums cease. The comparative advantages to a healthy life aged 25 under the limited payment whole life assurance and the endowment plan can best be illustrated on the basis of a prominent company's tables of premium.

For an annual premium of Rs. 100 payable for a maximum period of 35 years (premiums ceasing at age 60) a man can secure either (1) a policy for approximately Rs. 3,750 without profits payable at death (2) Rs. 2,900 with profits payable at death (3) an endowment assurance of Rs. 3,200 without profits maturing at age 60 or (4) endowment assurance of Rs. 2,825 with bonus additions. In a whole limited payment policy premiums ceasing at age 60, he will have a paid-up policy for Rs. 3,750 at 60 (without profits) and will have no further premiums to pay: he will have the option of continuing the policy as a free paid-up whole life assurance for Rs. 3,750 without profits, or surrender the policy for a cash value of a little over Rs. 2,000. Under the endowment plan he receives a cash payment of Rs. 3,200 at age 60, that is to say he receives roughly Rs. 1,200 more than what he would have obtained under the whole-life limited payment plan when the option of a cash value is availed of, but, at the same time, it is apparent that he has obtained an additional insurance cover of Rs. 550 (Rs. 3,750 minus Rs. 3,200) for 35 years, with the option of continuing an assurance for Rs. 3,750 without profits after age 60, without the liability to pay any premiums at all. Thus the element of insurance protection is more in the case of a whole life scheme than the endowment and the former is an ideal plan of insurance for those young men who desire to have a definite scheme of protection for the benefit of their dependents in the event of early death.

In the United Kingdom this class of policy is very largely used to make a satisfactory provision for death duties, which could cripple the estates of a deceased person even in normal times. Various attempts were made in the past to introduce death duties in India and a legislation is actually pending; when they are introduced (and by all present indications that time will not be far distant) the whole of life limited payment assurance will be the most suitable method of providing for the relatively large sum of money required to meet the dues before the heirs can obtain legal possession of an estate. Life assurance is almost the only practicable way of providing for this payment without immediate financial loss.

Single Premium Whole Life

Competitive bidding for the available amount of assurance has influenced most of the companies to quote special rates for a single premium whole life policy, which is really a special case of a limited payment policy in which the number of premiums payable has been limited to one. Usually the policy is entitled to a surrender value from the outset, ranging from 85 to 95 per cent of the single premium paid according to the rules of the particular company. The surrender value usually remains at this figure until, after the lapse of several years, a larger value becomes payable under actuarial calculations. The effective insurance protection in this type of policy is substantially less than the face value of the policy and the investment portion correspondingly greater, and the policies should therefore be viewed from an investment angle.

Endowment Assurances

The most popular form of assurance in this country is the Endowment Policy which provides for an amount of insurance (called the sum insured) payable in the event of death during a specified period (the endowment term) or upon the survival of the life assured till the end of that period (i.e. at the maturity date). Rates are quoted either for maturity dates at specified ages (i.e. endowment age) or for specified terms of years, and the premiums are almost always payable throughout the whole currency of the policy, although special policies may be issued providing for shorter periods than the full term of the policy or under the single premium plan.

A plan of insurance under which the sum assured becomes payable only in the event of death within a stipulated period is term assurance, while a policy which provides for payment only upon survival of a stated date and not in the event of prior death is 'pure endowment', and by combining the benefit of both term assurances and pure endowments, present-day endowment policies present a very equitable combination of investment and assurance protection. Rates of premium are calculated to (1) create a steadily increasing reserve out of the annual premiums, which, with interest, will equal the sum assured on the maturity date, and (2) the level annual premium required for decreasing assurance protection. These combined rates, at any given time, are exactly sufficient to grant the benefits provided for in the insurance contracts.

There is a fallacy in the minds of even knowledgeable people that, since, generally a larger aggregate amount is paid by way of premiums than the face value of insurance, endowment assurance is an economically unsound system of investment. This criticism is largely actuated by the fact that until very recent times the sum insured, with bonus additions under participating policies, represented a reasonable yield on the premiums, even apart from the life assurance protection received. The argument is fallacious for two reasons: firstly, only a certain portion of the premium paid is the investment element and in considering endowment insurance from an investment point of view, only that part has to be taken into account for computing yields, and secondly, that portion of the premium which is paid for insurance protection is spent, not invested, and is comparable to premiums paid for fire insurance or for protection for any other risk.

Occasionally, an argument is advanced by even responsible persons that in the event of an assured surviving the maturity date, the excess of the premiums paid over the sum assured should be returned with the amount of assurance. How absurd the argument is can very easily be understood by analysing the nature of the premium: a definite part of it goes to give protection to the insured during the currency of the policy and is spent, and if he should get any amount additional to the sum assured (with bonuses) a considerably higher premium will have to be charged to pay for the excess.

In point of actual fact the investment element in an endowment contract is greater than under limited payment whole life. Premiums under term assurances are paid for insurance protection only: level premiums under whole life schemes create an increasing fund in the hands of the company which constitutes an investment element, the whole or part of which is refunded in the event of surrender but this investment portion is greater in the case of an endowment policy than whole life schemes. A participating policy in a well-managed office in normal circumstances secures a better yield than non-participating policies, and a short-term plan will, within certain limitations, give a better yield than a long-term plan, since there is less insurance protection. A short-term endowment plan is therefore eminently suitable for a young man whose primary object is investment, but if his needs are for a large insurance protection then the policy must mature at a very old age.

The following table gives a rough idea of the relative cost of insurance protection and investment element in (1) term assurance, (2) endowment assurance and (3) whole life limited payment assurance: (for table see next page).

A rough idea of investment element under plans B and C can be had by deducting the cost of term assurance from the respective premiums.

TABLE No. 5.

Typical Rates for a Rs. 1,000 contract term assurance (providing for cost of life protection only), endowment assurance and whole life assurance. Premium payment limited to 10 years, in all cases.

Age	Term Assurance 10 years A		10-year Endowment Assurance B		Limited payment whole Life Assurance C	
20	16	2	104	9	60	9
25	16	11	104	11	64	8
30	18	1	105	0	69	2
35	20	15	105	13	74	10
40	26	3	107	9	81	3
45	34	10	110	10	89	0

Investment element in Plan A—Nil.

By taking out a policy to mature at a very old age—at whatever age he desires to retire from active life—a young man will be able to provide a substantial amount of money in the event of his early death, and, at the same time, make suitable provision for his own old age, but if his investments or income from other sources provide for his old age, and his desire is to create an estate for his dependents on death, the limited payment whole life plan is eminently suitable.

Term Assurances

If in return for a single premium or for periodical premiums the amount of insurance is payable only if the assured die within a specified period, that plan is a term policy. Upon survival, the policy becomes void and all premiums paid are forfeited.

This is the oldest form of life assurance, provides temporary protection at a low rate of premium, and is being increasingly used as a means of protection by businessmen making short trips, especially by air. In the normal course of business technical and key men are often obliged to undertake frequent journeys from the head office on behalf of their employers and their death would invariably put the management to monetary loss, especially if, to replace them, a considerable amount of money has to be spent for training the new incumbent. In such cases a term assurance affords a better form of protection to the organisation than any other method. Perhaps an even better use to which this type of policy may be put is in connection with loan transactions where the repayment of a loan depends upon the survivance of a debtor and the man advancing it wishes to protect himself. Protection is also provided for film stars and producers during the production of a film by means of term policies.

Convertible Term Assurances

Recent trends in the world point to the increased application of the principle of term assurance to special policies with provisions for conversion to more permanent plans, such as whole of life assurances or endowment assurances without any further medical examination. These convertible policies fully meet the needs of those who are unable to pay the larger premiums under regular plans of assurance at an early age of their life, but who expect to be in a position to pay for such policies at a later date. They are also useful when a person wishes to leave the final decision regarding the plan of assurance he eventually decides to take, to a later date. Conversion may be made either as of the date of conversion or at the date of the issue of the policy. In the former case future premiums after conversion are payable in accordance with the company's tables for the age at the date of alteration, and in the latter, special terms and premiums will be quoted for whole life or endowment assurances to commence from the date of the contract. In either case some limitation as to the time within which conversion may be made is usually stipulated in the original contract.

Decreasing term assurance

A type of policy which has been perfected in England is the decreasing term assurance under which the sum assured is subject to periodical decreases. It is usually effected to protect a lender in the event of a borrower's death in cases where the loans are repayable by instalments, and the outstanding feature of the policy is its low cost. It is invariably subject either to a single premium or to level annual premiums payable for a portion (usually one-half) only of the term of the policy. The reason for the absence of any scheme of level annual premium payment throughout the life of the policy is inherent in the plan itself: if the assurance were issued at level premiums payable throughout the whole period and the policy lapsed after a short time, the company would have received by way of premiums a sum quite inadequate to meet the risk incurred.

B. STANDARD ANNUITY CONTRACTS

An annuity is an annual payment. Applied to life assurance, it is defined as a periodical payment to continue during a given status, which can be the lifetime of a single life (in which case it is called a Single-Life annuity), or joint lifetime of two or more lives when it can either be a Joint Life Annuity or Joint Life and Survivor Annuity. The person during whose life the annuity is paid is called the annuitant. Annuities are mainly issued in two forms: (1) Immediate and (2) Deferred.

Immediate Annuities

Are those in which the first payment begins one year after the date of purchase when payable annually. It may also begin at the end of six months, three months, or one month according to the agreed terms of purchase. Under the usual conditions of issue, when an annuity of Rs. 100 is payable in two half yearly instalments of Rs. 50 each, the annuitant will naturally earn an additional six months' interest on Rs. 50 every year, and will also receive an extra payment of Rs. 50 if his death should occur in the second, and not the first half. The company incurs additional expense in making quarterly and monthly annuities, hence the purchase price is more.

An annuity may be either 'apportionable' (or complete) that is to say a provision is made in the contract for a *pro rata* payment calculated upto the date of death, or 'non-apportionable' (or curtate) which is the usual kind, and is issued on the assumption that the annuity ceases with the last full periodical payment prior to the date of death.

In no case is evidence of the state of health of the annuitant demanded: the company assumes that under normal conditions the annuitant is in a very sound state of health, as otherwise, he would not purchase an annuity—in fact the longevity of annuitants, especially ladies, is notorious. Proof of age is usually demanded before an annuity is effected.

A minimum Guaranteed Period

A drawback attributed to immediate annuities, is that payment ceases at the death of the annuitant, no matter how soon after purchase it occurs. In order to prevent serious loss to the purchaser through early death, some offices issue immediate annuities with payments guaranteed for a minimum period, such as fifteen years; under this plan the company undertakes to continue payment of the original periodical instalments for a period of years certain, even if death takes places within the period and to continue paying the instalments until death if it occurs after the expiry of the guaranteed term. The purchase price of such an annuity is naturally higher than that of the regular type, as the additional benefits stipulated have to be paid for. The following table illustrates the typical rates under two different forms of immediate annuities—the rates differ as between companies, and not all the companies offer the two different forms in their tables:

TABLE No. 6.

Annual annuity payable quarterly which can be purchased for Rs. 5,000.

Age	Annuity payable until death only		Annuity payable for 15 years certain	
	Males	Females	Males	Females
45	Rs. 286-6	Rs. 263-14	Rs. 262- 3	Rs. 246- 7
55	Rs. 362-1	Rs. 324- 4	Rs. 305-12	Rs. 287- 8
65	Rs. 503-0	Rs. 439-12	Rs. 350- 6	Rs. 337-10

Annuities are purchased primarily with the object of obtaining the highest possible income from one's capital and normally the amount of annual payments varies from about 4½ per cent at age 40 to nearly 14 per cent at 75, with slightly lower percentages in the case of female lives, who are, at these ages, better lives than males. In every case a portion of the capital is returned with each payment of annuity, so that, especially in the case of people with excellent physique (who are the persons normally taking out annuities), the aggregate of the instalments paid would represent the entire capital plus a very good interest thereon. The fact that income-tax has to be paid on the instalments is a factor that sometimes militates against annuities especially for those who desire to have a large settlement of permanent income.

Joint Life Annuities

Can be of two kinds (1) ordinary joint life which are granted on two or more lives with payments ceasing at the first death and (2) Joint Life and Survivor annuities which provide for payments until the death of the survivor of two or more lives. The former type is seldom purchased. Joint Life and Survivor annuities usually provide for uniform payments of annuity during the entire currency of the contract, although, annuities may be purchased stipulating payment of a reduced amount after the first death, and possibly after the second death too, if three lives are involved. This is reasonable, since the cost of living for a single person is less than that for two.

A combination of Joint Life Annuities may be purchased with advantage. A man aged 60 and his wife aged 55 can, for instance, take out three annuities: (1) single life annuity on the husband, (2) a single life annuity on the wife, and (3) a joint life and survivor annuity. With the same outlay it may be possible, by this combination, sometimes to ensure a higher annuity payment during the life time of both the annuitants, with a lower payment after the first death, than could be arranged under a single Joint Life and Survivor Annuity plan.

Deferred Annuities

Payments under deferred annuity commence only after a specified number of years and not immediately: they are issued under the single life, joint life or Joint Life and Survivor Plans, and can be purchased either by a single sum payment or by annual premiums payable during the whole or part of the deferred period. The most common and the simplest form of the contract is a single life deferred annuity under which the first payment is made upon the annuitant attaining a certain age or upon the expiration of a specified term of years, if he or she is then living and payments then continue till death. If payment of premiums is stopped after the contract has been in force for two years, the policy usually becomes automatically paid-up for a reduced amount of annuity.

In the event of death during the deferment period, all premiums paid are refunded in full, usually without interest, although the practice of adding interest at a low rate to the amount returned is becoming more common. It acquires a cash surrender value during the deferment period which amounts to a very high percentage of the premiums paid such as 90% or more excluding the first year's; at the expiration of the deferment period and before the commencement of the annuity payments, option is usually granted of making a cash payment in lieu of the annuity. The companies may alternatively agree to pay annuities for life and for a guaranteed number of years in any event, but the amount of the annuity will be reduced.

Under another form of deferred annuity—which is rarely issued—premiums paid are non-returnable in the event of death during the deferment period: premiums are correspondingly lower, but the fact that premiums are not returned frequently leads to much dissatisfaction among the public. Such an annuity is evidently purchased to get an exemption from income-tax and is usually taken in conjunction with some other form of insurance or annuity contract.

Reversionary or
Survivorship Annuities

When the deferment is limited, not to a period of years, but until the death of a person (who is the 'insured' and is usually subject to medical examination) it is called a Reversionary or Survivorship annuity and is generally useful to make provision for a wife upon the death of the husband. Payments commence immediately upon the death of the specified person and continue during the life-time of the beneficiary but if the latter dies first the contract immediately comes to an end and premiums paid are retained by the company.

The only advantage attaching to this type of policy is the benefit of providing the largest possible income for a fixed annual outlay on more beneficial terms than are possible by any other form of life assurance or annuity contract, but, the fact that the whole of the premiums paid are lost in the case of the earlier death of the beneficiary robs it of much of its advantage. Strictly speaking this is not an annuity at all, but life assurance under which the sum assured on death, instead of being paid as a lump sum is converted into an annuity of a specified amount payable during the life time of the beneficiary.

A slightly modified but more complicated form of this contract is issued by some companies, under which pensions are guaranteed for a number of years such as twenty, but the premiums payable depend on the guaranteed period too. Return of a percentage of the premiums paid after the third year is guaranteed in the event of the beneficiary predeceasing the insured.

Annuities vs. *Life Assurance*

Despite the numerous advantages of annuity contracts, the proportion of annuity business transacted by Indian companies is very low, and has always remained low compared to regular life assurance business, as illustrated by the table on the next page.

Income settlements under annuity contracts are definite, guaranteed and free from the risk of fluctuation or even loss of principal or yield that usually attaches to other forms of investment. The advantages of investing relatively small sums at an effective rate of interest which is generally higher than that obtain-

TABLE No. 7.

Net amount of annuities effected in India during 1939-48.
(lakhs of rupees)

INDIAN COMPANIES.

	Effected during the year			Net amount in force		
Year	Number	Annual amount Rs.	Increase Rs.	Number	Annual amount Rs.	Increase Rs.
1939	317	0.50		4,129	6.47	
1940	98	0.45	—0.05	1,700	6.12	—0.35
1941	440	1.00	0.55	6,305	15.06	8.94
1942	364	1.08	0.08	6,941	17.83	2.17
1943	467	1.65	0.57	7,077	18.33	0.50
1944	611	4.09	2.44	7,745	21.84	3.51
1945	674	4.39	0.30	8,430	26.11	4.27
1946	539	5.03	0.64	8,582	28.80	2.69
1947	471	3.28	—1.75	8,346	29.80	1.00

NON-INDIAN COMPANIES.

	Effected during the year		Net amount in force	
Year	Annual amount Rs.	Increase Rs.	Annual amount Rs.	Increase Rs.
1939	2.16		8.12	
1940	1.87	—0.29	11.74	3.62
1941	5.81	3.94	15.53	3.79
1942	3.47	—2.34	19.21	3.68
1943	3.90	0.43	19.51	0.30
1944	5.37	1.47	20.81	1.30
1945	6.03	0.66	29.81	9.00
1946	6.48	0.45	32.90	3.09
1947	7.49	1.01	35.55	2.65

Separate figures for the number of policies issued by Non-Indian companies, and policies in force are not available. Source: Indian Insurance Year Books.

able on government securities, savings bank deposits, equities and other similar forms of investment, are real, and represent the most attractive feature of the contracts. The cash options and the right to effect alternative methods of settlement, with, of course, corresponding adjustments of annuity payments, constitute great benefits. This is a safe and practical plan of making adequate provision for old age to those whose longevity is high; yet they are unpopular in India.

The negligible proportion of people without dependents probably accounts for the relatively low popularity of annuity contracts, as they are more suitable for those who have no need to leave an estate after their death. Each payment of annuity is made up partly of the principal and partly of interest and the whole of the principal is used up either before or with the last instalment: if, however, as sometimes happens, the annuitant dies early before the principal is used up, the balance of the principal goes to provide benefits for those who live longer than the anticipated period. In the case of annuities guaranteed for a specific period, the total payments of annuities made to an annuitant generally exceeds the outlay. But in no case does an annuity constitute provision for the dependents.

A second factor that has contributed to make annuities less popular than ordinary insurances, is the attitude of the general public towards making provision for their old age. Many people do not think of times thus far ahead, for the old ideas of an undivided family still linger in their minds with the result that far more old people of both sexes depend upon the earnings of their children, with, in many cases, disastrous consequences, both to themselves and to their children. Usually the parents starve themselves out during their youth to give a decent enough education to their children and live as disturbing, and often, unwanted, appendages in the homes of the younger people when they grow old. Much of the family disputes and unhappiness is caused on this score.

Until recent times it was the usual practice of the urban middle class to go back to their villages on retirement and to utilise their savings, if any, towards the purchase of an acre of land, or, in the alternative, to earn a more than reasonable rate of interest by lending money to the ryots. Money-lending was quite a lucrative business in the past, with extensive ramifications, but the tightening of the civil laws in recent times has robbed it of its peculiar charm. The time is fast approaching, if it has not already arrived, when a man will find it increasingly difficult to settle down on an acre of land as he used to do before and when it happens, annuities will be the most satisfactory method of providing for old age.

Modern ideas of family life also tend to encourage the idea of adequate independent provision for old age.

Immediate annuities, however, are not particularly attractive at lower ages, but above the age of fifty or fifty-five they offer very beneficial terms. Companies are prone to take a conservative view of mortality and interest rates for annuities, because of the tendency of the former to improve and of the very low levels to which the latter has sunk in recent times. This is one of the chief reasons for the relatively higher cost of immediate annuities, especially at lower ages.

Deferred annuities with guaranteed payments for a specified number of years are perhaps the best method of ensuring permanent income settlement for old ages. But when calculations are made to provide for a fixed income the fact that income-tax has to be paid on each payment of annuity above the minimum exemption figure (Rs. 3,000 per annum) has to be taken into consideration. On the other hand exemption of income-tax is allowed in respect of premiums paid for those who take out deferred annuity contracts to the extent of one-sixth of the total income or Rs. 6,000 whichever is less.

CHAPTER V

MISCELLANEOUS INSURANCES AND ANNUITIES

Besides the standard assurances and annuities, life offices issue various special policies under different names to meet specific needs. Not all such policies have popular appeal; for schemes designed to meet specific needs become unsuitable when circumstances change. Companies are mostly unwilling to evolve schemes of assurance unless the chances of success are bright, and most of the special policies are attractive.

Reduced Early Premium Policies

In these contracts premiums are payable at whole-life rates for the first few years—usually the first five—after which enhanced rates apply. They were rarely issued before but are quite common now.

Very often a young man who has begun to earn a living feels the need for a large policy without the ability to pay for it at standard rates then, although later, he may be able to do so. These policies meet such a need. Indian Companies offer the option of conversion to the endowment plan at the end of five years, but if the option is not exercised the policy continues as a whole-life plan under the same conditions as a whole-life policy of the company, i.e. either for the premiums to cease at a very old age corresponding to the special whole life plan of the company) or for the premiums to be continued until death. Usually the option extends to conversion into a limited payment whole-life plan at the end of the first five years. Both the participating and non-participating policies are issued. It is, however, possible, although not customary to issue the policy at the non-participating rates for the first few years until the optional period is reached and thereafter give the option of conversion to the type of policy desired. Under the prevailing conditions of low bonuses perhaps this would be a more attractive plan as it would enable the assured to alter the plan later in the light of the conditions then existing. Surrender and paid-up values are usually allowed as for other policies and bonuses are adjusted when the plan is changed.

What actually happens in the case of these policies is that the level premium for the whole endowment period of the contract at the original date of issue is redistributed, so that the whole-life rate is paid during the first five years, and thereafter, if the option is exercised, a rate which is higher than the endowment rate applicable at the time of taking out the policy but substantially lower than the rate at the attained age on the date of conversion. They are similar in effect to a term policy with automatic conversion to the endowment plan, with slightly higher rates for the first five years to create a small 'reserve' which has the effect of reducing the premiums applicable at the conversion date. In actual fact the premiums may be redistributed and made applicable to any standard form of policy.

Family income policy

A recent development of life assurance is the highly popular "Family-Income" Policy which is really a combination of ordinary life or endowment assurance with an appropriate amount of decreasing term assurance. The policy is issued on the participating plan although it can be issued on the non-participating basis also, usually for a term of 20 years or sometimes less, and provides for payment to the beneficiary in the event of the death of the insured within the term, of (1) annual instalments usually 10 or 12 per cent of the sum insured, the first instalment to be increased by the amount of bonuses accrued till the date of death and the instalments to continue till the end of the term originally selected, and (2) payment of the full sum assured on the expiry of the term. If the insured survives the selected period he will receive simply the sum insured, with bonus additions if it is on the with-profit basis. The additional benefits granted under the plan in the event of death during the selected term is paid for by the cost of the term assurance which is usually shown on a separate table in the prospectus, as an addition to the premiums under the whole life or endowment assurances. This cost is generally calculated to form, together with the interest on the regular premiums, an amount just sufficient to meet the benefits guaranteed; if death occurs during the earlier part of the term, total benefits received are more, but each succeeding year decreases the benefit. As each payment of the increased premiums has been spent on the purchase of the benefit guaranteed, paid-up values, surrenders and bonuses are calculated only for the basic sum assured and not for the increased benefits.

A slightly modified form of the policy is the Family Protection Plan under which, if the assured dies within the term selected, the additional benefits are paid for a specified period of 10, 15 or 20 years running from the date of death. While the additional benefits in "Family Income Plan" cease at the expiry of the term selected counted from the date of issue of the policy, benefits under a "Family Protection Plan" continue until the expiry of a specified term counted from the date of death of the insured. When death occurs after the selected term, the original sum assured becomes payable as in the Family Income Plan. The increased premiums under this plan are calculated on the basis of a *uniform* term assurance (instead of a *decreasing* term assurance as in the case of a Family Income policy). Family Protection Policies are not very common in India, but the Family Income Policy is given various names such as Perfect Protection, etc.

Insurances with annuity settlements

Numerous plans of insurance have been lately evolved to provide for advantageous pension settlements called variously as Pension Schemes, Income Bonds, Retirement Annuities, Endowment Annuities, Retirement Endowment etc. which are different combinations of deferred annuity contracts and decreasing term assurances. Two options are given (1) a monthly pension for life (usually with a limited minimum number of guaranteed payments) or (2) a lump sum payment in cash on maturity called the cash option. The cash option depends upon the basis on which the company has calculated its premiums, i.e. either upon the simple deferred annuity plan or the combined deferred annuity and decreasing term assurance. If death occurs before the maturity date it is the usual practice to return the premiums paid less expenses together with a nominal rate of compound interest. A few companies return the sum assured together with a percentage of the premiums paid in the case of death prior to the pension commencing age: premiums to be paid are, of course, higher to pay for these benefits. These Pension schemes are increasing in popularity due to their extensive application in group insurance, for establishing employee pension schemes.

Many companies usually offer a scheme of endowment insurance under which the sum assured is payable as an annuity, guaranteed for a minimum number of years: under these schemes the amount of endowment is treated as the purchase price of a specified annuity, payable annually, half-yearly or quarterly for a specified term of years after the expiration of which the annuity ceases. Each periodical payment really represents interest and a portion of the sum assured, and a schedule is issued by the office showing the amount of the periodical payment.

Pure Endowments

Devoid of the element of insurance against the risk of death, an endowment plan becomes a 'pure' endowment. It is not insurance at all, rather its opposite, and is aimed at providing a fund, out of the accumulated premiums, to be paid to the insured only in the event of his surviving to a specified date. The policy is generally effected as a means of compulsory saving and is not very popular except as a means of providing an estate for children, but is also quite suitable for those men, without dependents, who are confident of their longevity and who desire to create a capital sum for old age provision or other similar purpose.

Usually, however, it is effected in cases of poor health, for at no time is a medical report required, and the very benefits attached to the policy precludes any need for a medical examination. In the event of death prior to the date of maturity, all the premiums paid are usually returned, with or without a nominal rate of interest added: a few companies deduct the commission paid and expenses incurred in connection with its issue, and return the balance of the premiums paid expressed as a percentage of the premiums (usually 90% plus nominal compound interest). The basis on which this return is made in the event of death determines the amount of premium. The company invariably assumes that the insured is always in a perfect state of health; the death benefit is consequently either entirely absent or limited to a full or partial return of the premiums paid, with or without interest added when death occurs during the currency of the contract. Such a death, however, does not terminate the policy which can be continued by the beneficiary.

Occasionally policies are issued stipulating forfeiture of all premiums paid to the company in the event of death before the full term, called "non-returnable" pure endowments: they are not issued in India and are extremely rare even in other countries.

Double Endowments

By combining an ordinary endowment plan with a non-returnable 'pure' endowment, 'Double' endowment policies are very attractive, popular and stipulate the payment of the sum assured on death during the currency of the contract but double the sum on survival. This is made possible by limiting the death benefit to that applicable on the ordinary endowment plan and by adding, on maturity, the sum assured under the 'pure endowment' scheme. A special advantage of the policy is the ability of the companies to effect insurance at the tabular rates on physically disabled persons, who are, normally, subject to increased rates under all the other schemes. This is made possible by the fact that a large portion of the premiums paid is not used to meet current risk but is applied purely to 'double' the sum assured at maturity. Nevertheless, an under-average life suffering from a disability which may prove fatal in the earlier period of a policy is as much unacceptable under this as in any other plan of insurance contract, but a disability on which the risk is negligible at the outset does not affect the policy adversely because the increased investment element inherent in the policy creates a relatively large reserve to pay for the extra risk after the policy has been in force for a time. If the term remains constant, the increasing mortality of older ages is more than offset by that portion of the premiums intended to augment the fund at maturity only and theoretically premiums actually decrease with age, so it is usual for companies to quote rates for each term of policy, irrespective of age at entry with the stipulation that the policy shall not mature at an age later than specified—which is often 65. The policies do not participate in profits as a rule, although occasionally 'with profit' policies are also issued.

Triple Benefit Policies

The uncertainty or even entire absence of bonus declarations under the 'with profit' endowment plan has resulted in the evolution of a popular scheme of assurance under which the sum assured increases steadily by an attractive rate of 'bonus' usually Rs. 25 or Rs. 30 per thousand per annum. The scheme, called the Ideal Option Benefit or Triple Benefit policy is, an ordinary non-participating endowment plan with the sum assured increasing steadily year by year with adjustments to pay for the extra bonus guaranteed. Thus the sum assured under a 20-year 2½ per cent guaranteed bonus Triple Benefit Policy for Rs. 2,000 will be increased to Rs. 2,050 immediately after the second annual premium is paid, and when the premiums cease the original sum insured, viz., Rs. 2,000 is returned and the balance utilised to form a fund to pay for a fully paid-up whole life assurance, equal to the original sum assured.

The reserve under the policy would include the present value of future guaranteed payments; liberal surrender values are usually guaranteed and indicated in the tables of rates and in lieu of the cash payment at the end of the originally selected period and free paid-up whole life assurance, options are given either to convert it into an increased free paid-up assurance payable at death or to receive an immediate cash payment. The benefits are fully illustrated in the following table.

Table No. 8.

Typical benefits guaranteed on a Triple Benefit Policy.
(Basic sum assured Rs. 1,000 increased by 3% per annum after the first year to ensure on survival Rs. 1,000 payable on maturity and Rs. 1,000 on death).

Number of Annual Premiums paid	Guaranteed Surrender Values (expressed as percentages of premiums paid) 25-year term	20-year term
5	45	45
10	55	60
15	65	75
20	75	—

Guaranteed alternative benefits on maturity.

Attained age at Maturity	Increased paid-up policy (Payable on death)	Cash payment (payable at the end of the term)
40	Rs. 2,816	Rs. 1,445
45	Rs. 2,658	Rs. 1,503
50	Rs. 2,526	Rs. 1,563
55	Rs. 2,420	Rs. 1,620
60	Rs. 2,336	Rs. 1,674
65	Rs. 2,269	Rs. 1,722

What actually happens in the case of conversion to an increased paid-up policy is that the sum payable at the end of the endowment term is utilised as a single premium to pay for a paid-up policy at death, whilst in the case of increased cash payment the sum payable on the date of maturity is returned with the present value of the paid-up policy payable on death.

The guaranteed benefits are independent of the future profits of the company and represent the most attractive feature of the policy. If instead of a single Triple Benefit Policy two policies are taken to secure similar benefits, viz., an endowment policy maturing at the end of the term and a whole-life policy with payment of premium limited to the same number of years, the premium rates under the triple benefit policy are much less than the combined rates of the two separate policies. The increased rates in the latter case pay for the increased amounts payable in the event of death during the currency of the contracts.

Debenture Policies

They were much in vogue previously but are generally discouraged now-a-days. They are issued both on the whole life and endowment plans, with the proviso that the sum assured, on its becoming a claim, is retained for a term of years and annual interest paid either to the insured or his beneficiary at a rate higher than can be normally obtained or earned by the company, with the return of the original sum assured at the end of the term. It is usual for many companies to have the sum insured retained by them at a reasonable rate of compound interest—but that interest would normally conform to the average interest earned by the company—with the provision that the sum could be withdrawn at any time. The procedure is different in a debenture policy. In a 20-year 6 per cent debenture policy for Rs. 1,000 providing for payment of interest commencing at the expiration of 15 years from the date of the contract or one year after date of death should it occur previously, the sum of Rs. 1,000 would be payable only with the last instalment of interest and not before. If the company bases its calculations on a 3 per cent rate of interest per annum, the equivalent sum assured will represent Rs. 1,000 plus the value on a 3% basis of an annuity of Rs. 30 payable for 20 years only (Rs. 30 being the difference between the Rs. 60 guaranteed to the insured and Rs. 30 actually earned by it) and the premium rates would be correspondingly higher. Actually this is a more expensive type of policy than the standard one and usually mislead the public as to its true nature.

Assurances on more than one life

Assurances involving two or more lives are usually issued on a husband and wife or on business partners. In the latter case they are utilised to replace the capital that is generally withdrawn from a firm on the death of a partner; on the dissolution of a partnership, satisfactory adjustments in insurance cover and premiums are generally made. In such cases, it is usual for the erstwhile partners to make a joint request to divide the policy into two single life policies, each for one-half of the original sum insured; the companies may be willing to do this, as the alteration would not adversely affect the reserves or hasten the payment of the sum assured, and when it happens premium on each policy is calculated on the basis of a separate policy issued on his life at the original date of the contract. A similar situation might be brought about in the case of divorces also, if the joint policy is on a husband and wife, although satisfactory settlements will necessarily be a part of the divorce decree.

There is no need to limit the number of persons on whose joint lives a single policy is issued; the more the number of lives the greater is the premium amount, but many companies usually limit the number to two or three, single policies covering four or more lives being extremely rare. In India, however, quotations are usually made only on two lives, other policies being rare. Both the lives are medically examined and if one of them (or both) is a lady, the enhanced premium payable to ladies and all the other limitations applicable to them, are enforced. Premium rates for various combinations of ages are quoted only on application, and it is usual for all companies to issue a table showing the number of years (depending upon the difference between the ages of the two parties) that has to be added to the younger of the two lives in order to ascertain the age applicable to the policy.

Joint life policies are issued either on the whole of life or endowment plans; in the former case the sum insured is paid on the first death of two or more lives and in the latter, either at the end of the endowment term or on the first death of either of two lives, if that is earlier.

Surrender values correspond to the standard forms of policies on the whole-life, limited payment whole life or endowment plans, as well as the benefits of conversion to a reduced paid-up assurance. The net cost of insurance on two or more joint lives is naturally higher than on single separate lives and the rates of premiums are therefore slightly more than that for separate similar contracts of proportionate amounts. Policies are issued both on with profit and non-participating bases.

Joint life term assurances are sometimes issued on two or more lives similar to single ordinary term assurances, the amount being payable upon the first death of two or more lives, within a specified period. Premium rates are, of course, small and no surrender values or profits accrue.

Last Survivor Policies

Similar to the ordinary joint life policies in certain respects, last survivor policies which guarantee the payment of the sum insured on the death of the last survivor of a number of persons offer a nice contrast. Issued with or without profits and without limitation of the number of persons involved, the death of each member reduces the cost of insurance on the survivors. Medical examination of all the persons involved is not compulsory, but is made on the life or lives eligible for assurance, the others being included in the contract as a matter of course. Rates of premium are calculated on the basis of the eligible lives and persons who are known to suffer from ill-health may be included as thereby the company incurs no extra risk. Surrender values are usually allowed and increase very rapidly upon each death. Last survivor policies are very rarely issued and have very little practical value.

Not so the CONTINGENT SURVIVORSHIP assurances. In this case the sum assured becomes payable only if the life assured predeceases another, technically known as the counter life. If, for instance, A is entitled to an estate on the death of B but has no title to it so long as B is alive, A can take out a policy against the loss of his interest in case he dies before B: if, however, B dies first A automatically inherits the estate and no longer requires the protection. Here A is the insured, and B the counter life and in the event of B's death before A the policy terminates and the premiums paid are forfeited to the company. The rate of premium under the policy depends upon the ages of the two lives involved. In the event of the counter life being a very old man and the assured very young, as is usually the case, the premium is very small; if, however, the difference between the ages is little the rate approximates that of the non-participating whole of life assurance, and in many cases it is relatively cheaper and more beneficial to take out a whole of the life non-participating assurance on the insured and to get the benefit of the cash surrender value if the policy is no longer required. The comparatively small premium and the greater risk to the company since the life insured is considered below average, make the conditions attaching to the eligibility of the assured very strict and exacting: the state of health of the counter life does not enter into the calculations since his early death does not put the company to any loss.

Enquiries for complicated forms of the contract are rare but sometimes there arises a genuine need for a policy of a very complicated nature. A contract might be needed, for instance, to protect the interest of the survivor of two persons in the event of his death before a third: or to arrange for the payment of the sum assured if either of two persons predeceases a third or various other similar combinations. Premiums are determined according to the peculiarity of each case and depend upon the circumstances and the company, and no general indication is possible.

Contingent Survivorship policies, either in its simplest form or of the more complicated type are rare in India.

Children's Deferred Assurances

Well conceived and capable of conferring the greatest amount of benefit to a child or ward, just entering manhood, children's deferred assurances are much encouraged by all life offices at present and rightly too. The chief aim of the policy is to afford life protection to a male child after he attains a specified age, at a rate which is considerably less than what the child would have to pay at the attained age. The child is the assured and the assurance on his life commences only at the attained age (which is usually between 19 and 25) and continues under the whole life, whole-life limited or the endowment plans. Option is sometimes allowed to select the age at which assurance will commence between the ages of 19 and 25, but in no case is any risk borne by the office before the attainment of the specified age. In the event of the death of the child during the deferment period premiums paid are returned in full, with or without interest (sometimes the expenses incurred are deducted) and the policy comes to an end. Most of the offices allow bonuses in the case of participating policies only after the deferment period is over, although there is no bar to issuing policies on which profits are paid during the deferment period. It is customary for some offices to keep the policies in force for a reduced sum in the event of the discontinuation of premium payments during the deferment period, either due to the death of the proposer (i.e. parent or guardian) or other causes. Some offices, however, agree to insert a clause in the policy for an increased premium payment whereby the policy is kept in force for the full amount on the death of the proposer during the deferment period. The chief advantage of such an arrangement is to secure his estate free from the liability of any premium payments in the event of his death. In such cases the medical examination of the parent or guardian is compulsory. It can even be arranged to have all the premiums paid during the period of deferment in order to enable the child to get a fully paid-up policy on his attaining a specified age. Usually no medical examination of the child is required, but when the deferment period is short, as for example a policy taken on an eighteen year old son for assurance to commence at age 23, some offices demand a medical examination of the child.

Usually companies will be prepared to give the assured, i.e. the child, various options of conversion after the attainment of the specified age. These options are either specifically endorsed on the policy itself at the commencement or they are allowed on written application on the completion of the deferment period without fresh evidence of health. Allowed only in the case of whole of life deferred assurances, these options usually take one or the other of the folowing forms:

(1) conversion to an endowment assurance instead of a whole of life scheme at the agreed reduced rates of premiums, but for a reduced amount of insurance with the choice of several maturity ages.
(2) conversion to a limited payment assurance for a reduced amount at the original rates of premiums.
(3) conversion to a paid-up whole life or endowment assurance for a reduced sum free from payment of future premiums.
(4) surrender of the policy for a cash payment.

Options are usually not allowed on the endowment plans: this fact has influenced many people to take out a deferred whole of life policy for a larger amount with the option of conversion to whatever scheme is finally required by the child on the attainment of the specified date.

Children's endowments

They are similar to the pure endowments previously described and are issued on the lives of children so as to mature on their attaining the age of 21 or sometimes a later date. Since no life assurance protection is involved, premium rates are calculated on the basis of interest earned only and in the event of the parent or guardian dying before the selected term, all premiums paid are returned with or without interest or on some other basis depending upon the corresponding rules for the pure endowment policies of the particular company. Occasionally, for payment of a slightly higher premium—to cover the life of the proposer—further payment of premium is waived on the death of the parent or guardian, the policy being kept in force and the sum assured paid at the end of the originally selected term. In the event of the death of the child, for whose benefit the policy was taken, during the term of the contract, option is allowed to substitute another. The policy is mainly used to provide a sum of money on the child attaining age or to provide a dowry. Thousands of young men would enter life with a small bank balance and, consequently, with better confidence to face the future, if their parents utilise some of the money they literally throw away, to buy a policy of this type.

Closely allied to this is the marriage endowment. It is a pure endowment policy issued on the life of the child with all the conditions, benefits and other advantages, applicable to pure endowments. The parent or guardian is invariably medically examined and premium rates are calculated on the basis of affording him life insurance protection so that, in the event of his death during the currency of the contract, no further premiums become payable, and the sum assured in full, that is, the marriage endowment, is paid on the date stipulated on the contract. If, on the other hand, the child dies during the term, the proposer is usually given two options:

(1) Refund of all premiums paid with or without interest, or such portion of the premium paid according to the usual practice of the particular company.

(2) Substitution of another child to receive the benefits.

The usual facilities of automatic paid-up policy, and cash surrender values are allowed, but no loans. It is interesting to note that the order of priority of the persons to whom the sum assured becomes payable on maturity is: (1) the parent (2) the child if she has attained majority (3) a guardian duly appointed. From the proposer's point of view, a most satisfactory arrangement will be the appointment of a guardian legally when the policy is taken out, to whom the sum will be payable if he dies during the currency of the contract, for it is very rare in India that the child would have attained majority when the policy becomes a claim.

Educational Endowments

A somewhat analogous contract is the Educational Endowment with premiums payable over a selected term of years but ceasing on the prior death of the parent: the sum assured is usually paid in the form of annuities with a minimum number of payments certain, or may be paid in a lump sum. The annuities may be equal in amount or may vary according to the manner in which the future educational requirements of the child may have to be met. The first instalment of the annuity commences on the child attaining the selected age and the instalments are continued thereafter whether the child survives the selected number of years or not; it may be possible, however, in the event of the child dying before all instalments have been paid to commute the balance of the instalments due at an agreed rate of interest. Surrender and paid-up value correspond to other children's endowments.

Children's educational endowments are not the only contracts by which provisions could be made for education. Short-term endowments on the life of the parent are ideal for the purpose and in certain circumstances very satisfactory arrangements could be and are made by means of these policies to provide for expenses of education—they should really be short-term, for the reason that the strain of a child's education is felt more fully when the child is between the ages of 12 and 21. The procedure in the case of an ordinary endowment policy being utilised for the purpose of securing an educational annuity is to take out an 'instalment' policy, if the company issues it in the ordinary course, or to exert the option of converting the sum assured into an annuity limited to a definite period. Instead of one endowment, a series of endowments can also be effected, all of them to mature on one date—the date on which he wants to have the instalments to commence.

For instance, a man aged 35 can follow either of the two courses detailed below to provide for the education of his five-year old son by means of annuities amounting to Rs. 400 annually payable over a five year period by half-yearly instalments, the first payment of the annuity being made on the child attaining his fifteenth year:—

(1) He can either take out one endowment assurance maturing on the date on which the first instalment is due or a series of endowments all maturing on that date, with the provision to receive the sum assured in periodical instalments according to requirements.

(2) He can take out an educational policy of an amount required to give the annuity needed.

The relative merits of the different forms of policies for this purpose depend primarily upon cost. According to the present cost of assurance, the premiums payable under the two methods are given overleaf.

Let us suppose he chose the endowment plan to provide for an educational annuity for his son. The first instalment of the annuity will commence immediately on his death or on the maturity of the policy, whichever is earlier, and the annuities will continue until all the instalments stipulated have been paid. If, on the other hand, he takes an educational annuity, the policy will be kept in force as a paid-up one in the event of his death before the full term of the contract and the payment of the instalments will commence on the date originally stipulated. A point of the utmost importance in deciding the form of assurance to be selected is the fact that, in many instances, education, let alone higher education, becomes an impossibility upon the death of the parent, and if an endowment policy is taken the sum assured becomes payable immediately and may be used for other pressing needs. An educational policy is unsuitable for such purposes, as the annuity would not commence until the specified date, but against this, the fact remains that the child's education is assured. If the rebate of income-tax on the premiums is not allowable in the case of educational policies due to the wordings employed, as may happen in many cases, the endowment assurance may be found to be actually cheaper.

Table No. 9.

Relative cost of securing an annuity for educational purposes payable by half-yearly instalments of Rs. 200 for a period of five years commencing from the fifteenth year of the child: (approximate rates)

Age of parent or guardian	Duration of the premium paying period	ANNUAL RATES OF PREMIUM Endowment Policy	Educational Policy
25	10 years	Rs. 190- 4	Rs. 182- 0
30	Do.	Rs. 190-15	Rs. 182- 8
35	Do.	Rs. 192- 7	Rs. 183- 9
40	Do.	Rs. 195-11	Rs. 186- 0
45	Do.	Rs. 200- 7	Rs. 190- 4
50	Do.	Rs. 210-10	Rs. 196-15

The relative merits of the two kinds of provision for education of a child can be summarised by the following comparison:

Occurrence.	*Educational Policy.*	*Endowment Assurance.*
Death of the parent during the term.	Instalments originally stipulated are payable upon the child attaining the specified age.	The instalments (of sum assured) become payable immediately.
Death of child.	(i) Premiums paid are returned with or without interest or according to the terms of the contract, or (ii) Another child could be substituted.	The policy may be continued and used for other purposes or surrendered for cash (this event has no bearing on the policy at all).

There is still a third method of providing for the education of the child. A series of short-term endowment assurances, each maturing in consecutive years can be taken, the sum assured on each policy being the amount of money sufficient to meet the expenses during that year. This is a very suitable method and has the advantage of providing for the immediate payment of a lump sum of money, equal in value to all the policies contracted for, in the event of the parent's death before the final maturity of the contracts, and is particularly useful for those wishing to provide for higher technical or professional education for their children, especially in foreign countries. Each of such policies will have to be for a sum equal to or greater than Rs. 1,000 which is the minimum sum which can be assured under the Insurance Law now prevailing in India.

It is deplorable, but unfortunately true, that adequate provision for education of children is very rarely made and the result, in many cases, is tragic. Brilliant, promising scholars are not infrequently denied the benefits of a higher education, chiefly due to poverty or changed circumstances although, in many cases, a judicious redistribution of the family budget during the infancy of the child would have enabled the parent to make adequate provision. How far the system of education so far prevailing in India influenced parents against making this provision is a moot point; true it is that the system intended primarily to produce a pool of cheap graduates to meet the man-power required for the clerical services of the Government and other private institutions, discouraged heavy expenditure on education. The absence of professional and technical training in the usual curriculum of schools and colleges, and the absence of adequate facilities for such a training, made many people doubt the wisdom of imparting to their wards a purely academic education. The acute unemployment among the educated young men, which started at the beginning of the century and continued unabated until after the outbreak of the second world war, encouraged parents to finish off their children's education at the school leaving age. With a little reorientation of the curriculum and a greater emphasis on the technical and professional aspect of education, more opportunities of full, profitable employment could have been created for qualified men, and that in itself would have provided parents with the proper incentive to make adequate provision for the education of their children.

Independence of the country has given better opportunities of employment to well qualified young men and greater emphasis should therefore be paid on giving children adequate higher education in order to equip them to grasp those opportunities. Both the life offices and the general public should play their respective parts in pursuance of this laudable effort—the companies to propagate the proper use of life assurance contracts for educational purposes and the public to make use of the multifarious facilities offered by insurance to meet their needs. In England, many offices specialise in this sort of insurance with really satisfactory results. Various alternative schemes are offered providing for adequate funds to pursue education to whatever stage is required by the parents; their relative benefits are fully described and explained to the prospects, and a regular propaganda campaign is centred round it. A better form of making provision for children hardly exists.

Life Assurance and Business

There is an increasing tendency in the world to make use of the diverse facilities offered by life assurance to the benefit of individuals, partnership firms and commercial institutions engaged in business for business purposes. Yet that tendency has not yet become widespread in India. Life Assurance is an invaluable asset to a businessman, as it increases his credit, and goes on increasing his credit, in greater degrees, as the life of the policy progresses. When it has been in force for a sufficiently long period so as to acquire a cash value, it is available as an appropriate co-lateral security with banks and other financial institutions either for granting loans or against overdrafts. In granting such loans banks and other institutions are prone to class life assurance policies as third class securities in view of the fact that in the event of lapse due to non-payment of premiums, the surrender values are invariably utilised by the companies automatically to keep the policies in force until the cash values are used up: afterwards the policy has no value at all. A quite satisfactory arrangement in such circumstances will be for the businessman to make adequate arrangements for the continuation of the policies, to the complete satisfaction of the banks such as making the premiums a charge on his future deposits, in which case the banks will be prepared to advance the full surrender value of the policies as loans. Single premium policies are eminently suitable in this respect, as the element of lapse is absent.

A point of no small value to business is the fact that all companies are prepared to advance a large percentage of the cash surrender value of the policy as a loan upon demand, usually at six to seven per cent interest, and this provides a source of raising money at short notice in times of stringency, quickly and privately, without in any manner impairing the financial standing of the businessman. The value of such a ready source of money will be all the more apparent during an economic crisis when private loans are usually unobtainable from the open market, even on the best of security and at the highest rate of interest.

When death duties come to be an integral part of the Indian tax structure the withdrawal of a large amount of active cash from a business or the raising of that cash by the sale of securities at short notice, will be detrimental to the interest of any individual. Life assurance is perhaps the most ideal form of providing for this liability—in fact, the only practicable method.

Term assurances—particularly decreasing term assurances, are very useful to individual businessmen to provide against the death of a debtor in cases where the repayment of a loan or the payment of an outstanding amount due, depends upon the element of personal security that is present.

The use of life assurance as a means of buying over the interest of a deceased partner is an interesting development of recent times. That interest may be so considerable, whether in terms of actual cash or ability and knowledge, as to cripple a running business in many cases and the lack of provision in this regard, has landed many partnership firms in the doldrums. A Joint Life policy is the popular method of ensuring satisfactory protection against the loss to the business in the event of death of one of the partners. There are a few points of importance to be noted. The policy by itself does not absolve the firm of all legal liabilities to the deceased partner, nor are the life offices in any way liable to pay the sum assured except under the condition of the contract. That sum is only a satisfactory method of raising immediate cash to meet the interest of the deceased partner in the business. It is advisable in all cases where joint policies have been taken to meet the eventuality, to have a separate agreement made out among the partners as to the mode of settling the claims arising out of the death of one of them. Instead of one joint life policy, sometimes two separate policies are taken on the lives of the partners; in such cases upon the death of one of them the sum assured becomes payable to the legal heirs of the deceased unless a proper assignment is made and this is an important fact to be remembered when utilising the policies to meet the liabilities of a deceased partner.

Many industrial and commercial institutions take out assurances on the lives of their most important executives, to guard against the heavy financial loss, either by decreased incomes or otherwise, that usually follows the death of persons of exceptional business ability, administrative capacity or unusual knowledge. The heavy expense that is invariably incurred to train up new incumbents upon the death of key men and technicians can also be generally met by taking out life assurance policies on them.

Term Assurances are also useful to provide protection when the executives or other keymen are on tour. This is particularly valuable nowadays, as travel by air has become quite common. Aviation insurance on the life of the passengers is based on term assurance.

The last decade has seen an increasing use of life assurance—specially group insurance—to ensure pensions and provident funds to the employees of large business and industrial offices. Group Insurance is still in its infancy in India.

In the case of a mortgage or a big loan, it is sometimes convenient to take out an endowment policy on the life of the chief executive of the business house, as it would ensure the proper discharge of the debt or mortgage on the due date and also provide for its redemption in case the repayment is endangered by the early death of the executive. Sometimes a special class of insurance called Sinking Fund Policies, Capital Redemption Policies or Leasehold policies are issued to cover this eventuality. They are not truly life assurance contracts, as no element of insurance cover is present, interest being the sole criterion for deciding rates of premium. These policies provide for the payment of an amount of money on a specified date in return for a single premium or periodical premiums during the course of the contract. If the person contracting the policy dies during the period, (in the case of an individual businessman) his executors can either keep the contract in force for the original period or surrender the policy for a cash value. Surrender values are always guaranteed usually at about 95% of the premiums paid, excluding the first year's, accumulated with compound interest. These policies are usually taken in case of debentures or bonds repayable at the end of a fairly long term and for large amounts: in case the amount involved is small and the period short, endowment assurances are more suitable.

A fact that too often escapes the attention of an Indian businessman is the amount of actual benefit, in terms of real cash, that he derives from life assurance. On every instalment of premium he pays, he is entitled to a rebate of income-tax, and the advantage does not end there. When a policy becomes a claim and the sum assured is paid back into the business, that amount is not reckoned as income in the calculation of income-tax.

Thus the benefits are real and tanglible, and on this score alone, life assurance as an adjunct to business is a highly profitable proposition.

CHAPTER VI

MORTALITY RATES

Mortality Table

As was observed previously premium rates depend upon mortality, interest and expenses; the most important of these is mortality. A table of mortality is an instrument to measure the probabilities of life and the probabilities of death, and the 'rate of mortality' at a particular age is the proportion of persons of that age dying within one year of attaining it to the number who entered that age. The mortality table is a record of past experience suitably adjusted to remove accidental fluctuations of death and is used as a basis of premium calculations on the assumption that the future is not likely to deviate very much from past experience. Close observations of a very large number of persons over a period of years has strengthened this assumption: nevertheless, it is never completely realised in the case of any company, for the future may not correspond entirely with the past. Improved medical skill and increased State care of the public health result in a progressively lower rate of mortality and a correspondingly higher duration of life; a person can expect to live longer. But this process is too slow to make any appreciable change in the general experience and the death rate is fairly constant over a period of years for all practical purposes. The decrease, when it occurs, is of negligible importance in the construction of a mortality table for use in the operation of an insurance company, for so long as the table is on the 'safe' side, an adverse experience may be overruled and the benefits of a favourable experience will be paid back to the insured in the form of increased bonuses.

The great brains of insurance with intense study and research at their back have patiently investigated the actual experience of a number of offices over a period of years and out of the mass of statistics collected prepared tables of mortality for general use in connection with a comparable body of lives. Mortality has however never been constant: an eighteenth or nineteenth century table would show totally different results from the actual experience of the present day.

Preparation of Mortality Tables

The investigations are intricate and highly technical for problems arise which exert a profound influence on the abstract numerical calculations. To mention a few, the sum assured may reflect an economic and social class with a varying degree of mortality. Insurances for large sums, for instance, could be paid for only by the higher-income groups who, because of their income, get the best available medical aid to maintain perfect health. Not so a junior clerk. If he takes out insurance at all, he may have to forego the necessities of life to pay for a modest policy and is consequently exposed to considerable risk without the means to pay for prompt medical aid. Again when a sickly man goes out to buy insurance, it is usually to make the maximum possible provision for his wife and children at a minimum outlay and a whole-life policy will be his ideal choice, but when a man is physically fit, lives in ideal surroundings and has a non-hazardous job, a retirement income will be his chief aim. Preference to a particular type of policy may therefore indicate the soundness of the life assured. These and various other factors such as sex, occupation, financial status, lapsing etc. contribute appreciable variations to the actual experience and have to be given due weight in the final analysis and preparation of the table.

Years of training, experience and research equip an actuary to undertake the highly technical job of compiling a mortality table; it is however possible to give a general idea of the process involved if only to indicate the intricacy of the problem. On a company deciding to prepare a table of mortality from its own experience, the number of assured for each age next birthday (or attained age if that is the basis of calculation) at the beginning of a year is tabulated along with the number dying in that year. Commencing at the earliest age at which insurances are issued, tables are built upto the age of ninety or more and the number dying at each age during the year would then be expressed as a proportion of the number who are exposed to the risk of death at that age, the proportion being expressed as so many per thousand or hundred thousand assured. Some of the new entrants of that year would have commenced insurance in the first half of the year and the rest in the second half of the year and generally an average of six months would give a fairly accurate estimate of the period 'at risk' in their cases. Lapses limit the risk to that part of the year when the insurance was in force. These finer adjustments make the work of the actuary fairly complicated.

When completed the table would appear somewhat as follows:

Table No. 10.

Experience of Mortality

Age	Number at risk	Number of deaths	Number of deaths per 1000 assured
20	476	2	4.20
25	1168	5	4.28
30	4301	20	4.65
35	4529	25	5.52
40	7806	60	7.68
45	8503	100	11.76

The figures in the last column represent the rate of mortality per one thousand, among the persons insured with the company during the period of investigation, the rate for any age being the proportion of persons of that age who die in the year following. This rate may be expressed in terms of any number and calculated for any specified contingency, as for example mortality from small-pox for ten thousand, or deaths from road accidents in one lakh of the population and so on. For purposes of theoretical calculation in their application to life insurance, rates of mortality are expressed in terms of the unit, i.e. per insured, the rates given in the foregoing illustration being expressed as follows:

Age	Rate of mortality
20	.00420
25	.00428
30	.00465
35	.00552
40	.00768
45	.01176

The foregoing illustration shows a rate of mortality of .00420 at age 20, and if 10,000 people of that age insured with a company in 1949, the number of probable deaths in that year would be 10,000 × .00420, or 42.

Investigation into the mortality experience of a company, however large, would show considerable distortion if confined to a single year, as the probability of the mortality rate conforming to the average in that year is remote, so invariably tables are prepared on the experience of a number of years. Again the policyholders of a company may be drawn from a particular social and economic class, for just as every shop has its own clientele every office draws its policyholders from distinct groups and the individualism which it builds up and studiously nurses may be reflected upon its mortality experience, especially when social classes evince large divergences of mortality as they do everywhere. The experiences of a number of companies over a period of years are therefore pooled and the combined deductions are tabulated for the construction of a Standard Mortality Table for the use of all companies. When doing so allowances are made for accidental fluctuations of mortality and these adjustments or 'graduations' as they are called, are too technical to be explained in this book.

Select, ultimate, aggregate

A consideration of the highest importance in the construction of tables for the use of life assurance is the effect of medical examination on mortality. Insurance is normally accepted on the life of a person on the basis of medical and other reports and the rate of mortality will be affected by the time that has elapsed since the date of the medical examination. When a man has been examined by a qualified medical officer and found physically fit in all respects the chances of his immediate death are remote but not so a person who was medically examined some years ago. Out of 1,000 people aged 25 insured in the year 1947, the health of a few would have been so affected in 1948 and 1949 due to adverse causes that they might be borderline cases on the brink of the inevitable by the end of 1949; so that in 1950 the rate of mortality of that group would be considerably higher than that of a group aged 28 who, fresh from medical examination, were admitted to the benefits of insurance in the latter year. This means that the rate of mortality would be very low immediately after 'selection' but would reach higher levels and remain fairly constant after the effects of selection 'wear off'. In 1955 therefore the experience of those who insured in 1947 would not show any marked dissimilarity from those who insured in 1950, although the difference would be noticeable in the initial years. A table of mortality which is so affected by selection is the 'Select' mortality, and it will show the rates of mortality by the duration of insurance (i.e. the time after selection) in addition to that by age. A complete select table would be a set of mortality tables, one for each year of entry.

A table constructed on the basis of experience after the effect of selection has worn off or become negligible is the 'ultimate' mortality table and shows the ultimate experience of mortality. The experience of the first few years is excluded from its preparation and it is more convenient, more suitable and more practical to use an 'ultimate' table of mortality for the financial operations of a company (other than for calculation of premiums) than the 'select' table with its voluminous data.

A third table is also constructed from the experience of insured lives without any regard to the duration of insurance or selection variously designated as the 'aggregate' 'mixed' or 'general' mortality tables. The number of deaths in any one year to the lives at risk in that year forms the basis of this table; in the next year the survivors of the previous year are added on to the new entrants and no attempt is made to adjust the experience on account of the effect of selection. The earlier tables of life assurance companies and the present-day census tables are of this type.

British Tables

When life assurance was in its infancy the effect of selection on mortality was not properly understood and appreciated, and it was the late Dr. T. B. Sprague of the Institute of Actuaries who propounded the principle of mortality calculations on the basis of selection—not only by the duration of insurance but also by the class of lives selected for insurance—and paved the way for the more accurate determination of the rates of mortality which are in use today. The table which he constructed on the basis of the data collected from the experience of 20 English and Scottish Offices in 1869 (the "H" Table[1]) is used widely still.

Then came the investigation of the experience of 60 British Offices during the period 1863-93 jointly conducted by the Institute of Actuaries and Faculty of Actuaries, resulting in the 'O' Table. The chief merit of this investigation was the enunciation of a new principle, viz., that mortality depends upon the type of policy selected by the assured, thus introducing a new element of selection, which was in reality selection against the company, since

[1] For the sake of convenience different mortality tables are indicated by specific letters. Thus 'H' stands for the table of the 20 British and Scottish Offices constructed in 1869, 'O' for the 60 British Offices' experience of 1863-93 and A(1924-29) for the British Offices' experience of 1924-29. Distinguishing letters are added at the right hand top corner to specify the kind of table and other details, as for example 'E' at the right hand corner stands for Endowment assurance 'N' for Non-participating, M for Males and F for Females. When they are enclosed in square brackets Select tables are referred to: numbers enclosed in round brackets after the distinguishing letters refer to 'Ultimate' tables excluding the first few years' experience corresponding to the numerals. Thus $H^{M(5)}$ would refer to the 20 British and Scottish Offices' experience of 1869 for males excluding the first five years' experience

the lower the rate of premium the higher will be the rate of mortality. The last comprehensive table was constructed in England on the experience of selected offices during the six years ending 1929 (the A 1924-29 Table), which is currently being used as the standard by almost all the British Offices. This table showed that British Offices are experiencing considerably lighter mortality and that the effects of selection lasted only two years.

American Tables

The principal tables in use in America are: (1) The American Experience Table (2) The American Men Table (3) Table Z and (4) The Commissioners' 1941 Standard Table.

Constructed about seventy-five years ago on the experience of the Mutual Life Insurance Company of New York, the American Experience Table was almost universally used by the companies for the calculation of assurance premiums and reserves in the past, but it is felt that it is no longer an accurate measure of mortality rates especially at lower ages, since there was little or no data available at extremely low ages and death rates were calculated by a mathematical process from those at higher ages.

The American Men Table was published in 1918 based on the experience of a group of companies during the period 1900-1915, but was not an accepted legal standard for some time; lately it has been adopted by many American companies.

The National Association of Insurance Commissioners appointed a committee to study the need for a 'new mortality table and related topics' and basing their calculations on the experience of the principal companies during the period 1920-1934 that committee prepared a Mortality Table in 1939 called the Table Z to provide a table of representative modern mortality experience for comparison.

The committee mentioned in the foregoing paragraph prepared another table on the basis of the experience of the representative companies during 1930-40 arbitrarily increasing the rates of mortality to provide for a 'safety' margin for use in life premium calculations called the 'Commissioners' 1941 Standard Table' ('C.S.O.').

Indian Experience

Many attempts were made in the past to construct mortality tables from Indian experience. The first was the work of George F. Hardy who investigated the experience of a mutual office in the early eighties. A. J. Finlaison published the results of his

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observations of European lives in the East India Covenanted Services in 1874: A. T. Winter submitted the results of his investigations of the mortality experience of the British Empire Mutual Life Assurance Society for 1872-1902. A number of investigations were made by the Standard Life Assurance Company especially for the periods 1870-85, 1895-1900 and 1846-1900 and because of the preponderence of Europeans and other foreigners among the company's policyholders, business from Indians being limited to those who had imbued western modes of life, the results of the investigations as recorded in the 'Notes on Mortality in India and other Tropical Countries'[1] (extracts of which are reproduced below), showed a surprising approximation to the Standard Tables used by the company:

> In India, more than any other country, an improvement has been going on and the death-rate has materially decreased so that the old tables of Woolhouse, Samuel Brown and others are no longer applicable to the circumstances of the present day. The causes which have contributed are well known, viz., better sanitation, more frequent change to home or to the hills as a result of improved means of communication, simpler and sounder modes of life with a more moderate use of stimulants, the more frequent presence of ladies in the country and most recently the destruction of malarial germs or insects which play so large a part in carrying the infection from them ....The causes of death and incidence of mortality in India will always vary from what these are at home, and it must specially be borne in mind that the value of *selection in India is not so potent a factor as at home in reducing the death rate during the early years of assurance.* Doubtless a sound and healthy constitution, free from taint of disease, will in many cases tell favourably, but a number of diseases which prevail in India and which on most sanguine computation it will take many years to stamp out—such as cholera, malaria and other fevers—may attack the strongest, while fatal accidents are also probably more common, and none of these causes can be eliminated by selection." (Italics ours.)

Dr. Arthur Hunter of the New York Life Assurance Company, which had a brief sojourn in India from 1885 till it finally withdrew in 1922 after transferring its existing policies to the Sun Life of Canada, investigated the mortality experience of the company for the period 1885-1921, and concluded that mortality did not record any improvement in the latter part over the earlier, but this conclusion, in view of the later investigation of the 'Oriental' into its own experience, is open to serious doubt. In any case the company's Indian business showed a general falling off in the later

[1] *Transactions of Faculty of Actuaries* (No. 10, Vol. I).

years due to war, and bore the full brunt of the influenza epidemic of 1919 so that the results have only an academic interest. Nevertheless, an important feature of the working of this company, which was reflected in its mortality experience was that 'in the early years a goodly portion of the policies were issued to British residents in India' which condition was gradually changed so that 'since 1900 the great majority of the policies were granted on natives partly due to the British companies granting the former more liberal treatment than we did and partly to the absence of any differential premium rates for Indians and others.'

Oriental Mortality Tables

The Oriental alone has so far investigated and published the mortality experience of purely Indian lives. Five investigations were conducted on the whole, the first three for overlapping periods from the inception of the company: 1874—1897, 1874—1902 and 1874—1913 respectively and the last two for the periods 1905-1925 and 1925-35. The results of these investigations form the only concrete record of the experience of Indian assured lives, and the importance of these investigations is reflected in the increasing use of the latest table by Indian Companies.

Confining the first and second investigations to the Hindus alone, a comparative study of the mortality figures disclosed by the subsequent investigations was made on the basis of 1,000 Hindu deaths in the period 1874-1897 :

Table No. 11.

	Hindus	Other Communities
1874-1902	1122	—
1874-1913	1089	968
1905-1925	932	876
1925-1935	627	634

Table No. 12.

Percentage of policies effected; healthy male lives.

Community		Investigation			
	I	II	III	IV	V
Hindus ..	72.6	73.0	76.9	78.6	81.3
Mahomedans ..	3.1	3.1	4.1	4.0	8.1
Europeans [1] ..	6.2	5.7	3.1	1.2	0.3
Christians ..	10.0	9.7	8.8	10.2	7.7
Parsis ..	8.1	8.5	7.1	6.0	2.6

[1] The larger percentage of Europeans shown in the first three investigations is due to many Christians having been classified as Europeans.

The analysis proved conclusively that (a) mortality rates were heaviest among the Hindus, (b) there was a progressive improvement of mortality in the fourth and fifth periods and (c) the last decennium experienced the lightest mortality. To compare the mortality of the different communities in India both with that of the Hindus and *inter se,* breakdown figures of mortality were compiled on the basis of the 1925-35 ultimate experience for the fourth and fifth periods of investigation.

Table No. 13.

Ratio of actual to expected deaths
by the respective standard tables.
(ultimate experience)

Period	Mahomedans	Christians	Europeans	Parsis
IV	.921	.789	.750	.662
V	.958	.816	.615	.613

This table proved that Mahomedans experienced approximately the same mortality as the Hindus and the trend was towards lessening of the gap between the two. The Parsis and the Europeans experienced marked savings in mortality.

The relatively higher rate of mortality indicated in the second period (1874-1902) was chiefly due to the plague epidemic which devastated large parts of Western India in the winter of 1896 where the company confined its operations at the time, and although natural laws tend to create a period of extremely low mortality immediately after a catastrophic loss of humanity (called technically as the Generation Mortality), the final years of the investigation were so soon after the event that the effects of the saving were hardly felt during this period of investigation.[2]

The third investigation covered the plague years and the period of lighter mortality immediately following them and showed a

[1] In point of fact this saving is not apparent in the census reports too as the rate of mortality is, if anything, more in 1901 than in 1891 as the following table will show.

Life Table

		1881	1891	1901	1911	1931
Male	..	42	41	42	44	37
Female	..	39	39	42	43	38

saving: the saving was more marked in the fourth period, which, incidentally, covered the 1918-1920 influenza epidemic which took a toll of 8 millions in India alone, and the years of subsequent lighter mortality. The fifth period was singularly devoid of catastrophic deaths, except the Bihar earthquake of January 1934 which it covered, and the Quetta earthquake of January 1935, which it did not.

To compare the trend of mortality experience since the beginning of the century, break down figures of lives exposed to risk, actual deaths and expected deaths by the 1905-25 Standard Table for quinquennial age groups were made at the time of the fifth investigation.

Table No. 14.

Ultimate Section

(Includes whole-life and endowment assurances, participating and non-participating, Hindu male lives accepted at ordinary rates.)

Age group (1)	Exposed to risk (2)	Actual Deaths (3)	Expected deaths by the Company's 1905 25 experience (4)	Percentage of actual to expected deaths $\frac{(3)}{(4)} \times 100$
-19	34	—	.2	—
20-24	28,276	147	220.0	66.8
25-29	114,806	532	976.1	54.5
30-34	177,151	830	1,639.1	50.6
35-39	177,130	1,118	1,930.1	57.9
40-44	145,643	1,365	2,075.9	65.8
45-49	103,067	1,387	2,066.2	67.1
50-54	60,305	1,312	1,749.6	75.0
55-59	24,136	830	1,007.5	82.4
60-64	12,801	629	725.5	86.7
65-69	7,314	446	539.2	82.7
70-74	4,241	369	401.4	91.9
75-79	1,845	191	228.9	83.4
80-84	575	77	95.8	80.4
85-	152	23	34.5	66.7
	857,476	9,256	13,690.0	67.6

The extent of the improvement in mortality in the latest investigation will be apparent from the table. All the age groups have shared in the improvement, the greatest improvement occurring in the groups 25—40. From age 40 onwards mortality tends to approach that prevailing at corresponding ages during the earlier period, yet keeping substantially lower than the latter and there is an over-all improvement of 33.4%. If this improvement is maintained, and if future investigations reveal substantially lighter mortality figures, it might, in the long run, confer increased benefits to the assured in the form of lower premium rates.

Standard Table

The fifth investigation for the period 1925-35 produced a Table of Mortality which has since been accepted as the standard by almost all the companies in India and a few of the foreign offices for their Indian business. Mr. Vaidyanathan who conducted the last two investigations built the table from the experience of the Hindu assured lives as that alone met the twin requirements of a standard, viz., (1) homogeneity, and (2) safety. If the statistics of the heterogeneous groups of communities who make up the policyholders of the Oriental had been combined to build the table, the other communities would have distorted the rates and made them unfit for universal adoption unless business was subsequently underwritten from those groups in the same proportion as existed at the time of the analysis. Further, Hindus formed the majority of policyholders and showed the heaviest mortality.

Select Table

A series of experiments designed to elicit the persistence of the effects of selection enabled Mr. Vaidyanathan to reach the far-reaching conclusion that medical selection, by itself, did not persist for more than a year, thus comparatively simplifying the select table: (see Table No. 15 opposite page).

Mr. Vaidyanathan's observations on the persistence of selection is in accord with the almost unanimous opinion of all the other observers that in tropical regions medical selection affects only a comparatively short period because of the rapid onset of tropical diseases and because of the rapid deterioration in health which can occur from comparatively minor causes.

Ultimate Mortality

The Oriental (1925-35) Ultimate experience given elsewhere

Table No. 15.

Graduated Select Table

Age	Rate of Mortality	Age	Rate of Mortality	Age	Rate of Mortality
19	.00328	34	.00412	49	.01326
20	.00328	35	.00431	50	.01454
21	.00328	36	.00454	51	.01593
22	.00328	37	.00484	52	.01743
23	.00328	38	.00517	53	.01906
24	.00331	39	.00555	54	.02080
25	.00334	40	.00599	55	.02264
26	.00338	41	.00648	56	.02460
27	.00343	42	.00705	57	.02668
28	.00349	43	.00768	58	.02884
29	.00355	44	.00837	59	.03108
30	.00363	45	.00917	60	.03342
31	.00372	46	.01004	61	.03587
32	.00382	47	.01102		
33	.00395	48	.01208		

is now the accepted standard for Life Assurance Valuation in India.

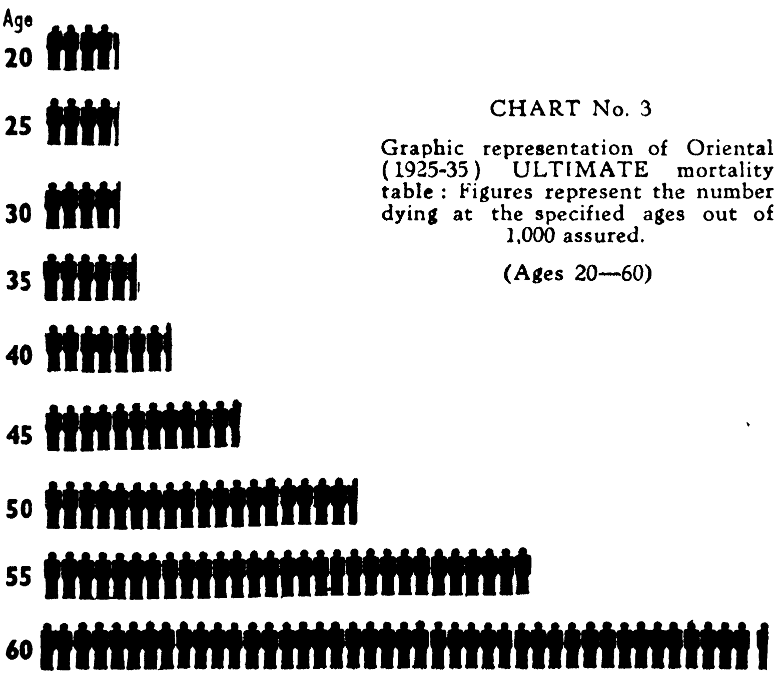


CHART No. 3

Graphic representation of Oriental (1925-35) ULTIMATE mortality table : Figures represent the number dying at the specified ages out of 1,000 assured.

(Ages 20—60)

Table No. 16.

Oriental (1925-35) Ultimate Table of Mortality

Age	Number living	Number dying	Number dying per 1,000. Rate of mortality	Average future life time (expectation of life)
20	1,000,000	4,200	4.20	41.60
21	995,800	4,182	4.20	40.77
22	991,618	4,165	4.20	39.95
23	987,453	4,157	4.21	39.12
24	983,296	4,169	4.24	38.28
25	979,127	4,191	4.28	37.44
26	974,936	4,221	4.33	36.60
27	970,715	4,271	4.40	35.76
28	966,444	4,320	4.47	34.92
29	962,124	4,378	4.55	34.08
30	957,746	4,454	4.65	33.23
31	953,292	4,547	4.77	32.39
32	948,745	4,649	4.90	31.54
33	944,096	4,787	5.07	30.70
34	939,309	4,960	5.28	29.86
35	934,349	5,158	5.52	29.02
36	929,191	5,408	5.82	28.18
37	923,783	5,727	6.20	27.34
38	918,056	6,087	6.63	26.51
39	911,969	6,493	7.12	25.69
40	905,476	6,954	7.68	24.87
41	898,522	7,467	8.31	24.07
42	891,055	8,055	9.04	23.27
43	883,000	8,689	9.84	22.47
44	874,311	9,381	10.73	21.70
45	864,930	10,172	11.76	20.94
46	854,758	11,001	12.87	20.19
47	843,757	11,922	14.13	19.45
48	831,835	12,885	15.49	18.73
49	818,950	13,922	17.00	18.02
50	805,028	15,006	18.64	17.34
51	790,022	16,132	20.42	16.66
52	773,890	17,289	22.34	16.01
53	756,601	18,491	24.44	15.38
54	738,110	19,685	26.67	14.76
55	718,425	20,856	29.03	14.17
56	697,569	22,001	31.54	13.59
57	675,568	23,104	34.20	13.03
58	652,464	24,122	36.97	12.50
59	628,342	25,039	39.85	11.98
60	603,303	25,852	42.85	11.47
61	577,451	26,557	45.99	10.99
62	550,894	27,148	49.28	10.52
63	523,746	27,654	52.80	10.06
64	496,092	28,014	56.47	9.62
65	468,078	28,267	60.39	9.20
66	439,811	28,350	64.46	8.79
67	411,461	28,284	68.74	8.39
68	383,177	28,072	73.26	8.01
69	355,105	27,680	77.95	7.65
70	327,425	27,137	82.88	7.29
71	300,288	26,434	88.03	6.95
72	273,854	25,594	93.46	6.62
73	248,260	24,605	99.11	6.31
74	223,655	23,488	105.02	6.00
75	200,167	22,265	111.23	5.70
76	177,902	20,952	117.77	5.42
77	156,950	19,564	124.65	5.14
78	137,386	18,123	131.91	4.87
79	119,263	16,650	139.61	4.61
80	102,613	15,162	147.76	4.36
81	87,451	13,682	156.45	4.12
82	73,769	12,225	165.72	3.88
83	61,544	10,808	175.62	3.65
84	50,736	9,450	186.25	3.43
85	41,286	8,160	197.65	3.22
86	33,126	6,953	209.91	3.01
87	26,173	5,839	223.10	2.81
88	20,334	4,825	237.30	2.62
89	15,509	3,917	252.58	2.43
90	11,592	3,118	268.99	2.25
91	8,474	2,429	286.59	2.08
92	6,045	1,846	305.42	1.92
93	4,199	1,367	325.50	1.76
94	2,832	982	346.83	1.61
95	1,850	683	369.39	1.47
96	1,167	459	393.15	1.33
97	708	296	418.00	1.19
98	412	183	443.84	1.05
99	229	108	470.50	0.88
100	121	60	497.88	0.67
101	61	41	666.67	0.33
102	20	20	1,000.00	—

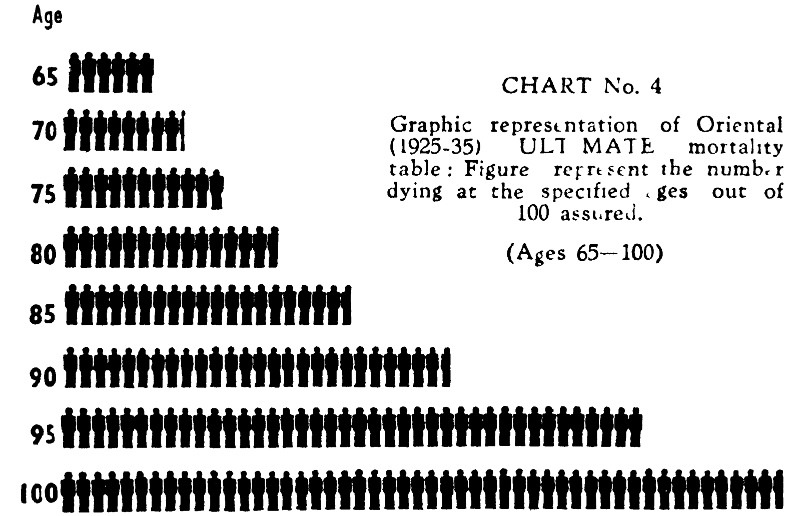


CHART No. 4

Graphic representation of Oriental (1925-35) ULTIMATE mortality table: Figure represent the number dying at the specified ages out of 100 assured.

(Ages 65—100)

Joint Mortality Investigation

Writing in the *Indian Insurance Year Book*, 1944, Mr. Vaidyanathan observed that a combined Mortality Investigation of Indian assured lives was needed. "No other insurer except the Oriental can employ the Oriental Table in the valuation without an investigation. No actuary should come to a final decision as regards the mortality basis to be adopted in a valuation before he has made an investigation into the mortality experience of the insurer concerned. A mortality table representing the combined experience of all the Indian assured lives would provide a better standard for use after adjustment than that of one particular company." The need for such a table was recognised as early as 1935 and attempts are being made to conduct an investigation and construct a table under the joint auspices of the Indian Life Offices Association, the Actuarial Society of India and the Federation of Indian Insurance Companies' Association.

Mortality Tables for Annuities

None of the tables so far described is a suitable standard for the calculation of premium rates for annuities. Annuitants stand on a different footing altogether so far as mortality is concerned and show considerably lower rates of mortality than insured lives, for in general there is a class selection exercised by the buyers of annuities over and above the fact that at the ages when annuities are taken the sick and the infirm would have dropped off early in the race of longevity, leaving only the survivors of the fittest to enjoy ripe old age, whilst the best among the insured people generally give up their assurances, those with impaired health retaining them. Where no separate mortality table for female annuitant lives is available, mortality table based on the male experience is in practice 'set back' by four or five years to get the female rates: the mortality rate for a female annuitant aged sixty-five, for example, will be taken as the rate of a male aged sixty. Such a calculation is practical and gives an assumed margin of safety for the companies.

Ratio of Actual to Expected Mortality

The ratio of 'actual' mortality experienced by a company to that 'expected' (which is usually based on the rate of the mortality table used for valuation) published in the valuation reports has a limited significance. This is particularly true of younger companies with a preponderence of new policyholders whose mortality shows the effect of selection, for when the actual number of deaths is compared with a table of ultimate mortality the ratio of actual mortality is bound to be low. It will also be low in the case of even an old company which has a high proportion of new policyholders who have not yet reached the period of ultimate mortality, i.e., a company writing a relatively large volume of new business as compared to the business on the books. In the case of an old company which is not writing a large volume of new business the actual experience will almost be identical with the expected and in any case will show only a little difference. The proper basis of comparison between the mortality experience of different companies or of the same company at different periods is the calculation of actual experience of those of the same age insured for the same length of time or those of the same age who have all passed the stage at which the effect of selection has worn off.

Population Basis

It is often asked whether tables of mortality constructed from census returns may not form a workable basis for use by life offices. The question carries its own refutation, as a comparison of the census rates of mortality with the Oriental (1925-35) rate will conclusively show: (see Table No. 17, opposite page).

The general public enumerated in the census includes many persons whose health is bad, occupations hazardous and insurance either unsafe or unacceptable, as opposed to the 'select' group of healthy individuals insured after medical examination. The insured belongs to an economic group able to prevent and cure common diseases through prompt medical aid. Further, errors in age usually found in the census enumerations in India are normally eliminated in insurance, issued on the basis of acceptable proofs of age in which the element of error if present is more often than not capable of accurate determination.

Table No. 17.

Comparative Rates of Mortality at Quinquennial Ages as deducted from the results of the 1881, 1891, 1901, 1911, 1921 and 1931 census, All-India, Male, with Oriental Ultimate Mortality (1925-35) (%)

Age	All-India						Oriental
	1881	1891	1901	1911	1921	1931	(1925-35)
0	28.41	27.26	28.54	29.00	..	24.87	--
5	2.41	2.68	2.67	2.75	2.52	1.93	..
10	1.11	1.14	1.24	1.25	1.22	.79	..
15	1.56	1.13	1.17	1.32	1.26	.98	..
20	1.85	1.39	1.43	1.69	1.42	1.27	.42
25	2.00	1.69	1.69	2.03	1.68	1.53	.43
30	2.18	2.04	2.02	2.37	2.10	1.93	.47
35	2.38	2.43	2.49	2.77	2.67	2.41	.55
40	2.66	2.85	3.01	3.24	3.33	2.94	.77
45	3.05	3.37	3.64	3.72	4.00	3.49	1.18
50	3.66	3.98	4.30	4.28	4.72	4.10	1.86
55	4.61	4.78	5.09	4.98	5.46	4.81	2.90
60	6.12	5.93	6.25	6.00	6.31	5.79	4.29
65	8.50	7.64	8.14	7.57	7.43	7.27	6.04
70	12.18	10.16	11.36	10.17	..	9.76	8.29
75	17.68	13.93	16.12	14.71	..	14.27	11.12
80	25.28	19.58	23.55	22.55	..	21.80	14.78
85	36.17	28.03	33.88	36.35	..	36.08	19.77
90	62.50	40.62	47.86	57.20	..	57.70	26.90

Nevertheless, population statistics give valuable data. The improvement in mortality is negligible, and is manifest only in 1931 at certain ages. Life in the Pre-British era was mainly rural with villages clustered around the healthier parts of India. Medical aid was limited to the *ayurvedic* and *unani* systems which, though effective in some cases, proved inoperative in others, yet a reasonable measure of longevity was attained. Wide open spaces, good food, fresh air and heavy manual labour kept villagers in robust health and some of the modern diseases were unknown.

With Britishers came a steady pressure on soil and abject poverty. The standard of health went low. A gradual trek to the cities in the wake of slow but steady industrialisation began about fifty years ago and gathered momentum in the last two decades. Urbanisation produced new diseases, new factors to sap vitality and far outpaced the improvement in available medical facilities.

Comparative Death rates

A very significant fact is the high but steady birth rate, and the high but fluctuating death rate: comparative death rates and expectations of life tell a pathetic tale:

Table No. 18.
Birth and Death Rate of India per thousand

Year	Birth rate Recorded	Birth rate Estimated	Death rate Recorded	Death rate Estimated	Natural Increase Recorded	Natural Increase Estimated
1931-35	35	46.7	24	31.2	11	15.5
1921-31	35	46.7	26	33.8	9	12.9
1911-21	37	49.3	34	44.2	3	5.1

Source: Dr. Chandrasekhar: *Food and People*, published by UNESCO.

Chart No. 5

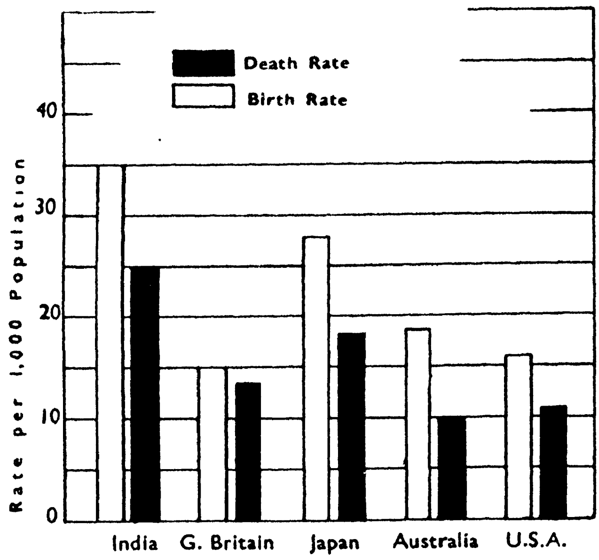


Table No. 19.

Comparative table of mortality rates and expectation of life.

Country	Death Rate (1937)	Infantile Mortality (1937)	Expectation of life at birth Males	Females	
New Zealand	9.1	31	65.04	67.88	(1931)
Australia	9.4	38	63.48	67.14	(1932-34)
Union of South Africa	10.1	37	57.78	61.48	(1925-27) Europeans
Canada	10.2	76	59.32	61.59	(1929-31)
U. S. A.	11.2	54	59.12	62.67	Whites
			47.55	49.51	Negroes
Germany	11.7	64	59.86	62.75	(1932-34)
England & Wales	12.4	58	58.74	62.88	(1930-32)
Italy	14.2	109	53.76	56.00	(1930-32)
France	15.0	65	54.30	59.02	(1928-33)
Japan	17.0	106	44.82	46.54	(1926-30)
Java	18.8				
Palestine	18.9	153			
Ceylon	21.7	158			
British India	22.4	162	26.91	26.56	(1921-30)
British India	21.8	158			(1941)

The expectation of life expresses in terms of the probable length of life of the individual, the cumulative effect of the specific mortality rates at different ages in respect of the two sexes. While the expectation of the female is, in most countries, about 2-5 years higher than the male, it is nearly six months lower in India. The lower expectation of life is, to a great extent, due to the very high rate of infant mortality: nearly one-fourth of the babies born die during their first year. About half the deaths among infants occur in the first month, and of these nearly sixty per cent in the first week. Nearly, forty-nine per cent of the total mortality in any given year is among those below ten years of age, while the corresponding figure for England and Wales is ten per cent (see overleaf).

Deaths from Specific Causes

Official statistics of mortality from specific causes is somewhat

Table No. 20.

Infant Mortality at specific ages expressed as percentages of the total deaths at all ages:

	Under one year	1-5 years	5-10	Total
British India (average for 1935-39)	24.3	18.6	5.5	48.4
England & Wales	6.8	2.1	1.1	10.0

Source: Bhore Committee Report.

incomplete and unreliable: available information on the incidence of diseases is even more so. Nevertheless a rough idea of the specific causes of death may be obtained from the following table for British India for the period 1932-41:

Table No. 21.

Average annual deaths during 1932-41, British India excluding Burma

Cholera	Small-pox	Plague	Fevers	Dysentry and Diarrhoea	Respiratory Diseases	Other Causes	Total
144,924	69,474	30,932	3,622,869	261,924	471,802	1,599,490	6,201,434
(2.4)	(1.1)	(0.5)	(58.4)	(4.2)	(7.6)	(25.8)	(100.0)

Source: Bhore Committee Report. Figures within brackets refer to percentages of total deaths.

(Dr. Chandrasekhar in his *Food & People*, published by UNESCO, lists 1.8 per thousand population and 8.1% of total deaths as due to injuries).

It is highly probable that where deaths have been unattended by doctors, as considerable numbers are, the returns are usually listed as "fevers" as the cause of death. The largest single cause under 'fevers' is undoubtedly malaria, which in an endemic form, according to official sources, causes 1 million deaths and as an epidemic another half a million. Malarial attacks lead to lowered vitality and cause between 25 and 75 million cases of indirect illnesses so that deaths, with malaria as an associated cause, raises the mortality rate to about 8 per 1,000 of the population.

A survey of the geographical distribution of malaria made by the Public Health Commissioner (1939) revealed that:

Areas 5,000 feet above sea-level and four widely separated regions in Eastern Bengal, North-Eastern Brahmaputra Valley in Assam, two narrow strips in the Northern Circars and around Madras City in Madras.	Either Non-malarious or relatively free from malaria.
Coastal regions of Bombay, Madras and Orissa, wide areas in the Gangetic Valley, large tracts in C.P. and eastern portion of C.P.	Prevalent in static form of moderate to high intensity.
Sub-Himalayan regions, Chittagong Hill Tracts, C.P. and Western Ghats.	Exhibits hyperendemicity associated with hill tracts and *terai* land.
An extensive tract of dry area running across India from north to south.	Varying degrees of endemicity depending on local conditions and irrigation.
Punjab, Delhi and parts of U.P.	Outbreaks of fulminant epidemic.
Tanjore District, thin coastal strip above Madras City and isolated spots in Orissa & Bengal.	Strictly localised.

Construction of road and railway embankments, irrigation canals and dams have proved ideal for large-scale incidence of malaria.

Next to Malaria Tuberculosis takes the highest toll. Dr. Benjamin has estimated urban mortality rate of between 20 and 45 per thousand due directly to tuberculosis and 500,000 deaths for the whole of India with 2,500,000 active cases: the following table from Indian Medical Gazette (October 1941) gives a comparative mortality rate:

Table No. 22.

Tuberculosis deaths per 100,000 of population.

Paris	Mexico	New York	Berlin	London	Cawnpore	Lucknow	Madras	Calcutta	Bombay
177	170	128	120	96	432	419	290	230	140

Dr. A. C. Ukil states "In predominently agricultural countries like India the infection rate varies from 21 to 34 per cent in rural to 80 to 90 per cent in urban and industrial areas .... Tuberculosis infection, though increasing in recent years, owing to the increasing urbanisation, industrialisation and the introduction of rapid transport, is not yet so widespread as in Europe and America." The Bhore Committee Report states "There is reason to believe that its incidence is higher in Urban than in Rural Areas and, in both areas, infection is spreading and active tuberculosis increasing. The growth of towns and cities, development of transport facilities and industrialisation are contributory factors to this increase."

The three major epidemic diseases of cholera (200,000 deaths) small-pox (69,474 average deaths in 1932-41) and plague (average deaths 19,347 in 1939-41) are preventable and 'should have been prevented long ago.'

On quite a different footing stands the mortality due to famines. " Famines are no longer of frequent occurrence or devastating in their effects" writes O'Malley in 'Modern India and the West,' but there is scarcely a year in which scarcity conditions do not occur in some parts of the country bordering on famine, and they are invariably followed by outbreaks of diseases. Yet, they affect economic groups who can hardly afford insurance, so that famines have little influence on the mortality figures of insured lives.

Besides the above catalogue of mortal diseases, endemic diseases such as leprosy, filariasis, guineaworm, hook-worm disease and venereal diseases cause considerable morbidity, although their contribution to mortality is relatively small. Environmental hygiene, nutrition and medical aid (both preventive and curative) are the three essentials of good health: of this nutrition is the most vital problem for life assurance, as defective nutrition is primarily responsible for poor physique and lowered resistance to a host of diseases including tuberculosis, anaemias and rickets.

Economic, social and religious groups reveal marked differences to the incidence of diseases; lower income groups show a higher incidence to diseases and lower ability to get rid of them. Higher income groups (to which belong the insured lives) and which, until recent years, embraced the so-called higher castes, who have a better education, better jobs and consequently a higher standard of living, have a comparatively better physique and better resistance power.

Drs. Aykroyd and Krishnan of the Nutrition Research Laboratories, Connoor undertook diet surveys in South Indian villages in 1936 and concluded: "It is clear that if Group I which may, without exaggeration, be described as half-starved, is representative of a large group, the problem of malnutrition is more serious than has yet been realised." The problem of nutrition is really two-fold: (1) under-nutrition, or more truly, starvation diets, due to economic causes and (2) mal-nutrition due to ill-balanced diets. The insured classes generally fall under the second category. Dr. Marrack in his "Food and Planning" has given the following composition of Indian diets:

Table No. 23.

Gm. of Protein, Fat and Calcium in Indian diets per "man value" per day.

	Calories	Protein	Animal Protein	Fat	Calcium
Calcutta, Well-to-do	2,787	94.0	47.7	86.5	0.79
Hindu, Urban Punjab	2,319	69.8	9.9	49.2	0.77
Hindu, Rural	2,720	81.4	8.5	53.1	0.81
Sikh, Urban	2,776	87.9	16.0	59.2	1.00
Sikh, Rural	2,904	89.4	13.0	58.6	0.99

This analysis may be compared with Dr. Aykroyd's surveys:

Table No. 24.

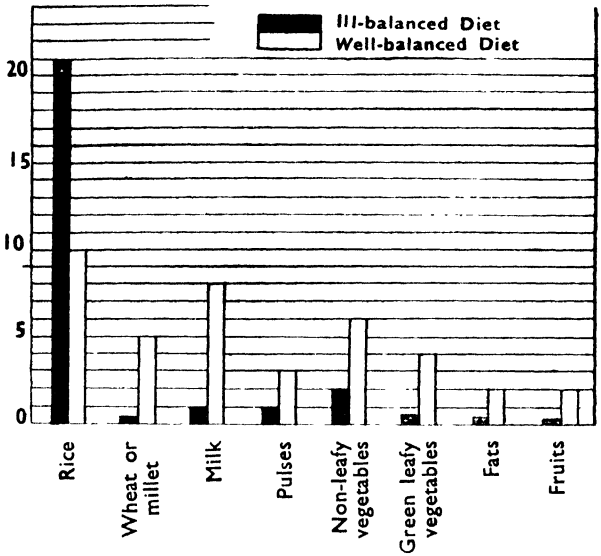
Ounces per consumption unit per day

Food	Ill-Balanced Diet	Well-Balanced Diet
Cereal	23	17
Pulses	0 5 to 1.5	3
Milk	none or negligible amount	8
Leafy Vegetables	0 5 to 1.0	2
Non leafy Vegetables	2 0 to 5 0	4
Fruit	Negligible	2
Vegetable Fats & Oils	less than 1.0	2
Fish, Meat and Eggs	0.5 to 1.0	2 to 3 if no milk is included

Approximate chemical composition (assuming cereal as milled rice)

Calories	2,600	2,600
Protein (G)	55	80
Fat (G)	25	70
Calcium (G)	0.025	1.0
Phosphorus (G)	0.90	1.20
Vitamin A	1,100	2,000
Vitamin C (MG)	60	150

Chart No. 6.



In the last table both diets have the same caloric content, but the more varied, better well-balanced diet is conducive to better stamina and physique. The crux of the nutrition problem, therefore, is the emphasis on quality rather than quantity, and as Dr. Chandrasekhar observes "As long as the people's vitality and resistance to disease is low, owing to poverty, malnutrition and ignorance, and as long as the shockingly insanitary and unhygienic conditions of the towns and villages persist, any medical approach to this problem can only be fragmentary."

Environmental hygiene and the absence of medical facilities should have, theoretically at least, but little influence on the mortality of insured lives because of their economic status: nevertheless two factors may have to be borne in mind during selection: (1) habits of living and locale in addition to habits and health and (2) extent of medical facilities available in the locality and the capacity to make use of them.

During the last two decades there has been a steady fall in the general mortality rate: a further fall is bound to occur if the large-scale programmes for improving the health of the nation are put into operation with vigour and drive for even a slight improvement in the present health conditions 'can save three million lives' If the belief in 'fate' as the controlling factor in life is replaced by a belief in the marvels of medical science, a better and easier approach to human problems of life, longevity and death may result.

In the case of life insurance human conservation and higher duration of life will have a significant effect. It will decrease the rate of mortality among comparatively younger people, but at the very old ages, especially after a man has passed his sixtieth birthday, it can have no appreciable effect at all. While modern medical skill has enabled a man to reduce the chance of his early death, it has not made the old live longer: it has only postponed the date of his death. It seems almost as if there is a natural upper limit to the span of a man's life which no medical skill can extend. Much of the reduction in the rate of mortality either in India or elsewhere will be due primarily to the lessening of the incidence of infant mortality, especially in the first year of life: only a limited improvement is possible in higher ages and, of course, more people will be kept alive longer by improved conditions of health and living.

CHAPTER VII

LIFE FUND AND INTEREST

Next to mortality the rate of interest is the most important factor in the determination of premiums. The fundamental problem of choosing a suitable interest basis for premiums depends upon a variety of factors, for example the future economic trends which would have a bearing on future interest rates, the opportunity for and the policy underlying the investment of the assets and the actual rate of interest earned currently and in the past. This Chapter deals with the accumulation of the funds, investment of the assets that secure the funds and the interest earned.

Life Assurance Fund

On page 23 of the Chapter on 'Fundamentals' it has been shown that every outstanding policy is a liability on the books of the company. Let us forget the loadings for a moment (on the assumption that the expenses of running the business absorb the load) and see what happens when a group of sufficiently large numbers takes out insurance, all at the same time. The premiums they pay in the early policy years would more than meet the claims by death and the balance would be 'reserved' for future liability. This reserve would accumulate for a time, but later, depletion of lives would render the premiums inadequate to meet the claims and from that time onwards the reserves would augment the premiums to pay for the claims. When all the claims have been met there would be no more reserves.

In short a group of exactly similar policies will be self-supporting, receiving on the one hand no assistance from previous contracts and requiring on the other none from those to be issued subsequently; on any given date such a group would have a reserve on hand against future liability which, together with future premiums, would pay for all the claims. In the practical working of a company it is hardly possible or necessary to maintain an independent fund against the reserves of such an isolated group even if sufficiently large numbers of exactly similar policies were on the books (which may not be the case), for such groups may be many and the regular flow of new business (at least in well-organised offices) would steadily increase them, every group requiring a separate fund. A more practical course would be to create one consolidated fund out of the premiums received every year, sufficiently large to equal or exceed the combined reserves of all similar groups and to maintain that fund at an adequate level. That consolidated fund is the Life Assurance Fund. It will be evident that the fund existing on any date belongs to the existing policyholders; that if there is a regular flow of new business reserves would increase steadily and the life fund would be consequently kept at higher levels and that if no more new business were forthcoming the fund would have to be treated as a closed one, able to fulfil all its obligations. It would therefore follow that the fund should be adequate at all times and the determination of its adequacy is fundamental.

Adequacy of the Fund

Let us turn for a moment to consider the Revenue Account of a life assurance company. The two sources of income are premiums (both on the new and the existing policies) and interest on investments. Such items as claims (by death, maturity or surrender), expenses of management and depreciation constitute the chief items of outgo; the excess of income over outgo is credited to the Life Assurance Fund, less the appropriations required to maintain an Investment Reserve Fund and sometimes a general contingency fund.

The very process of its creation would suggest that the life fund is an arbitrary figure. In a thriving and well-regulated office, the flow of new business will be regular, the premium income will increase every succeeding year, the expenses will be controlled and consequently the life fund will steadily grow; but not all the offices are progressive or well-regulated and the other conditions may not necessarily follow. The reserves, being the company's liability on the outstanding policies, should not be left to the vagaries of an arbitrary fund for they are capable of scientific determination and should be maintained at an adequate level. The question would therefore arise "Is the life fund adequate to meet the liability?" It would be if on a 'valuation' of the liability of its policies the life fund is equal to or exceeds the reserves; this valuation can cover a review of the financial position of the company and determine the profits made or the losses sustained in the operation.

The Revenue Account is an annual statement prepared by those qualified in company accounts. The Reserves may likewise be determined annually, (and in fact in the United States annual determination of the reserves is compulsory), biennially as is the practice with many English companies or triennially [1] as required by the Insurance Act 1938 as amended in 1950. Economic conditions, unfavourable mortality experience and other factors beyond control may upset the financial position of even the largest offices but their inherent strength would enable them to recoup soon; the comparatively smaller capital and limited resources of the newer and smaller companies may not stand the rigours of a strict annual valuation early in their career. Most of the large and well-managed offices conduct a sort of internal valuation at the end of every year to determine the extent of their liability strictly for their own benefit and to review their financial position; this together with the triennial valuation required by law and the strictest supervision exercised by the Controller enables the Indian companies to maintain their financial strength adequately.

This triennial valuation by a qualified member of the actuarial profession is a statutory obligation. The actual process of determining the liability on the existing policies is interesting and instructive, removing much of the misconception and meeting most of the criticism levelled against life offices. That process is highly technical and beyond the scope of this book; nevertheless a general indication is attempted. There are two fundamental methods: the Retrospective and the Prospective and although a few other recognised systems are followed they tend to be combinations or variations of these two. The final reserve arrived at by any method should reflect the basic elements of safety, adequacy and solvency of a company. Let us proceed to a discussion of the two methods on the basis of the 'net premiums' omitting loadings altogether.

(*i*) *The Retrospective Method*

As its name implies the amount of the premium in excess of what was required to meet the claims in accordance with a standard mortality table and a selected rate of interest is by this method set apart as a reserve. This accumulation of excess premium in respect of all groups of similar policies is the total reserve. This reserve should be on hand to meet part of the claims by death or maturity preferred in later years. On a given date the company is actually 'at risk' only to the extent of the difference between the sums assured and the reserves accumulated with interest. We have thus two quantities the reserves built up out of the accu-

[1] State regulations in England and Canada [before the passing of the Insurance (Amendment) Act 1950 in India too] permit quinquennial valuations. That is the limit but companies have freedom to conduct valuations oftener.

mulated excess payments of premium with interest and the net amount at risk, and while the reserve on a policy which is continued for a long time increases, the net amount at risk decreases correspondingly, until when the reserve equals the sum assured the amount at risk vanishes. This phenomenon of an increasing reserve and a correspondingly decreasing amount at risk is fundamental to the modern system of insurance based on the level premium plan.

(*ii*) *The Prospective Method*

It has been seen in Chapter II that when a policy is issued the present value of all future net premiums payable on a policy is equal to the present value of the sum assured at death or maturity (the same rate of interest being used in calculating present values in both cases). After a policy has been in force for a time a fewer number of premiums remain to be paid and consequently the value of the future net premiums is less than that on the date of issue. On the other hand, the value of the sum assured has increased because the date of its payment has drawn nearer. We have thus two quantities on any specified date, viz., the value of the remaining net premiums due and the value of the sum assured, and while the value of the future premiums payable diminishes with every succeeding year, the value of the sum assured increases. On any specified date the difference between the two values should be on hand as a reserve against future liability, for in its absence the company will not be able to meet the claims. The reserve can therefore be determined by estimating the present value of future claims and that of the future premiums due (see table opposite).

The Retrospective method is thus the process of determining reserves by the accumulation of excess premiums and the Prospective method their determination by the process of valuing the 'prospective' premiums and the sum assured. Both methods have their uses and advantages, although the prospective method is more realistic and practical. The prescribed forms of returns under the English Assurance Companies' Act 1909 and the (Indian) Insurance Act 1938 make it necessary for the companies in the respective countries to follow the prospective method; in America where almost all actuarial calculations have been reduced to predetermined formulae, approved by State Departments of Insurance, prepared tables of Policy Reserves are used.

Having discussed the Life Fund and its functions, let us turn to the investment of the assets that protect this fund.

Table No. 25.

Illustration of accumulating reserves, PROSPECTIVE METHOD, under an endowment assurance policy, Sum Assured: Rs. 1,000. Entry Age: 20. Term: 5 years. Net Annual Premium: $P_{20\,.\,5}$ Rs. 187.334. Basis: Mortality Oriental (1925-35) Ultimate, Interest 2½% per annum.

Age x	End of year t	Present value of Re. 1 payable to a person aged x on his survival to age 25 or at earlier death [net single premium] $A_{x+t:\overline{5-t}|}$	Total value of insurance still to be paid Rs 1,000 × [3]	Value of Re 1 per annum in advance for the remainder of term, by person aged x $a_{x+t:\overline{5-t}|}$	Value of future premiums Rs. 187,334 × [5]	Reserve per policy to nearest rupee [4] — [6]
1	2	3	4	5	6	7
20	0	.8848	884.8	4.723	884.8	—
21	1	.9065	906.5	3.832	717.9	189
22	2	.9289	928.9	2.915	546.1	383
23	3	.9519	951.9	1.972	369.4	583
24	4	.9756	975.6	1.000	187.3	788
25	5	1.0000	1000.0	—	—	1000

INVESTMENTS.

There are three main considerations in the investment of life assurance funds: (1) security of capital, (2) adequacy of yield and (3) diversification. Sometimes a fourth consideration is mentioned, namely ready convertibility; for that matter a consideration of general interest would be investments that aid life assurance business.

Security

In the investment of the policyholders' funds security may at first appear to mean "how best to employ the funds so as to lose none of the capital." That is a consideration of the highest importance for the reserves that go to build up the life funds leave no room for loss of capital; what is more they belong to the policyholders and are merely awaiting the calls to be made upon them to honour the obligations of the company. That the Government bonds would at all times represent the highest form of security cannot be denied and in the public mind security of capital is almost synonimous with government securities. That investing in the shares of industrial and commercial corporations would involve sharing in the risk of their business is also beyond dispute but even if Government Securities were the only form of investments open to an insurance company loss of some of the capital cannot be totally avoided. For consider what happens in the case of a company purchasing 2½% Government Loan in August 1946. The purchase price was at par; that is for an outlay of Rs. 100 the insurer obtained a bond valued at Rs. 100. If the insurer is forced to sell it now when his Rs. 100 stock is worth but Rs. 97 and he is prevented from reinvesting in other stock which would give him stock worth Rs. 100 at Rs. 97, the whole transaction would have involved him in some loss of capital. In the case of well-established and flourishing companies this loss potential would be greatly minimised for two very good reasons: (1) constant flow of new business and the steady income from business in force would preclude any need for the sale of securities (2) at the time of redemption alternative stock would probably be offered or become available for investment with but little loss of capital, if any. The second factor is especially the case in India where Government borrowings are not limited to the Central Government alone. Even so loss of capital by sale or redemption is a contingency, though remote and limited. Even otherwise changes in the price of money (controlled chiefly by factors of supply and demand, by variations in public confidence and by Government monetary policy) may change their market values, sometimes very considerably, requiring writing down of their book values, but not their intrinsic values. In the case of non-gilt-edged Stock Exchange Securities on the other hand changes may occur both in the market value and in the intrinsic value to a far greater extent for individual industries may flourish or decay, may expand or may contract, may become easily able or totally unable to meet their financial commitments. Further investments are never confined to Stock-Exchange securities and there are other types that appreciate or depreciate in value, for example properties, and investments whose value may be reasonably controlled, for example mortgages. It all goes to prove that security is a relative term and cannot always be identified with " How best to employ the funds so as to lose none of the capital "; more to the purpose may be " How best can the funds be employed so as to ensure absolute safety of capital." Fluctuations in market values may or may not be tractable; in any case they can be protected by capitalising part of the yield to form an ' Investment Reserve Fund ': but fluctuations in intrinsic values should not be a contingency to be provided for.

In the quest for security therefore the intrinsic worth of any security is much more to the point than any other consideration. Nevertheless there is much to be said in favour of diverting a reasonable portion of the total assets for investments in non-gilt-edged securities such as the debentures and preference or ordinary shares of well-managed and successful companies where the element of total loss from the failure of the companies is considerably limited while the advantages of a higher yield is a gain which no insurer can lose sight of. This is particularly true of life assurance companies which have the benefit of the most expert advice on investment matters. But there is no room for speculation.

Yield

Theoretically it may be possible to construct tables of premium rates without any consideration of the interest factor. However it has always been the custom to invest the assets and to credit the policyholders' funds with the interest earned on them. The problem of investment therefore cannot be entirely divorced from yield and a restatement of the first proposition may be: " How best to employ the funds so as to ensure absolute safety of capital and to obtain the greatest possible yield."

In the prevailing conditions life offices have adopted a very conservative view of future yield in their premium calculations and reserve values. Before the war it was usual for the companies to base their premiums at higher rates, but not so now;[1] all the same insurers have in the past obtained the rate of interest required to maintain life funds from the best class of securities over a long period, but when that was no longer possible premiums had to be increased. Yield is affected by the expenses of investment, by capital fluctuation and by taxation.

Security and yield will continue to be the most important factors for consideration at all times in respect of life insurance funds, but it is justifiable to adopt a reasonably liberal investment policy without indulging in speculation and set off a large part of the higher yield on less secured equities to meet any losses that might arise in the future. Mr. A. H. Bailey, Actuary of the London Assurance Corporation wrote in the middle of the last century that "It may seem a bold assertion that English funds are altogether unsuited for life assurance investments. For income they probably offer the best security the world has yet seen; but with us that is a secondary consideration; the capital, the security of

[1] See Chapter VIII.

which is our first object, is subject to very inconvenient fluctuations in value." The scope and range of investments have considerably widened since then but not the basic principle of safety of capital with the greatest possible yield. The Boards of Directors of several companies hold different views upon what is the most advantageous line to be taken from time to time and the resulting yields consequently vary.

Distribution

An accepted principle of investing life assurance funds has always been their distribution both geographically and among different classes of investments in such a manner as to strengthen the security, enhance the yield and aid life insurance business. Funds limited to one single class or to different classes dependent upon one another may often show violent fluctuations of values or yields, may become sensitive to economic changes and may prove unsuitable in the long run; a wise distribution does always maintain stability, minimise fluctuations arising from changes in normal economic factors or living conditions, widen the field of prosperity and increase their national utility.

Convertibility

The need for liquidity of assets in well-managed and flourishing companies may be negligible under normal conditions of business for it is rarely that they will be forced to sell any considerable portion of their investments to meet current claims. Income from new and renewal premia, rents, cash receipts from other sources such as maturities of past investments, sale of mortgages and the like more than pay for current payments. Moreover even if the unlikely were to happen a temporary period of depreciation could be tided over by borrowing; nevertheless it may be desirable to have a very limited portion of the assets in readily convertible investments against large-scale demands for cash surrenders or loans as might be made sometimes in the life of a company. No investments can ordinarily be sold at any time in the open market without incurring loss.

Suitable Investments

The Boards of individual companies follow different investment policies and the actual choice of a particular type of investment is largely a matter of personal preference. The post-war tendency of almost all governments is to assume wide powers in the direction and control of investments and in central planning of the monetary structure; individual preference may therefore be largely subservient to the larger national interests. Some of the suitable securities available may now be discussed.

(*i*) *Government Securities*

Apart from the element of compulsion introduced by State regulations three very good reasons make government securities the most widely accepted investments for life assurance funds: (1) they provide unimpeachable security of capital (2) they are the most readily realisable of permanent securities and (3) they give a wide variety of choice for satisfactory diversification. Here it may be pertinent to cite the investment policy of the Oriental. The outstanding feature of that policy has been its consistent preference for Government Securities. The original Articles of the Oriental formulated certain definite and original rules to 'remedy the defects thought to exist in the methods of European companies already at work in the country. Thus in addition to providing policyholders with a controlling interest, provisions were made in the constitution of the company, strictly prohibiting amalgamations and furnishing the highest order of security for its engagements; giving a fixed monetary value for every premium paid, by investing 80 per cent thereof in Government Securities in trust for Policyholders as their sole property to meet payment of claims; by Shareholders and Policyholders appointing their own Trustees, Auditors and Consulting Actuary to protect their respective interests; *by Funds being invested in Government Securities only, and remaining in India*, so as to afford absolute safety to both Shareholders and Policyholders.'[1] (Italics ours). By this policy which remained unchanged for over 70 years 'the company has not had to write off anything as bad debts out of its investments nor has been in doubt about the regular receipt of interest at stated intervals.'[2] In December 1946 a special resolution permitted the Board to widen the scope of investments.[3]

[1] Golden Jubilee Souvenir issued on 5 May, 1924.

[2] Diamond Jubilee Souvenir issued on 5 May, 1934.

[3] Sir Purshotamdas Thakurdas, presiding over the Extraordinary General Meeting of the Oriental on the 16th November 1949, said: "You will remember that in December 1946 your Company altered its Articles of Association, removing any restrictions imposed as regards investments of its funds outside what is required to be invested in Government securities only in terms of its Trust Deed. Your Company has lately commenced taking advantage of the freedom thereby secured and has been investing in high class mortgages and also shares and securities outside Government security class which yield a higher rate of interest than Government securities. In making these investments, your Board has paid primary attention to security of capital as the first canon of a good investment policy."

Before the Insurance Act 1938 came into force the general preference (with the exception of the largest companies) was for industrial shares as opposed to Government Securities because of the comparatively lower yield on the latter: nevertheless as the larger companies which controlled nearly 85 per cent of the investable funds preferred government securities, the overall percentage of investments in this class was the highest. Insurance Act 1938 directed the investment of 55 per cent of policy liabilities less deposits and policy loans, in Government and approved securities with the result that companies had to revise their investment programme hastily. Since then largely due to the reduced scope for good and safe 'non-speculative' non-gilt-edged securities Government securities have formed nearly 65 per cent of the total investments in spite of their low yield. It is almost axiomatic to say that the better the security the lower the yield: as a corollary it might be said that the greater the yield the more the demand and conversely the larger the demand from institutional investors the lower the yield.

Loans are issued by the Central, Provincial and State Governments. Government of India securities are of two types: terminable and non-terminable. The current rate of non-terminable loan is 3% having been reduced from 3½% in 1946. Terminable loans may be long-dated or medium-dated. Loans floated by Provincial and State Governments provide greater variety and increased yields.

A great drawback of all government securities is their liability to fluctuations; this may result in a certain amount of capital losses requiring adjustments from the Investment Reserve Fund. The extent of this fluctuation may be gauged from the following table:

4 per cent 1960-70 loan.

Market price during	1932	1938	1949	1950
Rs. 100 face value	Rs. 59-4	Rs. 107-10	Rs. 110-6	Rs. 110-4

British Colonial and Foreign Securities offer a limited scope for investments. Apart from the primary objection of sending capital outside India most of them are subject to conditions which are unsuited to Indian companies. The volume of foreign business written by Indian companies is still small although it is on the increase and, for some time, except to the extent of compulsory investments under government regulations in those countries, securities of foreign countries may not be very attractive to Indian companies.

Whilst on the subject of investments in Government securities it is pertinent to review the trend of yields in the principal countries of the world during the last decade. There was a general decline in yields especially in the United Kingdom, the United States, Canada, France and India. This decline continued during and immediately after the war as shown in the accompanying table. The cheap money policy adopted by these countries before, during and after the war has kept down the yields on Government bonds.[1]

"Before the war cheap money policy was adopted by several countries in order to raise the levels of employment. During the war the high cost of financing the war compelled the governments of these countries to pursue the policy more intensively so that they could borrow at a relatively lower cost. There were also attempts to stabilise the low yields and, if possible, to lower them still.

As will be seen from the said table, the yield on Government bonds in the United Kingdom had gone down from 3.46, the average of 1937, 38 and 39 to 2.60 in 1946 and in the United States from 2.59 to 2.19. In the latter country, there was a sudden rise in the yields during the years 1942, 43 and 44, but thereafter, the trend was downward again. In Canada, the decline continued upto 1947. The trend in Australia also was similar. In India, France and Switzerland the yields had gone down from 3.34, 4.09 and 3.47 in pre-war days to 2.79, 3.17 and 3.10 respectively in 1946.

The year 1947 saw a gradual rise in yields in all the countries named above except in Australia where the level of yield seems to have been almost stabilised. In other countries, the upward trend continued right up to the end of 1948. But the first quarter of 1949 witnessed a revival of the downward trend in the yields in the United Kingdom, the United States, Canada and Switzerland. In India, however, the rate of yield continued to remain practically at the level registered in December 1948, though a shade higher than the rate that prevailed during the earlier part of 1948. In France, the yield prevailed at a higher level in 1948 than in 1947, but recorded an appreciable decrease in the first two months of 1949 only to rise again in March.

[1] The accompanying resume and Table are reproduced with the kind permission of the Editor of the *Commerce*.

Table No. 26.

TABLE SHOWING YIELDS OF GOVERNMENT SECURITIES.

(Per cent.)

Date	U K.	U S.A.	Australia	Canada	France	India	Switzerland
Average for :							
1937	3.28	2.74	3.86	3.17	4.27	3.26	3.41
1938	3.38	2.61	3.76	3.09	4.04	3.20	3.24
1939	3.72	2.41	3.92	3.16	3.96	3.56	3.76
1945							
March	3.01	2.40	3.25	3.00	2.96	2.85	3.35
June	3.00	2.35	3.25	2.99	3.00	2.82	3.31
September	2.82	2.37	3.25	2.97	3.00	2.74	3.27
December	2.75	2.33	3.25	2.86	3.03	2.68	3.26
Average *	3.92	2.37	3.25	2.93	2.99	3.10	3.22
1946							
March	2.67	2.09	3.24	2.60	3.05	2.58	3.13
June	2.57	2.16	3 25	2.60	3.18	3.34	3.04
September	2.56	2.28	3.25	2.60	3.25	2.13	3.04
December	2.54	2.24	3.21	2.60	3.35	2.15	3.20
Average *	2.60	2.19	3 24	2 61	3.17	2.79	3.10
1947							
March	2.64	2.19	3.18	2.59	3.61	2.44	3.11
June	2.68	2.22	3.15	2.59	3.89	2.36	3.05
September	2.99	2.24	3.17	2.55	4.15	2.86	3.22
December	3.01	2.39	3.77	2.56	4.48	2.86	3.35
Average *	2.76	2.25	3.17	2.57	3.91	2.86	3.16
1948							
March	3.22	2.45	3.16	2.98	4.69	2.95	3.55
June	3.27	2.41	3.16	2.96	4.84	3.00	3.44
September	3.22	2.45	3.15	2.95	4.67	2.95	3.35
December	3.14	2.44	3.16	2.93	4.69	3.00	3.32
Average *	3.21	2.44	3.16	2.94	4.62	2.97	3.41
1949							
January	3.12	2.42	3.15	2.91	4.01	3.00	3.20
February	3.09	2.39	3.16	2.90	3.95	3.01	3.18
March	3.11	2.38	3.15	2.88	4.74	3.00	3.05
April	3.10	2.38	..	2.91	4.82	3.00	2.90

* Average for the respective years.

The general reversal of the trend in 1947 and its continuation into 1948 reflects the difficulty that was experienced by most of the countries in stabilising and consolidating the gains made in the cheap money front in the earlier years. The difficulty was due to increased demand for funds in the face of diminishing supply. In India, in particular, Government spending, which was responsible for the creation of large sums of money during the war years and in the immediate post-war year, stopped and with it the creation of fresh purchasing power also. As against this, the demand for funds from private trade and industry expanded. There was also heavy liquidation of Government loans by investors whose confidence had been undermined by the momentous political changes and disturbances as well as by doubts about the Government's ability to maintain cheap money policy. However, a marked rise in yields was averted by the sustained support extended by the Reserve Bank of India. The task was rendered needlessly difficult by the hasty manner in which the last British Finance Minister in India, Sir Archibald Rowlands, forced the yields down by putting through the conversion of the 3½ per cent undated loan into 3 per cent, undated and 2.3/4 per cent long dated loans. This step resulted in the cheap money policy being carried too far. Subsequent developments in the country necessitated a certain amount of retreat and this was carried out in a tactful and judicious manner by the Reserve Bank authorities.

India was not the only country in the world to make such a tactical retreat. Other countries also had to do so, though in varying degrees. The United Kingdom recognised the need for a gentle hardening of interest rates last year by issuing to shareholders of nationalised concerns long-dated stocks carrying interest at 3 per cent as against the previously established long-term rate of 2½ per cent. The United States Government also allowed an upward movement in its bond yields with a view to discouraging monetisation of the public debt. To this end short-term rates were deliberately allowed to rise but this had its inevitable effect on long-term yields also in spite of the Federal Reserve Board's support to long-term loans. Canada too fostered a rise in bond yields as an anti-inflationary measure. This was done by the Bank of Canada lowering its support to prices for Government bonds."

The retreat from the cheap money policy (or shall we say ultra-cheap money policy?) has been slow but steady, and the current trend of interest rates in the long-term capital market is on the increase.

Other Approved Securities

Municipal, Port Trust and Improvement Trust securities of the three principal cities of Bombay, Calcutta and Madras constitute the principal forms of investments classified as 'approved securities'. They are a miscellaneous group of acceptable investments secured by the respective Governments. The most attractive of these issues do not offer a high yield because of the keen demand from institutional and private investors but offer a high level of security and diversification. A consideration of the highest importance with regard to these loans is that most of them have been issued for the financing of specific-welfare projects and aid in raising the standards of living in the respective cities which in turn aid life assurance business.

Public Corporations

Many worthwhile schemes of the Government have been held up by the paucity of funds and the Government had to go to outside agencies like the International Monetary Fund to get the much needed finances for others. The relatively smaller schemes are being directly financed by the Treasury. Life Assurance companies have among them nearly Rs. 150 crores for investment and this amount is being increased annually at present by about Rs. 15 or Rs. 16 crores. It is therefore pertinent to pose the question: "How far is it possible to mobilise these funds directly in the financing of national projects?"

The Telephone Industries is a case in point; the nationalised transport systems are another; the various projects for nationalising electricity companies constitute a third. They need capital, expert direction, technical aid, absolute freedom from political control; and they make profits. They hardly fit in with the general administrative machinery but stand as indepedent industrial units. Why not then run them through Public Corporations with capital subscribed by the Government and institutional investors?

The Government of the United Kingdom run some of their nationalised enterprises through Public Corporations. Corporate Bonds like bonds of railways, public-utility companies (gas, electric, transit and other public-service corporations) and miscellaneous industrial corporations are normally the backbone of the bond investments of life insurance companies in the United States; so also in Canada. In India on the other hand Railways and other Public Utilities have either been or may soon be nationalised thus limiting the range of acceptable, guaranteed, stock which give full security, good yield and reasonable scope for diversification. The Industrial Finance Corporation was started as a Government enterprise with capital subscribed by the Government, Reserve Bank, Joint Stock Banks and institutional investors; it is a success and renders useful service to deserving industries by granting loans. The success of any other Public Corporation that may be started in the future would naturally depend upon a variety of factors such as stable economic conditions, efficient administration and reasonable profits; but the beneficial results would include early realisation of centrally planned national schemes and a certain amount of check on speculative investment of life funds.

Real Estate

The modern tendency is to limit the possession of house property to such buildings as may actually be needed for the use of the insurers and to such estates as may be acquired in the course of mortgage transactions. The high rates of depreciation on buildings and the greater incidence of fluctuations in value partly account for this while the difficulty of finding suitable tenants particularly in times of economic depression is an important consideration. The Hindustan Co-operative had shown particular preference for investments in real estate before the war; said a booklet issued by them sometime ago "A special feature is the investment policy of the Society which has contributed so greatly to its prosperity. It did not slavishly adopt the system of investing its funds in gilt-edged securities alone—a system so greatly over-rated, but in consonance with security, sought to utilise those funds directly in civic and industrial developments. Hindustan can rightly claim to be pioneer in the field of facilitating the provision of homes for people with small means. The success of the policy both from the point of view of security and returns is amply justified by the working of the Society." The policy was altered later to conform to the provisions of the Insurance Act 1938 and in 1948 about 65-70 per cent of the assets were held in Government securities.

Mortgage Loans

Loans on the first mortgages of immovable properties completely meet the requirements of security and yield and offer adequate opportunities for distribution of holdings. They are therefore eminently suitable for investments, provided the properties are kept under close observation and an adequate margin is maintained between the loan and the appraised value at all times.[1] Mortgage loans repayable by annual instalments which wipe them off in a period of fifteen or twenty years are perfectly satisfactory, as the cash so realised annually may be available for reinvestment and the margin between the loan and the value of the property is increased. Depreciation on a mortgaged estate is borne by the owner and the interest is a net yield.

[1] See also later paragraphs dealing with Government Provisions.

House purchase schemes provide an excellent method of investment in mortgages. The usual procedure is to grant a loan on the joint security of (usually an endowment) policy and the first mortgage on a building to be erected or to be purchased; such a loan bears a definite relation to the amount of the policy and the cost of the building and is allowed to be repaid, with interest, in easy instalments. On the policy becoming a claim, any outstanding loan is deducted from the amount payable. At least one office issues a specific form of insurance to facilitate house purchase whereby the instalments to be repaid are included in the premiums on the policy and a monthly premium of Rs. 90 at age 25 payable for 15 years secures a Rs. 10,000 loan towards a house costing Rs. 15,000 on which Rs. 5,000 has been paid by the policyholder. These schemes are eminently attractive to the policyholder, for in addition to providing an easy method of raising a loan for house purchase, the terms of issue free the dependents of all liability on the loan in the event of the insured's early death. The permanency of the arrangement, attractive yield (which is fixed by the company) and unimpeachable security benefit the insurer and the scheme merits more vigorous pursuit than has hitherto been evinced. For example the numerous housing schemes sponsored recently by co-operative building societies provided opportunities for the issue of insurance cover against the instalments due on them; the instalments are either annual or monthly, payable for twenty or twenty-five years and a suitable endowment policy on the life of a member would take care of any outstanding instalments in the event of his death before all the payments have been made.

There are two opinions on the advisability of insurance companies investing in residential buildings, but no difference of opinion whatever in promoting housing schemes, especially where policies are issued on the lives of the members to provide, together with a mortgage on the building, sufficient security for the issue of a specific loan, if needed, or to guarantee payment of any outstanding instalments when a member died. In England individual housing schemes are very popular; in the United States under the National Housing Act, the Federal Housing Commissioner is authorised to insure first-mortgage loans of various types which are made by financial institutions including life insurance companies approved by the Federal Housing Administration; the mortgages are issued and insured under the 'mutual mortgage' plan, which among other requirements, provides for monthly payments of 'premium' by the mortgagor to the Federal Housing Administration.

Farm Mortgages

In a country of the size of India, with a predominantly agricultural population, insurance funds would, on a superficial consideration, seem to provide excellent sources to finance agricultural loans. But unfortunately it has not been possible to use them in this manner so far. Frequent fragmentation of land has reduced individual holdings to pitiable levels and the owner is hardly able to eke out a bare living on the land. Where the holdings are large and output satisfactory finance is hardly needed; where finance is needed security is absent. Commercial farming is rare enough and the development of cash crops has still not emerged out of the blue-print stage. Indebtedness can generally be traced to the need for short-term finances of very small amounts; the amounts required are so small and the security so inadequate that organised institutions like banks can rarely meet the need. The period of the loan is generally more than what a bank would normally care to lend for but much shorter than what an insurance company would desire. If commercial farms were developed and the loans required for longer periods for example fifteen or twenty years, insurance companies can meet quite an appreciable demand, provided the security is good and safe.

Company Shares

Prior to 1939 ordinary and preference shares of Joint Stock Companies formed the most important outlet for several companies, although in view of the limited investments made by the larger companies, the overall percentage of the investments in shares did not, at any time, constitute more than 8 except in quite recent times.

Speculation is inherent in the holding of shares, and, unbridled, may lead to serious repercussions. That apart, where the holdings are small, the investment is at the mercy of the holders of majority shares; where they are large, the temptation to obtain full control and eventually active participation in fields of business foreign to the purpose of insurance may be too strong. Nevertheless the advantages of higher yields are real, and speculative tendency is capable of arrest. Highly speculative shares are, in any case, objectionable if only because of the large-scale capital fluctuation inherent in them. The Insurance Act 1938 did not place any quantitative restriction on the amount of shares held by a company within the limits of the 45% liabilities at its disposal; yet life offices which had any controlling interest in subsidiary institutions were very few but abuses of the limited freedom at their disposal were numerous. Of the abuses the inter-locking of funds with industrial and banking companies was the most general, and threatened, at one stage, to shake the very foundation of private financial structure. That Act as amended in 1950 severely restricts freedom to invest in shares.

Government Restrictions

Government control on the investment of the policyholders' funds arises out of four considerations (1) to ensure absolute safety of capital by preventing speculation; this is achieved by restrictions on the types of investments permitted, (2) to eliminate malpractices: this is achieved by the rules regarding periodical submission of returns of investments and the right for the Government to de-invest the funds from undesirable securities, (3) to confine the operation of life offices to their particular fields of activity: this is achieved by the restraint on the acquisition of more than a small percentage of the shares of other companies and by the strictures on the directors and other officers of the companies, and (4) to prevent misappropriation: this is achieved by various restrictions in the Act.

The current provisions of the Insurance (Amendment) Act 1950 may now be analysed. Restrictions include compulsory investment of 50 per cent of the Reserves in Government and Approved Securities, and directions to invest the 'controlled' fund in securities enumerated in the Act.

i. *Government and approved Securities* (Section 27). Compulsory investment in Government and Approved Securities relates to 50 per cent of the mean liability for matured claims and on maturing policies less outstanding premiums (within their days of grace) and policy loans—25 per cent in Government Securities and 25 per cent in Government or Approved Securities. Statutory deposits under Section 7 (or 98)[1] are treated as investments in Government Securities. The previous section 27 of the Insurance Act 1938 had stipulated 25 per cent and 30 per cent as the respective proportion of investments in Government and in Government or Approved Securities; it was amended in April 1950 to 25 per cent and 25 per cent. Securities of the United Kingdom were treated as approved securities under the previous provisions, but, under the Amendment, they will cease to be so after four

[1] Section 7 relates to Proprietary companies and 98 to Mutual and Co-operative Societies.

years. The chief forms of approved securities are Municipal and Port Trust Loans, and other Securities Guaranteed by the Government.

ii. *Controlled Fund* (Section 27A). The Act as amended in 1950 stipulates the investment of the balance of the Reserves and other insurance funds in certain well-defined channels: Approved Securities; Securities of, or guaranteed by the Government of the United Kingdom; Debentures and Securities issued by Provincial Governments and Municipalities; Securities of Housing Societies constituted by the Government; Debentures secured by the assets of any company which has paid interest in full for at least five out of the seven years immediately preceding the issue of the debentures; Debentures or Preference Shares of a company which has paid dividends on ordinary shares for at least five out of the seven years immediately preceding; Shares of a company guaranteed by another company provided the latter has paid dividends on its ordinary shares for at least five out of seven years immediately preceding and the guaranteed shares are not in excess of 50 per cent of the total shares (preference and ordinary) of the guaranteeing company; Shares of any company which has paid dividends (including bonus) of at least 4 per cent for seven out of the nine years immediately preceding; First mortgages on immovable property provided it is not lease-hold with an outstanding term of less than 30 years and its value exceeds by one-third, or if consisting of buildings, by one-half the amount of the mortgage; immovable property free of all encumbrances; Policy Loans within their surrender value: Fixed deposits with scheduled banks; Debentures, shares or fixed deposits in Co-operative Societies; such other investments declared approved from time to time by the Government.

A sum not exceeding 15 per cent of the Reserves may be invested at the discretion of the insurer in (1) Banking or investment company shares, provided the shares so invested in any one company do not exceed 2¼ per cent of the Reserves or 2 per cent of the total subscribed capital of the company whichever is less, with the exclusion of shares in the Imperial Bank, and (2) Shares and Debentures of Joint Stock Companies, provided the investment in any one company does not exceed 2¼ per cent of the Reserves or 10 per cent of the subscribed share capital, including debenture issues, whichever is less, with the exception of shares in a subsidiary company carrying on insurance business. These investments require the unanimous consent of the directors present at a meeting and eligible to vote, special notice of which has been given to all the directors then in India and require immediate notification to the Controller of Insurance. Where the investment is on partly paid-up shares the uncalled liability of the shares will be added on to the amount invested to arrive at the stipulated percentages. Not over 3 per cent of the total funds may be deposited with any one bank, excluding any premium collected by the bank on behalf of the insurer during the preceding thirty days; and not over one-tenth of the total funds may be offered as security for any loan raised for investment purposes, the balance of the investments being held free of encumbrances, charge or hypothecation or lien. All the funds pertaining to the life assurance business has been classed as "Controlled Fund."

The 1950 Amendment has invested the Central Government with powers to de-invest any of the investments made, if, in the Government's opinion, they are unsuitable or undesirable. The Act further requires submission of returns in prescribed forms, with full details of all current investments (and certified as to their free holdings) as on the last day of March, June, September and December every year within thirty days.

General Observations

Such then are the general provisions for the control of investments. The objectives of State control are commendable; the Government's right to restrict investments in well-defined channels is beyond dispute, but the exercise of that right in a manner that would curtail freedom to formulate individual investment policies may be open to question. Viewed thus the Indian law is embarrassing and the vigorous protest against section 27 of the Insurance Act 1938 was the result.

There is another angle. In exercising the freedom to invest, if security of capital is made subservient to other considerations the interests of the policyholders may demand active State intervention, no matter how small the number of companies that overstep their freedom, for the Government's responsibility to the public is far more important than any question of upholding the inherent freedom of the companies. That was what happened in 1938. How the firm refusal of the Government to amend section 27 even in the face of an almost unanimous demand turned out to be for the good of insurance will be discussed in Chapter XVIII.

But the issue was all along confused. Ostensibly to aid national uplift a section of the public sought to divert a major share of the funds to Government controlled securities. Such a step will be ill-advised. Democracy thrives where private capital and individual initiative are encouraged. The increasing tendency of post-war democratic governments is to assume increasing control over the investment of private capital and over the whole field of industry; so long as that control encourages rather than throttles individual initiative, centralised planning is good and may even be essential for the balanced growth of national wealth. A point that is very easily lost sight of is that the wealth itself originates from individual enterprise and initiative, and a policy which curbs initiative may soon degenerate into a negation of democracy. National wealth in America grew under a system of democracy which never interfered with private enterprise; Britain became a nation of traders because of Government encouragement and not interference. If central planning is confined to broad outlines of policy and private capital is given ample freedom to choose investments which do not run counter to that policy, there can be no question of conflict. In the investment of life assurance funds if the restrictions are limited to directions for the development of an investment policy along generally accepted lines, the provisions, though irksome, may have to be endured for the common good; but if those restrictions are motivated by considerations which have no connection with insurance, they will have to be resisted. There is no justification to assume that the Government policy has so far been actuated by any motive but the protection of policyholders' funds. And the future would show the effects of these restrictive provisions.

There is a parallel. The abuses in the investment policy of several companies in the United States which resulted in the appointment of the Armstrong Enquiry Commission in 1905 will be detailed in Chapter XV. The recommendations of that Commission were adopted as the Insurance law in the State of New York and later followed by many other States. These laws were severely restrictive. Investments in both common and preferred stocks were prohibited in New York; mining stocks were forbidden in Connecticut; stocks of oil or canning companies were banned in Idaho. Later amendments partially removed some of the restrictions in some States, intensified them in others. Thus the New York law was amended in 1928 to permit investments in preferred and guaranteed stocks of corporations under certain conditions and limitations. The Robertson Law of Texas directed the investment of three-fourths of the reserves on policies on Texas residents in

Texas securities. The net result is that every State law regulates investment policy, and the net effect has been to make the companies stronger. American offices today write the highest *per capita* insurance of all countries; their ability to do so lies in the policy that made them strong. Perhaps the severe restrictions of the new Indian law may strengthen the companies in a like manner.

Distribution of Assets

The growth of the life assurance fund and the assets that protect it is given in the following table.

Table No. 27.

Total Life Funds and Total Assets of Indian Companies. (Assets include the assets of composite companies writing life business)

(lakhs of rupees)

Year	Total Assets at end of the year	Total Funds at the end of the year	Percentage of (3) on (2)
(1)	(2)	(3)	(4)
1913	6,00.0	5,82.9	97.2
1914	6,78.0	6,36.2	93.9
1915	7,89.7	6,77.1	85.7
1916	8,48.9	6,85.9	80.8
1917	9,43.7	7,20.1	76.3
1918	9,18.7	7,36.0	80.1
1919	9,81.8	7,87.1	80.2
1920	10,55.9	8,46.5	80.2
1921	10.87.8	8,62.4	79.3
1922	11,76.3	9,36.9	79.6
1923	12,70.6	10,29.7	81.0
1924	13,74.1	11,45.9	83.4
1925	14,85.6	12,57.1	84.6
1926	16,22.4	13,75.9	84.8
1927	17,73.0	15,71.2	88.6
1928	21,79.3	17,16.7	78.8

Year	Total Assets at end of the year	Total Funds at the end of the year	Percentage of (3) on (2)
(1)	(2)	(3)	(4)
1929	23,77.6	18,73.2	78.8
1930	25,48.6	20,52.9	80.5
1931	28,36.5	22,44.1	79.0
1932	31,18.7	25,07.7	80.4
1933	35,84.0	28,71.8	80.1
1934	40,19.9	31,87.1	79.3
1935	43,85.5	35,19.2	80.2
1936	48,22.1	40,24.6	83.5
1937	53,53.9	45,09.6	84.2
1938	59,58.4	50,56.8	84.9
1939	67,15.9	56,33.4	84.0
1940	73,67.0	62,42.5	84.7
1941	81,72.8	68,81.9	84.2
1942	93,62.1	75,97.9	81.1
1943	1,01,94.7	84,24.7	82.6
1944	1,17,00.0	94,53.9	80.8
1945	1,31,98.9	1,07,48.7	81.4
1946	1,45,65.2	1,16,58.8	80.0
1947	1,60,26.4	1,29,68.9	80.9
1948	1,83,73.3	1,50,50.2	81.9

(All figures calculated from entries in the *Indian Insurance Year Books*).

The accompanying graph illustrates the growth (see page 128).

There was no law regulating insurance prior to 1912 and the earlier companies followed their own preference. Thus the Oriental showed a marked preference for Government Securities; the Bombay Mutual granted loans on the security of policies only after 1898; the Bharat actively participated in the promotion of joint stock companies in the early years. The 1912 Act left investments alone. Government regulated investments for the first time in 1939 and further amended the provisions in 1950. The accompanying tables give the distribution of assets both by amounts and by percentages from 1914.

Table No. 28.

Distribution of Assets, 1914-38 (in lakhs of rupees)

Year	Mortgages on Property	Loans on Policies	Loans on Stocks & Shares	India Govt Securities	British & Colonial Securities	Port Trust, Imp Trust Municipal	Company Shares	Land and House Property	Agents' Balances	Accrued Interest	Deposits, Cash Balances	Miscellaneous	Preliminary Expenses, Deficits
(1)	(2)	(3)	(4)	(5)	(6)	(7)	(8)	(9)	(10)	(11)	(12)	(13)	(14)
1914	13.0	37.0	5.0	401.0	1.0	109.0	12.0	37.0	21.0	6.0	17.0	4.0	15.0
1915	19.9	47.1	2.9	472.4	1.0	125.2	12.9	41.7	20.0	7.1	15.4	8.3	15.8
1916	24.8	55.3	2.5	500.3	..	133.5	15.7	43.4	19.1	8.0	21.4	8.9	16.0
1917	29.9	68.5	2.0	561.4	..	144.8	19.0	51.1	14.2	9.6	23.5	4.4	15.3
1918	14.4	73.1	2.3	539.2	..	138.8	15.1	57.2	15.3	10.2	28.9	9.7	14.6
1919	21.7	75.9	3.7	586.2	..	143.8	23.9	63.3	16.3	11.3	17.0	4.6	14.2
1920	32.1	80.9	9.1	624.4	..	150.3	21.7	62.2	19.3	12.5	27.3	6.9	9.1
1921	36.0	80.8	18.2	639.1	..	153.9	16.9	62.2	21.7	13.4	24.5	9.5	11.8
1922	37.3	84.3	15.7	695.3	..	157.9	26.5	70.4	28.5	9.7	27.0	8.8	14.9
1923	57.4	91.1	21.5	734.5	..	168.6	28.4	74.4	32.9	10.1	27.1	6.5	18.1
1924	68.6	100.5	24.7	803.7	..	174.9	26.5	75.9	32.8	11.6	28.7	8.9	17.2
1925	69.5	112.1	13.9	794.9	..	256.8	49.5	82.3	39.6	9.7	31.7	8.3	17.5
1926	78.3	123.3	13.0	858.7	..	282.9	57.3	89.4	44.5	9.9	36.2	10.8	18.2
1927	86.9	140.5	12.9	924.7	..	316.3	66.4	101.8	50.1	11.4	38.7	10.7	12.9
1928	91.9	159.0	22.8	1132.8	43.8	352.5	74.3	118.2	66.3	24.1	71.1	10.1	12.6
1929	92.7	183.4	41.7	1227.5	52.2	359.7	79.9	127.1	83.4	26.0	79.9	12.9	11.2
1930	94.9	215.1	22.5	1061.6	349.0	382.0	70.4	135.2	88.7	8.5	70.3	39.1	11.3
1931	104.7	262.6	29.6	1463.6	50.8	397.4	117.1	145.7	101.0	31.9	75.0	43.4	13.6
1932	118.2	306.5	37.0	1535.3	53.8	444.5	129.7	159.1	121.2	31.0	109.5	56.2	16.8
1933	135.1	341.9	5.2	1785.2	44.8	502.5	169.0	190.8	171.7	..	128.9	90.8	18.5
1934	158.4	371.9	17.4	2022.0	46.3	509.0	218.3	218.1	191.7	..	146.3	95.4	25.1
1935	182.2	401.4	27.2	2231.7	43.9	461.2	271.9	237.2	210.7	..	182.6	110.7	24.7
1936	194.9	440.4	13.9	2504.1	28.8	485.4	327.0	289.1	175.0	43.7	192.6	98.8	28.4
1937	210.3	478.9	15.7	2770.6	38.8	516.3	393.5	320.5	189.3	43.5	205.7	137.9	33.1
1938	203.6	548.2	16.9	3146.3	36.0	539.8	421.9	385.2	215.6	44.2	216.3	145.6	38.7

Distribution of Assets by Percentages, 1914-38

1914	1.92	5.46	0.74	59.15	0.14	16.08	1.77	5.46	3.10	0.88	2.80	0.29	2.21
1915	2.52	5.97	0.38	59.82	0.13	15.85	1.64	5.27	2.53	0.89	2.22	0.77	2.00
1916	2.92	6.52	0.30	58.93	..	15.72	1.85	5.11	2.24	0.94	2.75	0.83	1.89
1917	3.17	7.26	0.21	59.50	..	15.34	2.01	5.41	1.51	1.01	2.73	0.22	1.62
1918	1.57	7.95	0.25	58.69	..	15.10	1.65	6.22	1.67	1.11	3.41	0.80	1.58
1919	2.21	7.73	0.37	59.71	..	14.64	2.44	6.44	1.66	1.15	1.98	0.22	1.45
1920	3.04	7.66	0.86	59.14	..	14.23	2.05	5.89	1.83	1.19	2.87	0.37	0.87
1921	3.31	7.42	1.67	58.75	..	14.15	1.56	5.72	1.99	1.23	2.59	0.53	1.08
1922	3.17	7.17	1.33	59.11	..	13.43	2.25	5.99	2.42	0.82	2.61	0.43	1.27
1923	4.52	7.17	1.69	57.81	..	13.27	2.24	5.85	2.59	0.80	2.42	0.22	1.42
1924	4.99	7.32	1.80	58.48	..	12.74	1.93	5.52	2.39	0.84	2.35	0.39	1.25
1925	4.67	7.54	0.94	53.51	..	17.28	3.34	5.54	2.66	0.65	2.42	0.27	1.18
1926	4.83	7.60	0.80	52.91	..	17.44	3.53	5.51	2.74	0.62	2.53	0.37	1.12
1927	4.90	7.92	0.73	52.15	..	17.84	3.74	5.74	2.82	0.64	2.51	0.28	0.73
1928	4.22	7.30	1.05	51.97	2.01	16.17	3.41	5.42	3.04	1.11	3.26	0.46	0.58
1929	3.90	7.71	1.75	51.64	2.19	15.14	3.36	5.34	3.51	1.09	3.36	0.54	0.47
1930	3.69	8.37	0.87	41.34	13.59	14.88	2.74	5.26	3.45	1.11	2.74	1.52	0.44
1931	3.69	9.26	1.04	51.61	1.79	14.01	4.13	5.14	3.56	1.12	2.64	1.53	0.48
1932	3.79	9.83	1.19	49.22	1.73	14.26	4.16	5.10	3.88	0.99	3.51	1.80	0.54
1933	3.77	9.54	0.14	49.81	1.25	14.02	4.71	5.32	4.79		3.60	2.53	0.52
1934	3.94	9.25	0.43	50.32	1.15	12.66	5.43	5.42	4.77		3.64	2.37	0.62
1935	4.15	9.15	0.62	50.91	1.00	10.52	6.20	5.41	4.80		4.16	2.52	0.56
1936	4.04	9.13	0.29	51.93	0.60	10.07	6.78	5.99	3.63	0.91	3.99	2.05	0.59
1937	3.93	8.94	0.29	51.74	0.72	9.64	7.35	5.98	3.53	0.81	3.84	2.57	0.62
1938	3.41	9.20	0.28	52.81	0.61	9.06	7.08	6.47	3.62	0.74	3.63	2.44	0.65

Table No. 28—(*Contd.*)

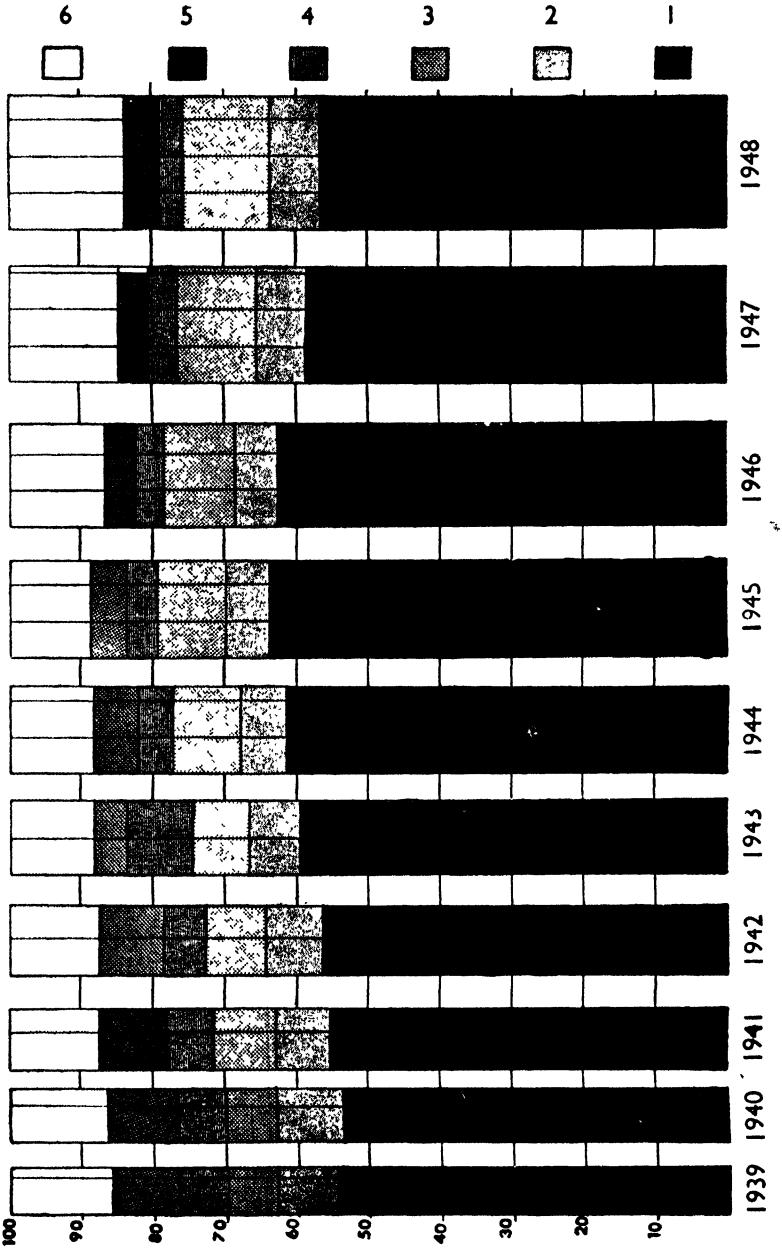
Distribution of Assets, 1939-48 (in lakhs of rupees)

Year	Mortgages on Property	Loans on Policies	Loans on Stocks & Shares	India Govt. Securities	British & Colonial Securities	Port Trust, Imp. Trust, Municipal	Company Shares	Land and House Property	Agents' Balances	Accrued Interest	Deposits, Cash Balances	Miscellaneous	Preliminary Expenses, Deficits
(1)	(2)	(3)	(4)	(5)	(6)	(7)	(8)	(9)	(10)	(11)	(12)	(13)	(14)
1939	203.9	627.0	48.1	3634.9	35.7	555.3	455.4	462.1	241.0	46.5	232.4	131.5	41.6
1940	218.1	716.8	46.3	3942.0	50.6	587.9	509.8	519.5	258.1	50.8	322.8	99.5	44.8
1941	210.9	762.3	47.1	4496.6	45.0	592.9	697.8	546.0	279.9	54.4	298.5	97.1	44.6
1942	192.4	859.0	49.9	5278.1	64.9	665.3	766.5	571.3	310.7	60.1	397.5	98.9	43.7
1943	156.1	790.3	55.1	6048.0	85.3	673.2	811.6	571.9	346.5	60.6	454.9	98.0	38.8
1944	130.2	728.8	70.0	7189.2	73.8	670.4	1099.7	554.7	429.1	69.2	530.0	112.8	42.7
1945	135.5	672.3	65.9	8436.9	115.7	678.6	1239.3	549.9	500.5	75.8	556.5	129.3	41.8
1946	164.0	609.4	94.1	9020.8	114.6	746.8	1432.1	532.6	642.4	76.1	788.9	187.8	43.9
1947	307.0	689.7	123.8	9380.6	117.7	953.1	1778.4	615.5	623.6	81.5	830.9	265.6	42.9
1948	433.7	816.0	195.8	10452.0	248.0	984.9	2260.7	654.5	842.5	92.5	891.4	560.4	51.5

Distribution of Assets by Percentages, 1939-48

Year	(2)	(3)	(4)	(5)	(6)	(7)	(8)	(9)	(10)	(11)	(12)	(13)	(14)
1939	3.04	9.34	0.72	54.13	0.53	8.27	6.78	6.88	3.59	0.69	3.46	1.96	0.61
1940	2.78	9.80	0.64	53.88	0.69	8.03	6.97	7.10	3.53	0.69	4.41	1.36	0.62
1941	2.58	9.33	0.58	55.02	0.55	7.25	8.54	6.68	3.43	0.68	3.53	1.20	0.56
1942	2.06	9.18	0.53	56.40	0.69	7.21	8.19	6.10	3.32	0.64	4.25	1.06	0.47
1943	1.53	7.76	0.54	59.35	0.84	6.61	7.96	5.61	3.40	0.59	4.47	0.96	0.38
1944	1.11	6.23	0.60	61.44	0.73	5.74	9.40	4.74	3.67	0.59	4.53	0.96	0.36
1945	1.03	5.09	0.50	63.93	0.88	5.14	9.39	4.17	3.79	0.57	4.22	0.98	0.31
1946	1.13	4.22	0.65	62.41	0.79	5.17	9.99	3.68	4.44	0.53	5.39	1.30	0.30
1947	1.92	4.31	0.76	58.59	0.74	5.94	11.11	3.83	5.13	0.58	5.18	1.65	0.26
1948	2.35	4.41	1.06	56.55	1.34	5.33	12.23	3.54	4.56	0.50	4.82	3.03	0.28

Chart No. 7 (page 127): Qualitative and Quantitative analysis of assets after the Insurance Act 1938 became operative. (1) Government Securities, (2) Approved Securities under section 27, (3) Company shares, (4) Real Estate, (5) Policy Loans, (6) The rest. Each vertical division of the assets for each year represents Rs. 50 crores.



PERCENTAGE DISTRIBUTION OF ASSETS.

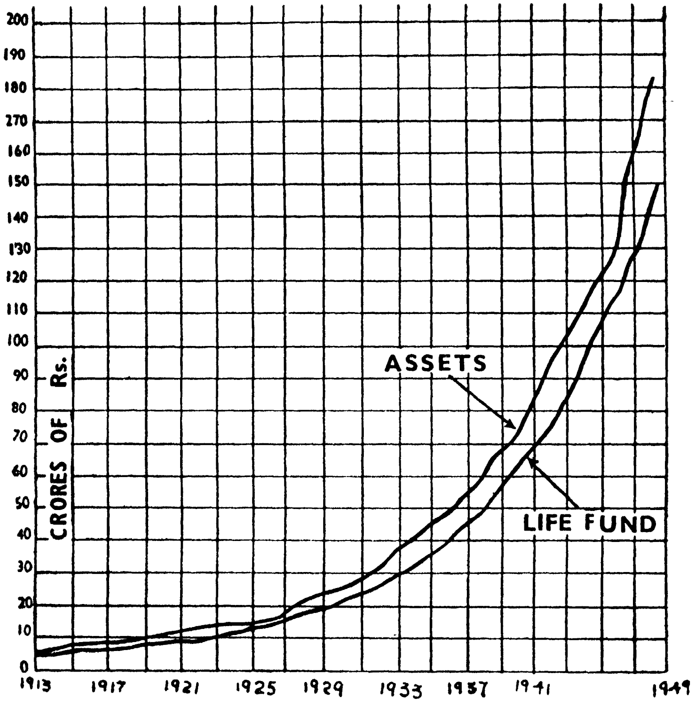
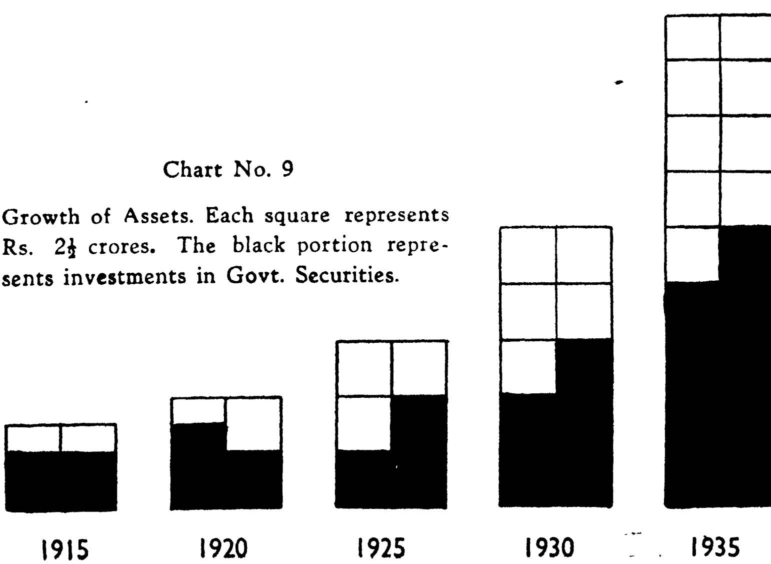


Chart No. 8: Growth of Assets and Life Funds.

Chart No. 9

Growth of Assets. Each square represents Rs. 2½ crores. The black portion represents investments in Govt. Securities.



The composition of the different classes of investments that go to make up the assets shows but little change during the last thirty-four years, for much as the investment policies of individual companies have differed, established offices with their huge funds and their consistent and distinctive character have exerted a balancing influence over the composite percentages: in this the Oriental's influence has been the most profound.

Take Stock Exchange Securities for instance. They have been the backbone of life insurance investments here, as elsewhere, with Government and semi-Government securities getting the pride of place, but the overall percentage of investment in Government of India Securities has hovered around 55 before 1939 directly due to the Oriental:

Table No. 29.

Average for years	1914-19	1920-29	1930-34[1]	1935-39	1940-45	1945-48
Government[2] Securities	59.30%	55.55%	50.24%	52.30%	57.22%	60.37%
Other approved Securities	15.50%	15.59%	15.22%	10.20%	7.65%	6.48%
Company Shares	1.89%	2.74%	4.23%	6.84%	8.21%	10.68%

The six years 1914-19 showed an average investment of 59.30% in Government of India Securities: the Oriental dominated the period, its share of the total life funds standing at 75% in 1914 (Rs. 4.72 crores out of Rs. 6.36 crores for the whole of India) and at just over 65% in 1919 (Rs. 5.16 crores out of Rs. 7.87 crores). In the twenties the percentage in Government securities fell from 59.30% to 55.55; approved securities remained unchanged and company shares had an increase but less than 1%. The fall in the Government securities seems to have been taken up by mortgages on real estates. At the height of the depression (1930-34) Government Securities accounted for only 50% of the total assets but the share of the equities rose to 4.23%. The next five years saw a slight increase in Government securities, a proportionate increase in equities but a fall of 5% in approved securities. This was a time when some of the life offices floated indiscriminately were equally indiscriminate in violating the best canons of sound underwriting :

[1] These averages are exclusive of the figures for 1930.
[2] Include United Kingdom and Colonial securities.

Table No. 30.

(figures in lakhs of rupees)

	1936		1938	
	Exclusive of Oriental	All-India	Exclusive of Oriental	All-India
Life Fund ..	2104	4025	2748	5057
Govt. Securities ..	1004[1]	2504	1326	3146
% to total assets ..	35.63	51.93	37.22	52.81
Approved Securities ..	380	514	442	576
% to total assets ..	13.48	10.67	12.41	9.67
Company Shares ..	322	327	411	422
% to total assets ..	11.43	6.78	11.54	6.47

Figures taken from the Year Books for 1937 and 1939. United Kingdom securities are included under Approved Securities

Four years later the restricted provisions of the Insurance Act 1938 altered the composition of investments in Stock Exchange Securities thus:

Table No. 31.

(figures in lakhs of rupees)

	1942		1945	
	Exclusive of Oriental	All-India	Exclusive of Oriental	All-India
Life Fund ..	4455	7598	6747	10749
Govt. of India Securities ..	2512	5278	4970	8437
% to total assets ..	43.29	56.40	55.29	63.93
Approved Securities ..	569	730	613	794
% to total assets ..	9.81	7.80	6.82	6.02
Company shares ..	731	767	1180	1240
% to total assets ..	12.60	8.19	13.13	9.39

Investments in company shares have shown a steady and consistent increase from under 2% in 1915 to one-eighth of the total thirty years later.

[1] Out of Rs. 1004 lakhs in Government Securities in 1936 Rs. 195 lakhs related to Deposits under the 1912 Act. It is interesting to note that on 31st December 1937 fifty-six companies were in arrears of deposit to the extent of Rs. 7.5 lakhs.

Mortgages

The composite percentage of investments in mortgages are likewise misleading for the Oriental did not include mortgages among its investments until quite recent times. Thus in 1936 mortgages formed 6.92% of the assets of the companies excluding the Oriental as against 4.04 for all-India. In that year the Hindustan alone accounted for nearly one-third of the total investments on mortgages of House Property (Rs. 66.5 lakhs against Rs. 194.9 lakhs for all the companies).

Land and House Property

With the growth of funds the investment in real estate has shown a consistent increase every succeeding year; the composite percentage, however, remained stationary between 5 and 6 until after 1945 the inflated prices prevented acquisition of new buildings to the same extent as the increase in assets, and brought down the percentage to 4 and less. In 1936 the Hindustan and the Oriental together accounted for over 36% of the total investments in Land and House Property; in 1945 30%.

Policy Loans

These reflect the financial needs of the public and may be influenced by the economic status of the policyholders. The composite percentage shows but slight variation during the last 35 years probably due to the absence of insurance for business reasons and on the lives of farmers—the two classes who are greatly sensitive to economic changes; after 1945 there is a definite downward trend. That policy loans did not increase appreciably during the depression years of 1930-35 is a pointer: with their regular incomes, the bulk of the insuring public were comparatively free from the crushing effect of the crash of prices, except that a few of them were able to save more. In 1930 8.37% of the assets of the companies and 10.5% of the total life funds were taken up by loans as against 7.54% and 8.9% in 1925; 9.34% and 11.1% in 1939. Panicky conditions in 1940-42 had a greater influence, for, whilst the loans formed only 9.8, 9.3 and 9.2 per cent of the assets (respectively) in these years, they were 11.5, 11.1 and 11.3 per cent of the life fund. In 1948 4.4% of the assets and 5.4% of the life fund were loans.

Other Loans

Before the Insurance Act 1938 came into force a few offices permitted the none too laudable practice of granting loans on personal security: the Act prohibited it. Loans on collateral security of selected stock may, with some justification, constitute permissible investments, provided there is a comfortable margin between the loan and the marketable value of the securities and provided the stocks themselves are such that the companies can hold them as part of their investments. Mortgages and debentures are always preferable to such loans, which are, in any case, not 'approved' for investments by the 1950 Amendment.

Of the other assets, deficits and preliminary expenses do not figure in the accounts of established offices, as they are written off as soon as valuation surpluses enable them to do so. Cash and accrued interest depend upon business conditions.

Such are the intricacies and trends of investments; the percentage of the gross income from all assets in relation to the life fund is the gross rate of interest. This is subject to taxation and the ruling rate of taxes has a profound influence on the net rate of interest realised on the assets.

TAXATION

In conformity with all other business corporations life assurance companies should bear their fair share of taxation. Such taxes as those on land and house property, registration, insurance contracts, licensing fees (of both agents and companies) and the like are legitimate; nor may serious objection be raised against taxes on true income. But on what constitutes true income there is considerable, and in fact very serious, differences of opinion.

Life offices derive their income from premiums and the returns on investments. The basic principle of taxation of income contemplates the levy of a tax on "Income, Profits and Gains" and a tax on premiums is untenable for premiums stand in the same category of investments as bank deposits. Interest income is different and is taxable. However the basic conception of the level premium does not regard interest as extra profit but anticipates it and takes it into account in fixing the premiums charged. Viewed thus the most equitable basis for taxation would be the gross interest earnings less an amount needed to maintain the reserve at the anticipated rate of interest; in computing the gross earnings such items of capital gains as are derived from the sale of real estate or securities must, in fairness, be excluded as they are merely additions to the fund. With modifications this is the basis of taxation in the United States.

This basis, though equitable, may not reflect the actual profits of trading for not all offices adopt the same rate of interest in, nor even the same method of, premium calculations; and, even if they did, various other factors like expenses would complicate the issue. It also differs from the general conception of 'income less expense' applicable to all trades and business. And so in England where the instinct of trade is natural, tax is levied on interest-income less expenses of management. The effect of this basis is that the amount of taxes paid in relation to gross income varies according to the expense ratio of the company and to the relation between the premium and the interest incomes. A young office with a small fund and a large new business would pay very little, if at all, in taxes; an old office having a large fund but transacting relatively small new business would pay heavily.

Two causes make it difficult to adopt this method in its entirety to India; firstly many companies are comparatively new and have a small interest income and secondly the expense ratio is high. In 1947 for instance the total interest income of the companies was Rs. 3.63 crores and expenses Rs. 8.83 crores and many offices spent much more than their interest incomes. So, much as the 'claim that the entirety of the management expenses should be allowed as a deduction is theoretically justifiable",[1] it is not so practically; even where this method could be applied it was felt that the expenses of management deductible should have a bearing on what is reasonable. For a number of years this deduction was 85% of the first year's premiums and 8½% of renewals which was grossly unrealistic; 90% of the first year's premiums and 12% of the renewals were allowed to be deducted from 1944 and even this hardly represented actual expenses. The Income-tax Investigation Commission in 1949 therefore recommended an allowance of 90 per cent of the first year's premium where the premium-paying period was 12 years or more and 7½ per cent of the first year's premium multiplied by the number of years for which premiums are payable where the premium-paying period is less than 12 years, *and* 15% of renewal premiums. Even so this method of taxation is hardly suitable for all companies and even in England another basis for computing profits was adopted years ago.

There is no denying the fact that the valuation surplus is profit, but whether all that profit could be taxed has been the subject of much litigation and more controversy. Authorities have differed in deciding the question whether 'income less expenses' would reflect the true profit; difference likewise exists as to whether, and

[1] Report of the Income-tax Investigation Commission.

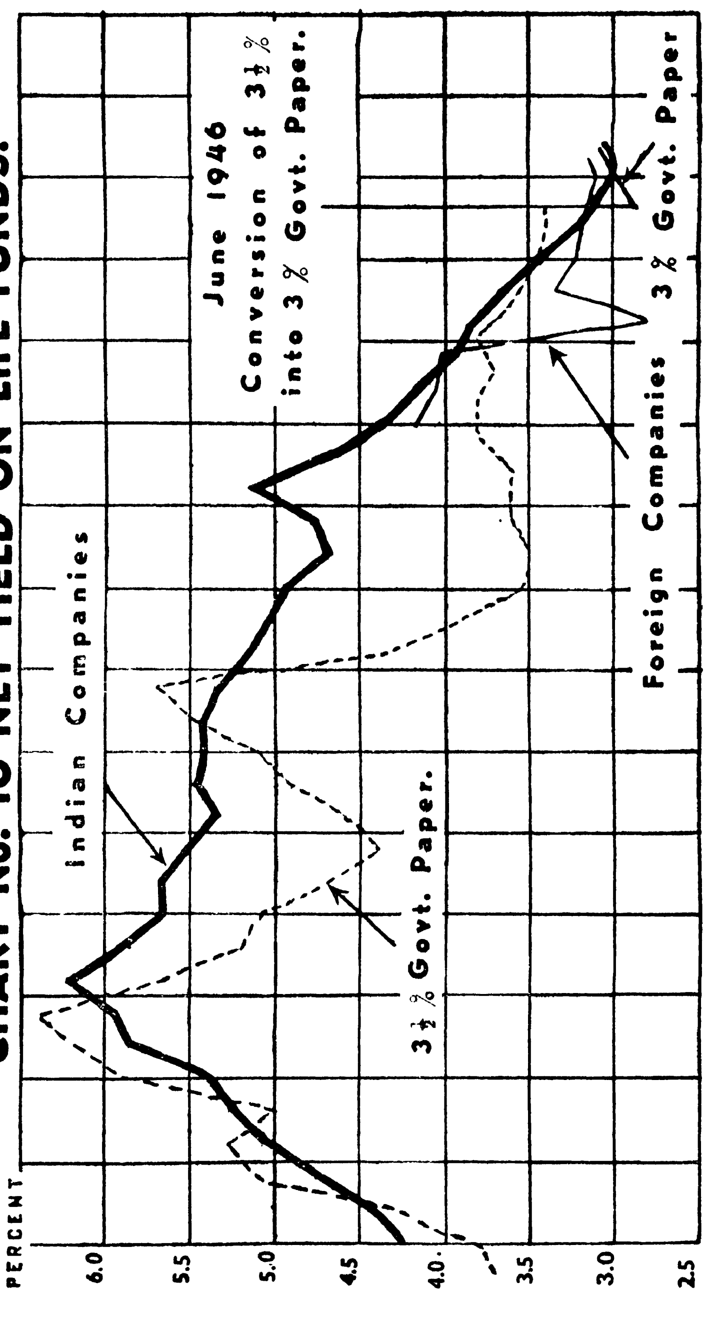
to what extent, valuation surplus may be taken as a true basis for assessment. The Royal Commission in England accepted the contention that the bonus distributed to policyholders was in the nature of return of excess premium (as it undoubtedly is) and was not taxable; the English Finance Act, 1923 therefore gave this exemption. That contention was not accepted in India and for a considerable time 50% of the bonus allocation was taxed in addition to the surplus allocated to shareholders (which, in any case, is taxable) a practice which, shorn of all technicalities, is tantamount to taxing the proceeds of life assurance. This is paradoxical; while the State recognises the principle that proceeds of life policies are free from income tax on the ground that they are only returns of investments, it taxes the bonuses which are also similar returns. Repeated protests and representations led to the recognition of the principle of excluding all bonuses from assessment but retained the tax for fear of repercussions on the revenue. Viewing it from the angle of fairness and expediency, the Income-tax Investigation Commission averred: "Taking the principle to be that so much of the bonus as is in excess of the load [1] is in the nature of profit and taxable as such, we are of the opinion that tax should be assessed on the aggregate of (i) the dividend paid or reserved for shareholders and (ii) so much of the bonus allotted to or allocated for the policyholders as is in excess of the sum representing the load provided for in the premia paid by the participating policyholders. Another form in which the method may be defined is that the tax should be assessed on the total surplus (actuarial surplus and tax deducted at source) minus the sum representing the load." Even so the method is unfair to the large body of policyholders taking out with-profit policies for the very nature of the premiums they pay (vide next Chapter) contemplates a profit.

If the basis of assessment is inequitable, the rate of tax levied is equally wrong. Until the fiscal year 1939-40 life offices paid 42 pies in the rupee; in 1940-41 it was raised to 45½ pies; in 1941-42 to 56 pies; 1942-43 to 63 pies; and in 1943-44 to 74 pies. In the next year (1944-45) it was lowered to 63 pies with retrospective effect from 1943-44; in 1946-47 it was brought down to 60 pies and remains at that level ever since. There is much room for relief in this regard.

The net result of an inequitable system of assessment and a high rate of tax is to considerably lower the net rate of interest

[1] See Chapter IX.

CHART No. 10 NET YIELD ON LIFE FUNDS.



earned by the companies. That is reflected directly in the high rate of premiums charged. The policyholders themselves must resist this high burden of taxation for lower taxes would be by far the best method of lowering premium rates.

Trend of Interest Rates

The net rates of interest earned by the Indian Life Assurance Companies is given in the following Table: [1]

Table No. 32.

Year	Net rate of interest	Year	Net rate of interest	Year	Net rate of interest	Year	Net rate of interest
1913	4.23	1922	5.96	1931	5.42	1940	4.37
1914	4.21	1923	6.26	1932	5.38	1941	4.17
1915	4.29	1924	5.93	1933	5.17	1942	3.94
1916	4.43	1925	5.70	1934	5.08	1943	3.88
1917	4.78	1926	5.70	1935	4.93	1944	3.64
1918	5.07	1927	5.56	1936	4.69	1945	3.48
1919	5.27	1928	5.35	1937	4.76	1946	3.20
1920	5.41	1929	5.49	1938	5.15	1947	3.03
1921	5.88	1930	5.44	1939	4.68	1948	3.02

Note: In Chart No. 10, page 135 the yields on Government Paper for the years 1915-1935 have been taken from *Modern Banking*, by Prof. S. K. Muranjan, and from 1935 onwards from Reserve Bank Publications.

[1] *Insurance Year Books.*

CHAPTER VIII

EXPENSES: PREMIUM RATES

The rates of mortality and interest determine net premiums to which are added certain amounts called 'loadings' to provide, chiefly, the expenses of management and commission. Net premiums increased by the loadings are the 'gross' or 'office' premiums. The problem naturally revolves round the question: 'How much or how little has to be added to the net premiums, and why?'

'Every premium charged must be sufficient to cover the risk and the expenses which are incurred in connection with the particular policy in question and also to provide a reasonable contribution towards the general expenses and to leave a margin for profit.'[1] In paraphrasing this concise statement on premium it is pertinent to observe that the premiums payable on a particular policy may not, except in the rarest of cases, exactly meet its own claim; nevertheless all the premiums paid by all the policyholders of an office must ultimately provide the means of meeting all the claims made on them and of paying for the expenses of administration as a whole, including and particularly, commission.

Conception of Expenses

Of the expenses of administration the new business organisation spends a very large share. Besides the head office, a series of branch offices spread over important provincial centres provide the blood-streams of new business. A branch manager has a number of inspectors under him each of whom in turn, with or without the help of organisers, controls several part- or full-time agents. Alternatively the new business department of provincial centres may sometimes be entrusted to chief agents, (although they are now few and far between and the Insurance Amendment Act 1950 contemplates their progressive elimination) who likewise may have a number of special agents with several part-time agents. Both systems work under the control of the new business department of the head office and have a central and local medical organisation closely collaborating with them; a proposal for insurance may have to pass through the whole of this machinery before it is finally

[1] *Journal of the Institute of Actuaries' Students' Society*, Vol. II, p. 119.

accepted. Thus the new business department is an extensive and expensive organisation, the payment of commission to agents and organisers, salaries to inspectors and to the other staff both at the branch and at the agency department of the head office, medical fees, Government stamp duty and advertising constituting the chief items of expenditure on new business. Once on the books the policies require servicing by the renewal, accounting, legal, actuarial and investment departments. Some of these services, for example renewal and accounting, may be, for the greater convenience of the policyholders, entrusted to the branch offices and the agency force, in which case, they are compensated by the payment of 'renewal' commission. The legal and administrative expenses of settling claims complete the expenses of management.

Historical Note

This then is the general conception of the administrative expenses of a modern office but it was not so before. When life assurance was in its infancy most of the business was voluntarily offered. The premiums originally charged by the Equitable Society in 1762[1] (which was the first society to introduce graduated scales of premiums) were based on James Dodson's mortality table; in 1782 the Society revised its rates to those derived from the Northampton Table at 3% interest and with 15% loading. Four years later the loading was removed as it was found that even without it the premiums could pay not only the claims but also small bonuses. These premiums were gradually replaced by rates derived from the Carlisle Table with 4% interest and 40% loading.

By 1850 the advent of many proprietary companies was heralded by the division of the business into with- and without-profit policies and by the payment of agency commission. It was recognised that personal canvassing alone produced an even flow of new business and the agency force became an integral part of the offices; it was simultaneously realised that administrative expenses could not entirely be satisfactorily met by a percentage addition to the net premium and a loading for expenses proportionate to the sum assured was also embodied. Commission in those days were paid at the rate of 5% of every premium paid including the first.

Then the first year's commission was raised to 10% of the premium, and later, was based on the sum assured instead of the premium; subsequently the initial commission was further increas-

[1] See page 14, Chapter I.

ed and renewal commission reduced because it was realised that powerful forces tended to discourage a man from lapsing his policy and that the new basis of remuneration would stimulate new business without encouraging lapses. To meet the new conditions Dr. Sprague in 1869 used his Select Table H[M] with 4% interest and a loading which consisted of (a) £1% of the sum assured for initial commission (b) 2½% of each premium for renewal commission (c) 2s. 6d.% of the sum assured each year (including the first) together with 2½% of each premium for general expenses and (d) 2½% of each premium for adverse fluctuations and profit.

Mr. H. J. Rothery introduced further changes in 1892. "The commission payable and some of the other charges are generally calculated upon the sums assured rather than upon the amount of premium," he wrote.[1] "The commission is frequently one per cent upon the sum assured, the stamp duty and the medical fees partially depend upon the amount of the policy and the branch office expenses are implicitly if not explicitly in the same manner. On the other hand the amount of the first premium does have some influence upon the expenditure." The loading he suggested was (1) in respect of the first premium £2% of the sum assured for initial commission instead of £1% plus 5% of the gross premium and (2) 8% of the gross premium including the first for expenses. Thus the total loading became £2% of the sum assured, plus 13% on the first premium and 8% upon renewals. Further developments introduced a continuous increase in the sum provided for initial expenses, steadily lowered additions by *percentage* and correspondingly increased additions by 'a constant' for the average policy. The problem has not been exactly the same in India.

Indian Conditions

From very early days Indian offices made payment of commission by a percentage of the premium and this preference, despite changes in Britain, remains to this day. Until about 1900 commission was uniformly low; then it began to rise. The Oriental, for instance, during the first fifteen months of its operation (till 31st August 1875) paid the ridiculously low amount of Rs. 29 as commission on 95 policies assuring just over Rs. 3 lakhs, premium income Rs. 16,825. A provision in the first Articles of the Indian Life (constituted in 1892) limited expenses to 10% of the gross premiums; increased medical fees and competition raised expenses above this figure after 1907 but the excess was borne by the

[1] *Journal of the Institute of Actuaries*, Vol. XXX, page 135.

directors until 1917 when the Articles were altered to allow 35% of the first year's premiums and 10% of the renewals for expenses. For a number of years after its establishment the directors of the Bombay Mutual voluntarily served the Society and brought down expenses to insignificant levels. Today administrative expenses of life offices have increased beyond all recognition; the apportionment of those expenses between the new and the existing policy-holders is increasingly difficult except for specific items like initial and renewal commission, medical fees and stamp duty; and the best way of analysing them is probably by treating them as those which (1) are dependent on the amount of premium paid and (2) are independent of the premiums.

For convenience and by custom initial and renewal commissions have always been paid as percentages of the premiums. Statutory rules under the Insurance Act 1938 fixed the agent's initial commission at 40% and renewal 5%, with relaxations for the first ten years of a company's life when it was permitted to pay upto 55% and 6%. These rules had little effect on expenses for higher commissions were indirectly paid.[1] Largely to eliminate payment of excess commission and generally to limit expenses the Insurance (Amendment) Act 1950 prescribes the following scales of initial and renewal commissions:

Table No. 33.

Class of insurance	Agents				Special Agents (organisers)	
	Intitial	2nd Year	3rd Year	Renewal	First Year	Renewal
Immediate annuities, single premium deferred annuities single premium policies	2%	—	—	—	½%	—
Deferred annuities with more than one premium	7½%	2½%	2%	2%	2%	—
Other insurance (older offices)	35%	7½%	7½%	5%	15%	—
Other insurance (younger offices during the first ten years of their life)	40%	7½%	7½%	5%	17½%	—

Payment of renewal commission has, with limited exceptions, been made perpetual.

[1] See Chapter XVIII.

So much for commission. All the other expenses are independent of the premium but may be considered under two heads (1) Government stamp duty and medical fees which are definite and measurable but, unlike commission which depends directly upon the premium, depend upon the sum assured, though not strictly proportionate to it, and (2) the remaining, and major, share of the expenses of administration which cannot be identified with particular policies, are not specific and do not depend upon either the premium or the sum assured. In theory the latter class of expenses must be borne by all the policies by equal contributions.

A *strict* system of loading would therefore be based on (1) a percentage of the premium for commission, (2) a varying rate according to the sum assured and (3) a constant for every policy irrespective of the amount of assurance; and an *ideal* would be a different addition to the net premium of each policy on the basis of the actual cost. Practical considerations however make it impossible to vary the premium rate on *every* policy except to a very limited extent and an eminently satisfactory method would be to determine the load on the basis of the *average* policy.

Consider medical fees for instance. An average office with an average sum assured of Rs. 3,000 may spend Rs. 9 on each policy for medical examination in a year, and if this is accepted as a basis of loading for medical examination an amount of nearly Rs. 3 would be added on to the net premium on a Rs. 1,000 policy and Rs. 90 on Rs. 30,000. In actual practice an assurance for Rs. 1,000 would have to bear almost three times this amount for medical examination whilst a Rs. 30,000 assurance much less than Rs. 90; but a basic load of Rs. 3 on Rs. 1,000 would result in sufficient amounts being received in the aggregate to pay for all the expenses of medical examination. Any attempt to fix the loading on a strictly accurate basis would itself involve greatly increased expenditure and lead to needless complications; moreover in many cases of insurances for larger amounts additional expenses for detailed medical examination, comprehensive reports, inspections and so on would increase the cost of selection. Mortality on policies for larger amounts may be higher than the average if only because of the selection against the company inherent in them, but it is almost impossible to increase the net premium in their case. These considerations would lend weight to the view that a practical and equitable method would be to fix the loadings as that required for an average policy.

Similar arguments would make it illogical to make a constant addition to every policy to meet the other administrative expenses for to do so would be to vary the premium rate on every policy. Thus the loading, from practical considerations, would be a *percentage* of the premium plus a *constant* amount for the average sum assured. The percentage and the constant would not necessarily be the same for all classes of insurances.

Expense Control

So much for the principle of loading. The actual amount of loading would naturally depend upon the actual ratio of expenses incurred by an office to its income and the need arises to keep expenses under constant scrutiny and control so that the loading may be low. Whatever may be the loading its accuracy loses much of its adequacy if actual expenses are allowed to exceed the provision, as; unfortunately, some offices in India have done in the past. Keen inter-office competition after the First World War increased procuration costs; yet they remained within reasonable bounds until about 1925. The following fifteen years saw the flotation of a large number of new companies and the opening of many foreign offices; competition then degenerated into unfair rivalry. There was a virtual war of commissions on new business and a considerable portion of those commissions were rebated to policyholders. A tactful proponent could, and often did, reimburse himself with the entire cost of the first year's premium through rebates, and a fifty per cent return of the first premium was quite common. Then the Government intervened. The Insurance Act 1938 sought to end the unholy war of commissions by limiting them, but rebating and heavy procuration costs remained as higher commissions were continued to be paid indirectly. Finally the Second World War created inflationary trends which, among other things, raised the general level of office expenses and when interest rates also fell, premiums became much too inadequate to meet the claims.

An attempt was made in 1944 to introduce statutory control over expenses of management. The Select Committee on an amending bill to the Insurance Act 1938 introduced provisions limiting overall expenses. Companies themselves showed considerable agreement on the equity of control although opinions differed on the equitable basis for control. Proposals drawn up at a meeting of actuaries and insurancemen laid down numerical percentages of premiums depending upon the age of the insurer and the amount of business in force. This was the first attempt at fixing overall expenses by those with expert technical knowledge and experience; had it been adopted then much of the criticisms later could have been avoided; as matters stood, the bill was lapsed.

The question was subsequently raised when the Insurance (Second) Amendment Bill 1946 was under discussion. That bill contained provisions for expense control somewhat on the lines of what was suggested by the previous Select Committee and fixed rates of commission payable to agents, employers of agents and chief agents. On the withdrawal of that amending bill in January 1948 the whole problem was discussed afresh in the light of the changed conditions, and although the Insurance (Amendment) Act 1950 refrains from fixing actual figures of expenses that may be incurred, machinery has been evolved whereby expenses over and above the loading would be effectively checked by the Controller through the Life Insurance Council. An interesting feature of the limitation is the check on the engagement of high salaried personnel and part-time executives.

The justification for statutory control of expenses lies in the tendency of some companies to overspend. An impartial analysis of the conditions existing today would point to the need for effective control in two stages (1) limiting expenses to the existing loadings and (2) further reduction so as to leave a surplus in the loading. The growth of the big institutions that adorn the business today is in a large measure due to the stringent economy practised by those who founded them and wherever those traditions have been kept up development has been steady. A system of sound economy and rigid budgetary control is the surest way to progress, and actuarial analysis, scrutiny and check constitute an integral part of that control.

Trend of Expenses

The trend of administrative expenses of all the companies together expressed as percentages of the total premium income is given in the following table.[1] (See Table No. 34 overleaf.)

The overall expense ratio is dependent, among other things, upon the composition of the premium income and if the new business is large in relation to the existing business, the expense ratio rises, as a considerable portion of the first year's premium income is spent as initial commission. To illustrate how the proportion of new to existing business would affect expense ratio, let us suppose that in two consecutive years the same amount of premium was received. If in the first year the proportion of first year's to renewal premium

[1] From the *Insurance Year Books.*

Table No. 34.

Year	Expense Ratio	Year	Expense Ratio	Year	Expense Ratio
1913	22.2	1925	28.0	1937	32.3
1914	21.5	1926	28.6	1938	31.7
1915	21.1	1927	29.5	1939	33.2
1916	20.5	1928	30.6	1940	28.9
1917	20.1	1929	30.3	1941	27.4
1918	21.9	1930	29.2	1942	26.7
1919	24.8	1931	28.6	1943	27.9
1920	26.1	1932	28.7	1944	31.2
1921	26.6	1933	30.3	1945	32.2
1922	27.2	1934	30.3	1946	31.2
1923	26.3	1935	31.0	1947	30.4
1924	28.4	1936	32.5	1948	29.3

was 50 : 50 and in the second 40 : 60 it is apparent that in the first year the initial commission would be more, and, if the other administrative expenses remained unaltered, the expense ratio would be higher.

Thus the overall expense ratio is not a measure for comparing the experience of one company and another or of one year and another. A young office with a large new, and comparatively small existing, business would have a higher expense ratio than an older office with a larger existing business and smaller new business. The true basis of comparison between companies or between consecutive years is the renewal expense ratio; unfortunately a few companies incur very high expenses for renewals.

Other considerations affecting loadings

Of the other considerations that affect loadings, mention may be made of profits and fluctuations. Whether the office is proprietary or mutual, and the policy participating or non-participating, it is natural and desirable to have a small margin for profits. 'The premiums must be profitable, *i.e.* such as to render each class and type of policy profitable. It is of course occasionally justifiable to issue policies at cost price, for instance when the granting of the policy will lead to further business, but a policy should never be issued which will be a source of loss to the office.'[1] It follows therefore that the question how much or how little should be the margin for profits is largely determined by the requirements of

[1] *Journal of the Institute of Actuaries' Students' Society*, Vol. III, p. 22.

business exigency, including competition among offices. Not so adverse fluctuations which may affect mortality and interest usually, and expenses occasionally as when increased cost of living raises salary levels. But what proportion of the loading for profits and fluctuations should be borne by the non-participating policyholder and what proportion the participating policyholder is a moot point and will be discussed later in the Chapter, but before doing so let us discuss a few points connected with premium calculations.

Considerations of premium

In the construction of premium tables mortality, interest and expense loading form the raw materials. The actual selection of a suitable mortality table, a reliable interest basis and an adequate expense-loading is more difficult and complex than what has been discussed in the preceding pages. Past experience may be a guide to future mortality trends; past experience, present economic conditions and the events that led up to them, and the opportunities for and the policy underlying investments may form the basis for a reasonable estimate of the future rate of interest on which the premiums depend; equitable distribution of the expenses may determine the loadings. The responsibility of deciding equitable bases is on the actuary; upon his ability to do so successfully depends the soundness of the company.

In any case the gross premiums should satisfy certain basic requirements and adequacy is by far the most important of these. Let the authoritative voice of Mr. L. S. Vaidyanathan explain adequacy: [1] " An ordinary trader who manufactures the article first and sells it later would hardly need any advice that he should not sell below cost if he is anxious that his business should be kept going. In insurance business, more so in life insurance business, however, the process is reversed, for the commodity traded in is sold first and the cost incurred later, so that it becomes necessary to strike this note of warning that it would be unwise to sell at a low price taking a very optimistic view of the cost of production. When a policy is effected the life office makes a sale and the premium is the sale price, whereas the cost is to be incurred in the future and will be determined by the future experience of the company as regards interest, mortality and expenses. It is possible to take too optimistic a view of the future trend of these three elements and quote rates of premium which on the average would not provide even the sum assured, let alone bonuses to participating policyholders, when the policy becomes a claim. If that is so,

[1] *Indian Insurance Year Book*, 1943, page 7.

the concern will sooner or later find itself in great difficulties."

Adequacy of premiums sometimes conflicts with the need for competitive rates. In so far as competition encourages benefits to policyholders mild rivalry may be encouraged, but when it tends to imperil the safety of the office the temptation to lower the rates may have to be resisted. Closely allied to this is the policyholders' point of view that the rates of premium should be consistent with the benefits offered. This consistency extends to the premiums for different classes of assurances and for different ages of the same class. They should be fairly and reasonably graded from one age to the next. But in all these considerations 'actuarial soundness is imperative,' and there is a fundamental difference between fixing the premium for without-profit and with-profit assurances.

Non-Participating Policies

Competition has a greater bearing on the non-participating policy than on the participating, for in the absence of any future adjustment (by means of the bonus), the rates of premium constitute the net cost of assurance. Nevertheless non-participating policies have to bear their share of administrative expenses, but what share of the provision for 'profits' and 'contingencies' should be borne by them is a matter of personal preference and discretion. It is evident at all events that a specific but small margin should be included in their premiums either for profit, for contingencies or for both. This margin may take two forms: either reasonably *accurate* estimates of mortality, interest and expenses may be used and a specific loading added, or the premiums may be calculated on *safe* estimates of mortality, interest and expenses and the loading omitted. In either case the resulting gross premiums have to satisfy the requirements of equity, adequacy and competition.

Participating Policies

The emphasis here shifts from *accuracy* to *safety* and competition is focussed more on rates of bonus than on rates of premium. The bases of mortality, interest and expenses assumed in the participating policies therefore tend to be 'safe' estimates of what the future conditions will be and a specific loading, depending upon the rate of bonus which the office desires to maintain, is added for bonus. As all offices in India use the simple reversionary [1] method of distributing bonus, the specific loading for such a bonus of Rs. 10 per thousand per annum would be the equivalent of the

[1] Bonus distribution systems will be discussed in the next chapter.

premium for an increasing assurance of Rs. 10 per annum. If a specific margin for profits and fluctuations has been made in the non-participating policy, that might provide additional profits, but if without-profit policies have no provision for profits or fluctuations, that provision may be included in the participating policies. It is all a matter of personal preference.

Changing conditions may affect non-participating policies more adversely than the participating. A substantial fall in the interest rate may render the premiums inadequate, although this may be offset, to a certain extent, by improved mortality. Nevertheless premium rates may have to be altered to conform to actual rates of interest earned if economic conditions show signs of continued fall in interest, but existing policies remain unaffected since their premiums are fixed by contract. An interest rate more favourable than that assumed may justify reduced premiums. Thus increased mortality or reduced rate of interest would work against the company in the case of non-participating policies; favourable conditions against policyholders. When conditions of interest and mortality remain fairly stable over a long period non-participating policies work eminently satisfactorily.

Over a very long period Indian companies used to base their premium and reserve calculations on the mortality experience of British Offices, particularly H^M and O^M Tables with suitable rating up of age, for in the absence of acceptable tables of Indian experience, they gave a workable basis. When premiums were revised during the last few years many offices are understood to have used the Oriental (1925-35) Table which is the best approximation to all-India experience. How changing rates of mortality and interest affect premium rates is best illustrated by the following table: (see Table No. 35, page 148).

Until about a few years ago premium rates were calculated on 3½ to 4 (and sometimes over 4) per cent interest basis. In 1947 the Superintendent of Insurance instituted an enquiry into the revision of premium rates recently made.[1] 181 of the 216 companies replied to the enquiry. Twenty offices which had worked for less than five years either did not reply or had made no changes in premium; 112 offices or nearly 50 per cent of the total number had recently altered the rates and a few were contemplating revision at that time. Of the 112 three Indian companies were unable to give the interest base for the altered premiums, two non-Indian companies ceased writing new business in India, five United

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[1] Details taken from *Indian Insurance Year Book*, 1948.

Table No. 35.

Comparative net annual premiums for Rs. 1000 assurance

Mortality Table	Oriental (1925-35)				A (1924-29)			
Mortality	Select		Ultimate		Select		Ultimate	
Interest	2½%	3%	2½%	3%	2½%	3%	2½%	3%
Whole Life	Rs.	Rs.	Rs.	Rs.	Rs.	Rs.	Rs	Rs.
Age 20	14.70	13.45	14.73	13.49	10.97	9.77	11.01	9.81
Age 35	24.34	22.95	24.40	23.01	17.81	16.41	17.88	16.48
Age 50	46.01	44.62	46.29	44.91	32.50	30.96	32.79	31.26
Endowment Assurance								
Age 20. Term 40	18.59	17.08	18.63	17.13	16.49	14.94	16.54	14.99
Age 35. Term 25	34.71	32.88	34.77	32.95	31.30	29.42	31.39	29.51
Age 50. Term 10	98.49	96.21	98.94	96.66	91.32	88.97	91.85	89.50

Kingdom companies based premiums on 2¼ to 2½ per cent basis, a Kenya company on 2.3/4 per cent and one Canadian company on 3%. The following table gives the rates of interest assumed by the rest of the 100 companies with the year in which premiums were revised:

Table No. 36.

Latest Year of revision	Number of companies which used the following revised rates of interest in their new premiums for the principal classes of assurance. 2¼%	2½%	2¾%	3%	3¼%	3½%	3¾%	4% & above	Total.
1940	—	—	—	—	—	2	—	—	2
1941	—	—	—	—	—	—	—	—	—
1942	—	—	—	—	—	1	—	—	1
1943	—	—	—	—	—	3	—	—	3
1944	—	—	—	4	—	10	1	—	15
1945	—	1	—	2	2	16	1	—	22
1946	—	1	—	6	1	2	—	—	10
1947	1	21	8	13	3	1	—	—	47
Total	1	23	8	25	6	35	2	—	100

Nearly half of the one hundred offices revised their premiums in 1947 and nearly half of them used 2½%. 'It would appear that as many as 43 insurers out of the 100 included in the above analysis have their premium rates still based on a rate of interest in excess of 3% net which is perhaps more than the maximum that can be earned on new money for a long time to come,' concludes the Superintendent. 'A large proportion of these 43 and of about 100 insurers not included in the above analysis, particularly those old established companies which have not revised their premium rates during the last five years or so, are presumably carrying on business at unremunerative rates of premiums.'

An idea of the changes in the office premiums during the last 70 years may be had from the following table:

Table No. 37.

Comparative premium rates of a proprietary company. Limited payment whole life, premium ceasing at age 70.

Age	Premium for Rs. 1,000 assurance 1880	1939	1944	Amount of assurance purchaseable for Rs. 100 premium 1880	1939	1941
	Rs. as.	Rs. as.	Rs. as.	Rs.	Rs.	Rs.
			With Profits			
18	29 0	24 13	26 12	3,448	4,030	3,738
20	30 0	26 0	27 13	3,333	3,846	3,632
22	31 0	27 4	29 2	3,226	3,669	3,433
24	32 0	28 10	30 7	3,125	3,493	3,285
25	33 0	29 5	31 3	3,030	3,411	3,206
27	34 0	30 14	32 13	2,941	3,239	3,048
28	34 0	31 12	33 11	2,841	3,150	2,968
30	36 0	33 10	35 8	2,778	2,974	2,817
			Without Profits			
18	26 2	20 1	20 8	3,831	4,984	4,878
20	27 0	21 1	21 9	3,704	4,748	4,638
22	27 14	22 3	22 10	3,584	4,507	4,420
24	28 13	23 6	23 14	3,472	4,278	4,188
25	29 11	24 0	24 8	3,367	4,167	4,082
27	30 10	25 6	25 15	3,267	3,941	3,855
28	30 10	26 2	26 12	3,267	3,828	3,738
30	32 6	27 14	28 7	3,086	3,587	3,516

Endowment assurance, Maturing age at 60.

Age	Premium for Rs. 1,000 assurance			Amount of assurance purchaseable for Rs. 100 premium		
	1880	1939	1944	1880	1939	1941
	Rs. as.	Rs. as.	Rs. as.	Rs.	Rs.	Rs.
			With Profits			
20	23 5	29 7	30 14	4,290	3,397	3,239
25	27 8	33 13	35 6	3,636	2,959	2,827
30	33 4	39 12	41 8	3,007	2,516	2,410
35	41 4	48 3	50 1	2,434	2,075	1,918
40	53 0	60 15	62 13	1,887	1,641	1,592
45	72 1	81 13	83 7	1,388	1,222	1,198
			Without Profits			
20	21 7	23 8	25 7	4,665	4,255	3,931
25	25 5	27 6	29 10	3,947	3,653	3,376
30	30 10	32 15	35 6	3,265	3,036	2,827
35	37 13	40 15	43 9	2,643	2,443	2,296
40	48 12	53 4	56 0	2,051	1,878	1,786
45	66 5	73 12	76 4	1,507	1,356	1,311

Let us look at another table to see how the rates of premium have changed during the last twenty years; the figures give the combined experience of all the companies and include all classes of assurances, with separate average premiums for new business and total business in force:

Table No. 38.

Year	Average premium per Rs. 1,000 sum assured (total business includes reversionary Bonuses)		Year	Average premium per Rs. 1,000 sum assured (total business includes reversionary bonuses)	
	New Business Rs.	Business in force Rs.		New Business Rs	Business in force Rs.
1930	54.6	48.6	1940	52.0	47.8
1931	52.3	46.6	1941	52.3	47.7
1932	51.9	47.1	1942	52.6	47.5
1933	52.0	46.5	1943	55.4	49.8
1934	52.3	46.2	1944	54.0	50.2
1935	51.8	46.9	1945	55.0	50.1
1936	51.6	48.8	1946	53.8	50.9
1937	52.1	51.2	1947	54.9	50.6
1938	53.0	51.5	1948	54.5	50.0
1939	50.7	51.9			

A few Fallacies

An unfortunate result of the revision of premium rates during the war was to make the return on a policy less than the aggregate premiums paid in some cases. Thus a 20-year endowment policy for Rs. 1,000 at age 35 may carry an annual premium of Rs. 52-15, without profits, and a policyholder pays Rs. 1,058-12 on the aggregate against which he receives Rs. 1,000. There is much discontentment among the public on this score. A detailed illustration may help to dispel much of this discontentment.

The net annual premium on an ordinary Endowment Policy for Rs. 1,000 at age 35 term 20 years is Rs. 43.18 using Oriental (1925-35) Ultimate Table and interest 2½%. If the reserve on such a policy is calculated according to the method illustrated on page 105 it will be found that at the end of the tenth year it has a reserve of Rs. 432 and at the end of the eleventh Rs. 481. Let us suppose that the office had a thousand policies on its books on the 31st December 1948 all of which were in force for exactly ten years. According to the Table of Mortality the number of deaths during 1949 (*i.e.* at the age of 46) would be 12.87, say 13, and if the actual experience corresponded with the table exactly, the company would have to pay Rs. 13,000 in death claims. There are two sources of meeting these claims (i) the reserves on the thirteen policies resulting in claims on 31st December 1949 and (ii) the accumulated reserves of all the policies during the previous years. The reserve on each policy on 31st December 1949 is Rs. 481 and so the total amount available from the first source is Rs. 6,253 (Rs. 481 x 13) leaving a deficit of Rs. 6,747 (Rs. 13,000 minus Rs. 6,253) which will have to be made up by the aggregate of the contributions made by each policy for this purpose at the end of this year. Each one of these thousand policies makes up this deficit and the individual contribution by each policy to meet the shortage of Rs. 6,747 will be Rs. 6.747. This is the actual cost of insurance for that year. Whether the sum insured is claimed by the policy during that year or not every policy has to make this payment to meet the claims made in that year, for then alone, will the difference between the sum assured and the amount of reserves be met. The element of mutual co-operation in the modern form of life assurance is thus brought home in its fullest perspective. In the example just given the reserve on a policy which does not materialise into a claim on 31st December 1949 may be arrived at in the manner illustrated overleaf.

A policy becoming a claim in 1949 would contribute the full value

Reserve on 31st December 1948	..	Rs. 432.00
Add net premium for 1949	..	Rs. 43.18
		Rs. 475.18
Reserve on 1st January 1949	..	Rs. 475.18
Add interest for 1949 at 2½%	..	Rs. 11.88
		Rs. 487.06
Total fund on 31st December 1949	..	Rs. 487.06
Less cost of insurance for 1949	..	Rs. 6.75
		Rs. 480.31

of the reserve amounting to Rs. 480.31 (say Rs. 481) towards the amount of Rs. 13,000 required to meet all the death claims of 1949; one that is in force at the end of the year would have a reserve of Rs. 480.31 to be carried forward to 1950, the cost of insurance having been used up to meet death claims occurring in 1949. The same process would hold good for fully paid-up policies (*i.e.* policies on which premium payments have ceased but the sum assured has not become payable) and those that have become paid-up for reduced amounts, with the exception that the 'net premiums' may not figure in the calculations.

Insufficiency of this knowledge among those who sell insurance have added to the popular discontentment against premium rates. This discontentment is at the root of the plea, sometimes advanced, that the reserves should be added on to the sum assured when meeting claims, which is clearly untenable. It is also wrongly supposed that current premiums on new and old policies meet current claims and the balance is appropriated as profits,—a very popular misconception that originates from the application of ordinary commercial practice to the business of life assurance. If an office went on appropriating current premiums in excess of what is needed for current claims and expenses as profits it would become insolvent.

Three things are thus clear: (i) the cost of insurance is spent by the company in meeting claims (ii) the reserves are scientifically accumulated and held in trust on behalf of the policyholders and (iii) even if a policy is in force for a day it has to bear the cost of insurance. Equity governs the premiums, builds up this wonderful system of modern social science and provides immeasurable benefits to the whole community without the tinge of derogation commonly associated with charity.

There is a belief that lower premium rates indicate better and more economic management. This need not be so although strictest economy alone can provide competitive rates. Safe rates may be high and the net cost may be kept at reasonable levels through systematic and regular distribution of bonuses even when the premiums are high; offices may fix lower rates to attract business and provide safety through other means. It is all a matter of choice and discretion and every office strives to build individuality and character which may be reflected in every phase of its working.

A common complaint is that compared with the ruling rates of premiums in other countries Indian offices charge exhorbitant rates. The bases of premiums are the same everywhere; even assuming that the same rate of interest and loadings are used, the higher mortality of Indian lives would make Indian rates costlier. Statutory regulations in many countries control expenses; adoption of scientific principles of operation totally eliminates or considerably relaxes Government controls in others. Voluntary effort to effect economy is the ideal and Wisconsin in the United States of America is perhaps the only State where the loading itself is regulated by law.

Another fallacy is that premiums are calculated on the 'expectation of life' at the age of entry. This assumes that on the average policies would become payable at the end of the period of expectation and that therefore the net premiums would accumulate, at the rate of interest assumed, to pay for the claims at the end of the period. This method of premium calculation would involve the incorrect assumption that the present value of all future death claims to be paid at the end of the expectancy period would be the same as the total present value based on the death claims distributed according to the mortality table. This is not so. Premiums calculated on the basis of future expectation of life at the age of entry would be inaccurate, misleading and inadequate, and that method is never followed in life assurance.

CHAPTER IX

RESERVES, SURPLUS, BONUS

Before a business can declare dividends its financial structure should be strong and life insurance is no exception. The financial strength of an office depends, among other things, upon its funds and how the reserves are built up. In considering the question of life funds in Chapter VII, discussion was confined to broad principles of building up reserves on the basis of the net premiums; the subject may now be reconsidered in the light of other matters, such as for example, loadings which may affect reserves. In doing so, let us begin with the two assumptions implicit in the method of calculating reserves described in that Chapter.

Further consideration of the Reserve

In the first place it was taken for granted that the whole of the net premium was available throughout the currency of the policy, including the first year, to meet current and future claims, but that is not so. It was shown in the last chapter that an equitable share of the whole of the administrative expenses is included in the loading and that the initial cost of procuration is considerable. Even in well-regulated offices acquisition together with the cost of insurance in the first year may take up a considerable portion (if not the whole) of the first year premium; in ill-regulated offices they may exceed it. That would result in an office spending the whole of the loading and most of the net premium of the first year initially, and re-imbursing itself later from the loadings contained in the second and subsequent premiums. "The cost of acquiring a new policy," said the late Mr. S. G. Warner, F.I.A., in a paper read before the Institute of Actuaries in 1902[1] "providing for the first year's mortality, and setting up, under any table, the necessary reserve at the end of the first year, must and will in such circumstances exceed the premium received for the policy. The deficit so arising will naturally increase with the influx of new business; and provided that influx be sufficiently great, the deficit may attain such dimensions that even a company of considerable wealth may be brought into a position of embarrassment. Here even

[1] *Journal of the Institute of Actuaries*, Vol. 37 page 59. The passage referred to has presumably been quoted by Mr. Warner from a pamphlet by Dr. Zillmer, President of the German Life Insurance Institute.

a non-expert must see that a contradiction is involved. On the one hand, an abundant accession of new business is desired; on the other hand, we are thereby brought into financial trouble and that without excessive payment of commission." To meet the anomalous situation the 'adjusted net premium valuation' was evolved whereby the first year's premium was used to cover the first year's mortality risk and expenses, and the balance, if any, was added on to the life fund; the policy was then assumed to be written at an age one year greater than the actual age at entry and for a term one year less than the actual term. From the second year onwards the net premium was increased by providing for expenses at a lower level. In addition a much lower rate of interest than was contemplated in the premiums was used in deciding liability, and as will be seen later, this resulted in higher reserve values; the financial strength of the companies was thus kept at a very high level. The usual net premium method with a very low rate of interest is followed largely by life offices in Britain, while in America special formulæ known as the 'preliminary term' or the 'modified preliminary term' reserve systems are used.

The second assumption implicit in the calculation of the reserves in Chapter VII was that nothing more and nothing less than the net-level-premium was available to meet current and future claims. The loadings affect this assumption too. For being merely 'safe' estimates of actual expenses, the whole of the loading may not ordinarily be expended by an office, after the first year's heavy expenses have been met, with the result that a part of the loadings after the first year may also be available to meet the claims, so long as the loadings are adequate and the expenses under control. In taking cognizance of practical conditions as regards expenses the 'Gross Premium Method' of valuation has been evolved.

Gross Premium Method

This method differs but little from the net-premium method in the actual *process* of calculating reserves but much in principle. Instead of the true net premium, a percentage of the gross premium, depending upon the renewal expense ratio, is used in the calculations. Thus in the illustration on page 105 of Chapter VII, if the office premium is Rs. 224.75 and the renewal expense ratio 11.5%, the actuary may decide to reserve 15% of the premium (i.e. Rs. 224.75 x 15/100 = Rs. 33.7125) for future expenses and calculate the reserves on the basis that Rs. 191.0375 (Rs. 224.75 minus Rs. 33.7125) is available as future annual net premium. This would result in the alteration of the figures in columns 6 and 7 of the illustration, the fifth line of which, for instance, may be re-written as follows:—

(1)	(2)	(3)	(4)	(5)	(6)	(7)
24	4	.9756	975.6	1 000	191.0	785

Where the net premium so calculated is higher than the 'true' net premium, the reserve in any particular year may be lower than by the net-premium method, but if adequate provision is made for actual office expenses, the gross premium method may be more in conformity with realities. Barring a few rare instances in the past, all Indian companies have followed the gross premium method. The practical elaboration of this method and the adjustments made are too technical for this volume, but a few points of interest may be mentioned.

Special Reserves

In the early years some of the policies may appear to be assets although, in view of the higher ratio of initial expenses, they are actually liabilities; the testing for and the elimination of all such negative values form an important part of valuation, and a declaration to that effect by the actuary is required by law.

Special contingencies and additional benefits need special and additional reserves. Lapsed policies are a case in point. The liability of an office on a policy that has been lapsed beyond the period of automatic non-forfeiture or extended term assurance [1] ceases in the ordinary course as full consideration for the premiums paid would have been allowed, but some of the lapsed policies are usually revived and most of the offices permit revival within certain limitations. That would mean that the office retains some liability on lapsed policies, and to meet it a lump sum, determined in the light of past experience, is added on to the reserves.

The other special reserves may be easily disposed of. Government regulations require guaranteed cash values to be paid on policies which are surrendered after a definite period, but if the reserves on any of the policies are less than the minimum guaranteed surrender values additional funds are reserved to meet the deficit. Additional underwriting risks covered by extra premiums would normally be met by reserving a portion of those extra premiums; and those covered by rating up of age by valuing the policies on the basis of the rated up age. Special reserves may be

[1] See Chapter XI for these two benefits.

built up to grant permanent disability benefits and reserves on policies issued outside India provide for possible exchange fluctuations. To sum up, full future liability for every kind of contingency that could be reasonably anticipated, has to be covered by an appropriate reserve; these contingencies particularly include changes in mortality, interest and expenses.

Bases of Valuation

In fixing the primary bases of mortality, interest and expenses for premiums, future trends, so far as they could be forecast from past and present experience guide the actuary; in fixing those bases for reserve values, actual experience so far as they affect the immediate future is the guide. But there is a difference. Premiums once fixed cannot be altered for the duration of the contract; reserve values determined at the time of one valuation merely show the liabilities on existing policies at that date on the basis of mortality, interest and expenses that may hold good in the future; later, after another short period, a fresh valuation would determine fresh reserve values in the light of the conditions and on the policies existing at that time. The financial structure of a company can be strengthened or weakened by the bases adopted for valuation.

Mortality

'No actuary should come to a final decision as regards the mortality basis to be adopted in a valuation before he has made an investigation into the mortality experience of the insurer concerned.'[1] An estimate of the office's actual mortality experience would enable the actuary to select the standard table to be used as the basis for reserve values. In the past valuations of Indian companies were on the basis of foreign experience of mortality, particularly H^M and O^M Tables with several years rating up; latterly most of the companies have adopted the Oriental (1925-35) Ultimate Table.[2] The relative rapidity of the increase in the rate of mortality from year to year determines the relative values of reserves according to different tables.

Interest

Lower interest rates increase both net premiums and reserves, higher rates of interest lower them but whatever rate of interest is assumed, the total reserve on a single policy must finally equal

[1] Mr. L. S. Vaidyanathan, *Indian Insurance Year Book*, 1944, page 22.
[2] Mr. C. D. Sharp, F.I.A., is, as far as could be ascertained, the first actuary to use this table officially when he conducted the valuation of the Jupiter General Insurance Company in 1941.

the sum assured on the date of maturity or at the limiting age according to the mortality table. Most of the companies in recent times have had to strengthen their reserves considerably on account of the general fall in the interest earned. Companies are currently earning around three per cent on their new investments, and valuations are conducted at 3% or less. The table opposite gives an idea of the fluctuations of the rate of interest assumed for valuation purposes:

The adoption of a progressively lower rate of interest is evidenced from the table.

Expenses

A higher percentage of the premium reserved for future expenses would increase the reserve values and require the maintenance of life funds at higher levels and a lower percentage would reduce them; in any case the bonus-loading for participating policyholders would have to be reserved. But when the provision for expenses falls below the renewal expense ratio experienced after valuation, the financial strength of the office is affected and so an adequate provision in the light of the current and anticipated renewal expenses becomes imperative.

Thus the primary elements of mortality, interest and expenses assumed in valuations differ from those in the premiums. A valuation decides the office's liability in respect of the policies on its books at that date; stringent bases of mortality, interest and expenses would require higher reserves and life funds maintained at the level of those higher reserve values would greatly strengthen the financial structure of the office. Not all the offices, or even any office, at all stages of its growth, may be able to maintain the funds at the level of the full reserves emerging from very stringent bases of mortality, interest and expenses; at the same time, there can be no two opinions about the necessity of guarding at all times the solvency of all the institutions that sell insurance. The question may therefore be asked on what does the safety of life offices depend and how can their solvency be tested ?

Solvency Factor of Life Offices

The premium payable on a policy is the foundation upon which is built the whole financial structure of an office, and upon the adequacy of those premiums depend the strength of the structure. Then come cautious underwriting, economical management, sound investing, careful self-protection and lastly judicious strengthening of the reserves in successive valuations. Of all the forces that com-

Table No. 39

Rate Per cent

Year	2	2¼	2½	2¾	3	3¼	3½	3¾	4	4¼	4½	4¾	5	5½
1914	...	...	...	...	...	...	2	...	1	...	...	...	...	...
1915	...	...	...	...	1	...	1	1	3	...	1	...	...	...
1916	...	...	...	...	...	...	2	...	7	...	...	...	...	...
1917	...	...	...	...	1	...	1	...	7	...	2	...	...	...
1918	...	...	...	...	...	...	...	...	7	2	2	...	...	...
1919	...	...	...	...	...	...	...	...	5	...	1	...	...	...
1920	...	...	...	...	1	...	...	...	2	...	...	...	2	2
1921	...	...	...	...	...	...	...	...	3	1	3	...	3	...
1922	...	...	...	...	1	...	1	...	2	...	3	...	2	...
1923	...	...	...	...	...	...	...	...	2	...	4	...	2	...
1924	...	...	...	...	...	...	...	1	4	...	3	...	2	...
1925	...	...	...	...	...	...	...	...	2	...	2	1	3	...
1926	...	...	...	...	...	...	...	...	3	1	5	2	2	...
1927	...	...	...	...	1	...	2	1	2	...	2	1	1	...
1928	...	...	...	...	...	...	...	...	1	1	3	...	2	...
1929	...	...	...	...	...	...	...	...	6	...	6	...	1	...
1930	...	...	...	...	...	...	...	1	2	...	4	...	3	...
1931	...	...	...	...	...	...	...	...	1	...	2	...	8	1
1932	...	...	...	...	...	...	3	...	3	2	5	...	4	...
1933	..	...	...	...	...	...	1	1	3	...	6	...	4	1
1934	...	...	...	...	1	...	2	1	4	3	6	1	...	...
1935	...	...	...	...	...	...	2	...	10	...	5	1	2	...
1936	...	...	...	...	...	1	...	...	7	4	10	...	4	...
1937	...	...	...	...	...	1	2	...	13	4	13	...	8	...
1938	...	...	...	...	...	1	3	1	16	2	9	...	5	...
1939 [1]	...	...	...	...	2	...	17	3	20	2	8	...	3	...
1940 [2]	...	...	..	...	1	...	12	9	22	...	3	...	...	...
1941	...	...	...	..	3	...	33	10	17	...	2	...	...	...
1942	...	...	...	...	8	...	30	4	3	...	...	...	...	...
1943	...	...	...	...	1	5	25	...	1	...	...	...	...	...
1944	...	1	1	1	10	10	19	...	...	...	...	...	...	...
1945	...	...	2	3	22	5	5	...	...	...	...	...	...	...
1946 [3]	2	2	4	6	26	7	5	...	...	...	...	...	...	...
1947	...	...	3	4	26	1	1	...	...	...	...	...	...	...

[1] In addition one valuation was at 3.1/8%

[2] In addition one valuation was at 3.1/8% and another at 3.7/8%

[3] In addition one valuation was at 2.7/8% and another at 3.1/8%

In addition three valuations in 1934 were at 5¼%.

pelled the liquidation of life offices in the past, inadequacy of premiums and extravagance in management were the most poignant; premiums were inadequately loaded; actual expenses (especially of acquisition) exceeded loadings and heavy initial lapses disrupted the balance. The Insurance Act 1938 exercised a modest control, not directly over premiums or expenses, but indirectly through the right of the Government to question valuation bases and failures have been few latterly: the Insurance (Amendment) Act 1950 envisages stricter measures of control. But all the same abnormal conditions may affect any or all of the precautions normally taken to protect the financial structure of an office and it then becomes imperative to test its solvency. When a valuation is intended to strengthen an office stringent bases of mortality, interest and expenses are employed, but though it is right that the assumptions should not become inconsistent with future experience, a test of solvency would be provided by determining future liabilities on actual conditions of mortality, interest and expenses. If prospective office premiums are adequate and sufficiently loaded, a sufficient margin of safety would be achieved; in any case of all the elements that constitute the premiums, expenses are the most controllable.

These then are the general considerations that go to build up the reserves and strengthen the financial structure of an office; and the question of surplus and its distribution may now be considered.

Surplus and its Origin

Under practical conditions and in normal times of business the reserves needed to meet the future liabilities of policies in force may be expected to be less than the life fund on the books at the date of valuation; if that is so, the difference between the arbitrarily accumulated life fund and the scientifically determined reserves is a 'surplus' and would represent the profits of the business during the inter-valuation period; but if the life fund is less than the reserves, the fund is in 'deficit'.

Before the problem of disposing the surplus can be satisfactorily discussed, it is pertinent to ask the question 'How and from where does it arise?' The main source, and by far the largest share, of the surplus is derived from the special and deliberately added loading contained in the participating premiums. This bonus-loading is charged to entitle the policyholder to a share in the profits of the office.

Secondly the margin over the bare cost of mortality, interest and expenses present in the premiums may prove to be a source of profit. Whether a specific profit-fluctuation-loading has been made in either the participating or the non-participating policies or both (in which case the profits derived from the practical working of an office would in all probability differ from the amount of the specific loading) or premiums have been fixed on 'safe' estimates of mortality, interest and expenses, three factors would contribute towards the profit: (1) stringent selection and lower mortality trends would result in mortality surplus (2) increased yield from excellent investments would give savings in interest (3) economical management would result in expenditure surplus.

Thirdly appreciation of assets values would give profits from realization through sales or revaluation of securities. Actual sales would result in real profits or real losses, although revaluation may not always give profits for companies deal with appreciation and depreciation of securities in a very cautious way. For instance, when prices are falling and rates of interest are on the increase, the securities are written down to their market values (deducting enough to do so from the life assurance fund) or a sum of money is transferred from the life assurance fund to the 'investment reserve fund'. The life fund is artificially depressed in this way and the apparent yield on the securities maintained. When the interest rates fall and the securities appreciate in value offices often fail to take credit for the appreciation in values although it is justifiable to revalue the securities and take credit for a proportion of the appreciation, provided the amount so taken credit for is utilised towards meeting the increase in the reserves required by using a lower interest rate in valuation.

Fourthly the various operations of the business might produce miscellaneous profits such as for example lapses, alteration or surrender of policies and the like; some of these sources may be absent in some companies and in all companies at some periods, or if present, might give rise to losses instead of profits.

Further Considerations on Surplus

It may be desirable, though not prescribed by law, to determine the net liability on the policies annually, especially in the case of big companies with a large number of varied policies, so as to maintain their financial strength unimpaired; but distribution of profits need not be annual. In America determination of liability annually (and in some of the States distribution of profits too) is compulsory and most of the companies declare bonuses (called dividends in America) every year. Canadian regulations require the companies to apportion the surplus at least once every five years though most of them credit bonuses annually. Many British offices conduct quinquennial valuations and some triennial, but annual valuation is still the exception. The Insurance (Amendment) Act 1950 makes triennial valuations compulsory except in exceptional cases and profits are allocated after valuations.

Considerable fluctuation of the divisible profit may result from annual valuations; quinquennial or triennial periods would help to steady them. An equitable and a steady rate of bonus at least to the extent contemplated in the premiums is a desirable objective and a part of an unusually large surplus may be held in reserve to augment the divisible profits of future lean years, unless strong reasons exist to justify the continuation of large profits at that level in future years. Occasionally shareholders are known to have come to the rescue of policyholders by contributing their share of the profits to maintain satisfactory bonus rates.

Nevertheless it is reasonable to assume that operational losses might occur at some time. Unfavourable conditions of business, extravagance (or mismanagement) or adverse experiences of mortality, yield or investments may very often create a depleted surplus and sometimes a deficit; bonus is then the first casualty. The bonus-loading is the first line of defence in guarding the solvency of a company, for, as bonuses are not guaranteed, the bonus-loading is used to cover up the loss with the result that the bonus may be scaled down considerably or become absent altogether. When a deficit is shown actuarially, and the paid-up capital is insufficient to cover up the deficit, the guaranteed liability on the share capital represented by the uncalled portion of the paid-up capital comes into play, or fresh funds may be introduced. If all possible avenues of meeting the deficit have been exhausted, the company may have to be wound up, but before such an extreme step is taken, a test of solvency is usually applied on the basis of actual conditions of interest, mortality and expenses. The stricter provisions of Insurance (Amendment) Act 1950 which contains both preventive and punitive provisions may tend to limit (if not completely eliminate) the need for the application of extreme measures.

Before the Insurance Act 1938 came into force 'surpluses resulting from such weak valuations as 4, 4½ and 5% rate of interest have been distributed to the hilt to policyholders and shareholders without making any provision in the shape of a reserve which would stand by the company during periods of adversity.'[1] Government's cheap money policy combined with statutory investment control resulted in a steady fall of yield and when large-scale inflationary trends raised the expenses of management to abnormal levels nearly all the companies had very small surpluses, a few even showing deficit valuations. The suggestion of Sir Ramaswami Mudaliar to prohibit bonuses during the war was never actually adopted, but few companies could or did pay bonuses.

Equity in Taxation

The surplus belongs to the policyholders and (in proprietary companies) to the shareholders. Here it is well to remember the character of the surplus to understand an important aspect of equity. A participating policy is for all practical purposes a well-defined contract, but its terms cannot be regarded as finally settled until a claim has arisen under the policy or the assurance has been otherwise terminated; in particular the ultimate cost would depend upon the size of the sum total of all the bonuses allocated. The premiums of non-participating policies are fixed on 'close' estimates of mortality, interest and expenses, consistent with the actual cost of insurance to the policyholder; at the same time it has been the practice of most companies in all parts of the world to charge fairly steady with-profit premium rates, and of achieving equity by making adjustments in the rates of bonuses. Soundness of operation and equity of cost are thereby largely achieved, but in effect the ultimate cost to the policyholder is dependent upon the result of an office's operation. The bonus is thus an instrument of adjusting the *ultimate cost* and not the *profit* and the equity of levying tax on such an instrument of cost may very well be questioned. The income-tax on the whole or part of the bonus levied in India can be justified only if the premium were the actual cost of insurance plus the bonus-loading—a cost structure which may very easily destroy the very foundation of the long-term life assurance contracts. There is therefore a strong plea for the exemption of the whole of the surplus allotted to policyholders from income-tax; for then only can the premiums on with-profit policies be justified.

Distribution of Surplus

Indian offices used to distribute 90 per cent of the surplus

[1] *Indian Insurance Year Book,* 1943, page 9.

among participating policyholders except where the Articles of a company provided for dividends before distribution of bonuses. The Insurance (Amendment) Act 1950 limits dividends to 7½ per cent of the surplus regardless of any provision in the Articles, allotting the balance to the policyholders.

Three guiding factors determine the method of distributing the divisible surplus among individual policies: equity, simplicity of operation and public appeal. Equity is achieved when the distribution of surplus is substantially fair as between one policyholder and another. Various factors influence equity in different ways so that the only general principle that might at all hold good is that one group of policies should not be allotted profits at the expense of another.

Simplicity of operation implies both an easily workable system and a readily understandable plan. Public appeal, like public opinion, is indefinite and rarely remains constant; any system of distribution followed should keep in view equity, logic, simplicity of operation and facility to understand.

Simple Reversionary Method

Here the bonus allocated to a policy is declared as a percentage of the sum assured and paid on maturity or death or its present value is paid to the policyholder if the policy is surrendered. When the rate of bonus declared at a particular valuation is the same for all classes of policies irrespective of age at entry or term of assurance, it is a 'uniform' simple reversionary bonus: Indian offices usually differentiate between whole life and endowment assurances, the rate of bonus for the former being slightly higher than that for the latter. Simplicity is the keynote of the system—simplicity in office work and in its appeal to the public. Each of the bonuses declared at different valuations is annually added on to the sum payable at death or maturity (hence the use of the term 'reversionary') with the result that the sum increases with the duration of the policy. The cash value of the bonus increases with every succeeding age.

A fifteen year endowment policy for Rs. 1,000 with a company that adopts the quinquennial period of valuation and has declared a bonus of Rs. 10 per thousand per annum at every valuation would receive bonus as shown at the top of the opposite page. Indian offices distribute bonuses only by this method.

Compound Reversionary Bonus

Vastly similar to the above plan, the Compound Reversionary

At the end of the first valuation	..	Rs.	50.0
At the end of the second valuation	..	Rs.	50.0
At the end of the third valuation	..	Rs.	50.0
		Rs.	150.0
Sum Assured	..	Rs.	1,000.0
	Total	Rs.	1,150.0

system, which is very popular in the United Kingdom, expresses the bonus not as a percentage of the sum assured alone, but as a percentage of the sum assured and any bonus already attaching to it. Thus in the foregoing illustration if a compound reversionary bonus of one per cent is declared at the end of every valuation:

		Rs.	as.
At the end of the first quinquennium	.. ..	50	0
At the end of the second quinquennium	.01x5x1050	52	8
At the end of the third quinquennium	.01x5x1102.5	55	2
	Total Bonus ..	157	10
	Sum Assured ..	1,000	0
	Total Sum payable ..	1,157	10

It involves additional office work; otherwise it is eminently practical, readily understandable by the public and greatly popular and produces a steadily increasing reversionary bonus at the end of every valuation. A large policy remaining in force for a long time may reap real benefits by this method.

In 1931 the United India declared, besides the usual simple reversionary bonus, an additional bonus equal to one-eighth of the existing bonus. This was the only time at which, so far as can be ascertained, any Indian company has departed from the strictly simple reversionary bonus system.

Bonuses in Cash or as Reductions of Premium

Most of the offices are willing to pay the present value of the reversionary bonuses in cash, or to use it to reduce future premiums. Some offices (very rarely in India) reverse the process, and declare bonuses in cash, which may be, usually at the option of the policyholder, converted into a reversionary addition to the sum assured, or utilised to make future reductions of premiums. When the cash allocation is converted into reversionary bonus, the additional sum payable at the termination of the policy is higher in the case of a younger life than in an older, dissatisfying those who fail to grasp the system thoroughly; hence its unpopularity.

A few British offices have applied the Reversionary and Cash Bonuses towards reduction of future premiums with conspicuous success. No profits are allotted during the first few years. At the end of the period a really substantial reduction is made in the premium payable and thereafter small annual reductions until no further premiums become payable. As soon as this happens reversionary bonuses are allotted by way of additions to the sum assured.

The American system of bonus distribution is particularly interesting, As early as 1868 the Equitable Life Assurance Society of America originated a system of bonus distribution known as the 'Tontine' system, (from an Italian named Tonti who, in the seventeenth century, organised a fund from among a certain number of contributors and divided the interest on the fund each year among the survivors, the last of whom got the whole fund ultimately). In the original contracts no bonuses were allotted until the total premium paid, accumulated at 10 per cent compound interest, equalled the sum assured and during that time no surrender value was allowed. Thus an indirect inducement, amounting almost to pressure, was held out to the policyholders to keep their insurances in force and those who did so, received handsome bonuses; those who died before that time received merely the sum assured. A drawback, which incidentally made distribution of larger bonuses possible, was the entire forfeiture of all premiums paid in the initial period.

The plan which appealed only to the over-optimistic, gradually became unpopular as altered circumstances made lapses inevitable. Various alternatives were tried and the system very soon developed into the 'Deferred Bonus Plan' under which definite amounts were set aside from current surplus earnings to pay for deferred bonuses at the end of 5, 10 or 15 years (although a 20-year period was the most popular). Amounts thus set aside were not considered legal liabilities with the result that offices had in hand large surpluses for which no adequate account had to be given. Consequently the Armstrong Investigation Committee recommended the abolition of the Deferred Bonus system which has since disappeared from that country.[1]

Since then American offices have evolved and perfected a method of bonus distribution known as the 'Contribution' system, by which the surplus earnings are distributed among policies in proportion to their individual contribution to the profits; in one or other of its modifications the system is used by practically all companies in the United States.

Protagonists argue that the Contribution System is the most equitable; for, it is contended, were bonuses allocated on the basis of the premiums paid, the sum insured or the reserve accumulated, equity would not be achieved. Allocation of the bonus on a premium basis would result in a policy, for which is paid Rs. 100 premium, receiving twice the amount of bonus that a Rs. 50 premium policy would receive; the former may be a short-term endowment policy with a small amount at risk whilst the latter an insurance for whole-life, and if a large part of the surplus arose from savings on mortality, the second policy would suffer. Bonuses dependent upon the sum assured may be, it is argued, inequitable, if interest earnings and investment profits contributed a major share of the profits, as they invariably do, for interest depends on reserves and reserves may be little on a new policy for a large amount. Similarly, bonuses allocated in proportion to the reserves would ignore profits from mortality and loadings. These considerations have influenced American companies to divide the surplus according to the main sources from which it was derived, and then to distribute each such portion among various policies in the proportion in which they contributed to the surplus.

The view, that this plan is the most equitable has been questioned, and the plan, as a whole, has only a few advocates among British actuaries who argue that the equity under it is no greater than under either the simple or compound reversionary bonus systems. One of its chief objections is its rigidity: for this, as indeed most of the American plans have been reduced to ready-made formulas which are not flexible enough, and, although suitable in the beginning, are too rigid for use over a long period; it is contended that equity is never attained by resorting to rigid formulas.

A considerable number of British offices adopted the method in its early days of popularity and all but a few have reverted to

[1] The system in a modified form is in limited use in Canada and England. In Canada appropriations for deferred bonus plan are made every five years, and carried forward as definite liabilities until paid.

the simpler reversionary bonus systems.

Vesting of Bonuses

All participating policies are allotted bonuses at the first valuation after issue and immediately the bonus becomes a part of the sum assured. Sometimes policies are issued with the stipulation that the bonus vests after a definite number of years (usually two or five) in which case, even though the bonus is allotted at the first valuation after issue, it 'vests' only after the period. Meantime the policyholder cannot deal with the bonus in any way and in case of death only the sum assured is paid. This restriction recognises the fact that under practical conditions a policy does not by its own receipts and payments produce any surplus during the first few years—generally not until it has acquired a surrender value—because of the high initial expenses. Recent tendency is to let the bonus vest from the very first valuation after issue. It is argued that the high initial expense in the first year of a policy is largely offset by the mortality in the first year due to selection and that, in any case, the initial expenses are graded over a period of years. The continued progress of a company is dependent upon its ability to write a certain volume of new business every year and in fairness, a part of the initial cost of writing new business may legitimately be borne by the old policyholders, not directly but by the indirect method of allotting a share of the profits to the new policies. Public opinion is certainly for vesting bonuses from the inception of the policy.

Because of the longer period of valuation adopted in India, policies which materialise into claims between two valuations, are allotted interim bonuses which may be equal to, less than or even more than the bonuses declared at the previous valuation.

CHAPTER X

SELECTION, SUBSTANDARD LIVES, REINSURANCE

No company can possibly afford to insure every member of a community at standard rates: to do so would be to charge the same rate of premium to an exceptionally fit man, to one who is not so fit and to a third who is definitely unfit. Selection is the process of weeding out the uninsurables from the applicants for insurance and of dividing the insurable applicants into those who can be insured at standard rates and those who cannot. Selection is important, for a company's successful working depends upon its mortality experience being equal to or more favourable than its assumptions, and, although unfavourable fluctuations, such as are caused by epidemics or other natural causes, cannot be foreseen or guarded against, a very rigorous system of selection is needed to show favourable results.

Four factors determine insurability—health, habits, occupation and finance. Three stages complete the process of selection: a preliminary selection by the agent, doctor's medical examination and the company's selection. Four documents determine the risk and enable the directors to accept or reject a proposal: (1) statements made by the proposer in the Proposal Form and to the medical examiner, (2) report of the medical examiner, (3) agent's confidential report, and (4) the report of an independent referee fully acquainted with the living and habits of the applicant.

I *The agent's selection*

An agent's responsibility is great for he is practically the only person connected with the company personally acquainted with the proposer. The value of an agent's selection is, however, dependent upon his honesty, reliability and integrity of character. In practice, competition for new business has at present reduced the stringency of an agent's selection for hardly can he afford to ignore even a remote possibility of acceptance.

A set of detailed instructions enjoin him to canvass only eligible cases. Three classes of people make up a society: the insurable, the uninsurable and the doubtful. An intelligent agent is able to distinguish an insurable from an uninsurable prospect; doubtful cases are reported to the company with all relevant facts and of the grounds for doubt. If the risk is great the company takes no further action; but if it is seemingly acceptable, the agent is instructed to proceed with medical examination.

Abnormally fat or thin people, the physically handicapped and those with an unsatisfactory family history are all doubtful cases. Minors, persons beyond the age of 55 or 60 and those whose applications for insurance were rejected by other companies are usually uninsurable. Not infrequently, however, an agent comes across a desirable prospect whose insurance was rejected by another company but who, so the agent believes, is an insurable risk. He brings the matter to the notice of the company immediately with a full report of all relevant facts and his reasons for considering the proposal favourably. If the report is satisfactory he receives instructions to proceed: if the company is not entirely satisfied, a deposit is demanded to cover the initial incidental expenses, to be returned or adjusted later. There is an excellent system of inter-office exchange of information on all rejected cases, so that the reasons for reconsideration should be really sound.

Proposal Form

Having made the selection, the agent proceeds to obtain a written application for insurance in a printed 'Proposal Form.' This is compulsory and the proposal form constitutes the first part of an offer to the company to take out insurance on its terms (the second part being the medical examiner's report). The acceptance of this offer, followed by the payment of the first instalment of premium and the fulfilment of other conditions, is the basis for the formal—and the legal—contract of insurance.

The Proposal Form is fairly comprehensive. When the insurance is subject to medical examination, questions included in the Medical Report are excluded from the Proposal Form: in fact, the form in which the medical report is framed determines the questions included in the Proposal Form. One supplements the other to give a clear, complete and lucid elucidation of all the facts needed. There is a wholesome tendency in recent times to combine the proposal form and the medical report so as to incorporate all the statements in one document. To avoid ambiguity and unnecessary correspondence in the future the questions are couched in the most simple and direct language.

The principle of *uberrima fides* (superabounding faith) which applies to all contracts of insurance makes it obligatory for the proposer to answer all questions to the best of his knowledge and ability and to make a true and complete statement of all the material facts which would influence the company in arriving at a decision as to the acceptance of the proposal and assessment of premium: at the same time the proposer is not obliged to volunteer information not asked for in the Proposal Form, unless it is of such a nature as to make its concealment a matter of bad faith, liable to vitiate acceptance.

The non-medical information required includes: (1) identification, (2) occupation, (3) insurance history, and (4) plan of insurance. Identification includes name, father's name and address, present and permanent residence and place and date of birth. Since age determines the amount of premium chargeable, the date of birth is important, and at this stage, the applicant's statement is accepted in good faith, without proof, as any considerable misstatement is liable to be detected on medical examination. It is legitimate and desirable to demand acceptable proofs of age at the outset but it is not customary to do so, for many of the proponents may be unable to furnish proofs readily and delay might possibly lead to postponement or even abandonment of insurance. If proof is available it is advantageous to the proposer and to the company to submit it with the application.

Next in importance is the occupation. Details of the employer, nature of the specific duties assigned to the applicant and any recent or contemplated change of occupation are all matters bearing on selection. Particulars of aviation activities both past and prospective, except flying as a passenger in a scheduled airline, are indispensable, as also future plans of military or naval service.

Past insurance history includes details of all policies in force or pending on the life, whether with the same or other companies, any refusal for insurance and any demand for special terms. Particulars of the amount of insurance required, the plan selected and the optional mode of payment of premium virtually complete the first or non-medical part of the application. He has also to give the name of an intimate friend who has known him for at least two years, but who is neither interested in his insurance nor related to him.

II *Medical report*

The medical report is in two parts: (1) statements in the form of answers to questions put by the medical examiner (which constitute the second part of the application for insurance) and

(2) the findings of the doctor on a physical examination. Personal statements made to the doctor cover (*a*) personal history and (*b*) family history.

(1) *Personal Statement*

(*a*) *Personal history.* The history of personal health does not demand a detailed enumeration of every trivial complaint but certainly calls for a complete report of all recent illnesses and injuries, whether trivial or not, with the names of the physician consulted. If the disclosed facts raise doubts of impairment, a reference is made to the proposer's medical attendant for the elucidation of any further point beyond the knowledge of the proposer if it has a bearing on insurability. A wide field of physical ailments is covered in order to get a complete idea of his health history, as quite frequently, past illnesses might have led to an impairment not easily discernible during the usual medical examination, but which, nevertheless, affects health. This history supplements the findings of the doctor. It is usual to defer or totally reject a proposal if the applicant is convalescing or under treatment. Recent illnesses, change of occupation or residence for reasons of health or severe injuries are all grounds for doubt.

(*b*) *Family history.* Designed mainly to enable the chief medical officer to decide whether the applicant's family is long or short-lived, the questions on family history include detailed information concerning parents, brothers, sisters and wife (or husband)—their age and state of health, if living, or the causes of death, duration of illnesses and the ages at death. Undesirable features are mainly (1) parents' death before sixty, (2) tuberculosis in the family, especially if the applicant himself is underweight, (3) insanity and (4) mortal diseases. An isolated case of tuberculosis, cancer, diabetes or some other serious disease is generally ignored, but more than one death from the same cause is bad. Not infrequently an unfavourable family history is deliberately concealed for fear of the possibility of rejection, but this amounts to bad faith, and if discovered later, may lead to cancellation of the contract on grounds of fraud.

Difficulty arose over the settlement of a recent claim. The personal and family history as reported were above suspicion, habits were good and the proposer belonged to a high social circle. The weight was slightly below average but this was overlooked in the face of the otherwise excellent reports. Within two years he died of tuberculosis and a claim was lodged, but as the circumstances of the death were suspicious, a thorough investigation was made which brought out the startling facts that (1) the family was notoriously underweight and short-lived, (2) one of his uncles had suffered from tuberculosis and had died in his thirtieth year, (3) his father was under observation and treatment in a sanatorium and lived in a health resort throughout his life and though he lived upto sixty, he was never in the best of health. In the circumstances the company suspected wilful concealment of the facts but on behalf of the deceased it was contended that he lived with a maternal uncle throughout his life and was unaware of the family health history. The company had to decide whether (*a*) the assured knew of the damaging family history, in which case it could invalidate the policy or (*b*) the non-disclosure was unintentional. The company resolved a difficult situation by repudiating the contract, but by meeting the claim in full on compassion.

Insufficient details and deliberate concealment of the family history might lead to complications, resulting in a bad risk being insured. Personal habits and social life are important, especially the use of alcohol and narcotics, drugs and tobacco. Most of the social habits are, however, better brought out from the referee's report.

(2) *Doctor's Findings*

Then comes the actual physical examination. This is as thorough as is necessary, with a complete check on all important organs, so that, with the personal and family history, the doctor is enabled to appraise the health of the applicant. Much depends upon the ability of the doctor to detect those hidden causes which affect a proposer's longevity. Details of identity prevent any fraudulent substitution of a healthy individual for an unhealthy applicant. Besides the general appearance, the examination covers:

(*a*) *Build.* Build is probably the most important consideration in selection. Available statistics show that a considerable variation from the average build affects mortality. The doctor records the height and weight from personal observation. For a given height at a specified age there is a maximum and a minimum weight for both males and females: both underweight and overweight call for more detailed investigation. Extenuating circumstances may, in some cases, make it possible to ignore a slight deviation from the maximum or minimum. An active and healthy farmer, for instance, spending long hours in strenuous labour out of doors all the year round, may be heavier than the maximum weight for his age and height and insurance may not be rejected on this score alone. A short, heavy man, on the other hand, given to sedentary habits and inactive life, may be rated as a bad risk at ordinary rates of premium. Every company has a standard table of maximum and minimum weights for specified heights and ages, both for males and females. This table is not necessarily the best combination to give the most favourable mortality but the average measurement of a large group. The following is a typical table used by Indian companies, but any deviation does not necessarily constitute a low standard of selection:

Table No. 40

Average Weight and Chest Measurements

Age	Height 4 ft. 10 in.	5 ft. 0 in	5 ft. 2 in.	5 ft. 4 in.	5 ft. 6 in.	5 ft. 8 in.	5 ft. 10 in.	6 ft. 0 in.	6 ft. 2 in.
	Average weight								
20	100	106	111	117	124	132	140	148	157
25	105	109	113	119	125	133	142	152	162
30	108	113	119	125	132	139	148	158	167
35	111	116	122	128	134	142	150	160	171
40	114	120	126	133	141	149	159	169	180
45	118	124	130	137	143	151	160	171	182
50	120	125	130	138	145	154	164	174	184
	Normal chest								
20	29.50	30.00	30.50	31.00	31.75	32.50	33.25	33.75	34.75
25	30.00	30.50	31.00	31.75	32.25	33.00	33.75	34.50	35.25
30	30.50	31.00	31.50	32.25	33.00	33.75	34.25	35.00	36.00
35	31.00	31.50	32.00	32.25	33.25	34.00	34.75	35.00	36.00
40	31.50	32.00	32.50	33.00	33.75	34.25	35.00	36.00	36.75
45	31.50	32.00	32.75	33.25	33.75	34.25	35.25	36.00	37.25
50	32.00	32.50	33.25	33.75	34.25	35.00	35.75	36.50	37.75

A slight overweight at younger ages is not unfavourable, but suspicious at higher ages. Underweight at younger ages is bad but a favourable factor at older ages. Distribution of excess weight over the different parts of the body is often revealing in the case of overweights: an abdomen thinner than the expanded chest is more favourable than the reverse.

(*b*) *Circulatory and respiratory systems* are next in importance. An enlargement of the heart is serious and organic heart murmurs are bad. The pulse rate is noted. The tension, the rhythm and the rate of pulse are all factors which would influence insurability.

Most offices insist upon the determination of blood pressure for insurances of larger amounts, say over Rs. 5,000, whilst others desire that both the systolic (the pressure when the heart is in the act of pumping blood) and diastolic (that when the heart is at rest) blood pressure should be recorded. It is generally desirable to record blood pressure for all ages over 40 or where there was indication of albuminaria, nephritis or heart diseases in the past. It is generally held that higher blood pressure is unfavourable but a low pressure is seldom regarded as serious.

Table No. 41

Average Blood Pressure of Indian Assured Lives based on Oriental experience.

Age		Systolic Pressure	Diastolic Pressure	Pulse Rate
20	..	118	78	40
25	..	120	80	40
30	..	122	82	40
35	..	124	84	40
40	..	127	86	41
45	..	130	88	42
50	..	133	90	43
55	..	138	92	46

Dr. Charles A. R. Conner, medical director of the American Heart Association, affirms: " It would be desirable for insurance companies to re-examine their position in the matter of granting policies to individuals with uncomplicated hypertension." The Columbia Presbyterian Hypertension Clinics examined over 2,000 case histories of hypertension patients from hospitals, clinics, private physicians and industrial sources, of all ages, with an average duration of 13 years, and after subjecting them to intense investigation, concluded that high blood pressure patients had years of normally good health and unimpaired life before them. The Metropolitan Life Insurance Co. of New York which conducts periodical field surveys of mortality from specific causes, after a ten-year survey of 241 of its employees who had high blood pressure, found that the majority of them had normal electroradiograms and that all were alive and working from ten to twenty-five years. Their conclusion was " It seems timely to re-emphasize the fact that many people with hypertension disease may have a long and symptom-free life." (The reader is referred to Reader's Digest, Canadian Edition, August 1949, pages 25-29 for a fuller exposition of this view point.)

It is interesting to compare this with an actual investigation conducted by the New York Life Insurance Company on the mortality of lives accepted as 'standard risks' covering the new policies issued from 1925 to 1936 inclusive observed from entry until the anniversaries of the policies in 1937. Writing on this investigation in a technical paper contributed to the Journal of the Institute of Actuaries, London, (Volume LXX, 1939) Dr. Arthur Hunter observes: " The investigation was by policies and was divided into two groups (*a*) those in which there was no impairment and (*b*) those in which there appeared minor impairment but not of sufficient amount to place the policyholders in a substandard group. The expected deaths were obtained according to the company's standard experience for the same years of issue and exposure. The total number of policies emerging by death was 9552." After a thorough analysis of the results of the investigation, Dr. Hunter concludes: " (1) that the favourable mortality among persons with systolic pressure below the average is confirmed, while the evidence indicates that it is favourable at points as much as 15-20 mm. below the average, (2) that the favourable effect of low blood pressure increases with advancing age and that readings approximating to the average also shows a slightly more favourable relative mortality as the age advances, (3) that evidence has accumulated until it is now beyond doubt that a blood pressure of 15-19 points above the average for the age results in a distinctly higher mortality than normal and that cases from 20 to 25 mm. above the average have a decidedly substandard mortality, (4) that minor impairments which would not in themselves warrant treating the applicant for insurance as a substandard risk, add appreciably to the relative mortality." There does not seem to be any conclusive evidence therefore to depart from the current practice of emphasizing the importance of blood pressure in selection.

(*c*) *Urine.* The doctor conducts a chemical examination of the urine for the presence of albumin or sugar and determines the specific gravity. An examination under the microscope is sometimes necessary to decide whether it contains pus, casts or blood.

(*d*) *Other organs.* The other organs are carefully checked for any impairment, functional disturbance, abnormalities or diseases, with particular emphasis on the defects indicated by the proposer's health and family histories. Special instructions issued to the doctors include specific guidance on all matters and direct him to get concise, clear and precise replies to all questions. He may be asked to classify lives as 'good,' 'invalid' and 'undesirable' and to give an opinion, in case he concludes that the risk is more than average, as to the addition to be made to the age to cover the extra risk.[1]

III. *Company's Selection*

The final selection is made after a full consideration of the facts disclosed in the Proposal Form, the Agent's Report, and the Medical Report supplemented by the Private Referee's Report. Health, occupation and to a large extent finances will be covered by the Proposal Form and the Medical Report, while the Agent's Report and the Private Referee's Report cover the habits (moral hazard) and finances (financial hazard).

(*a*) *Standards of Insurability.* The question is sometimes asked as to what constitutes the minimum standard of physical fitness in a proposer. The more severe the selection the lower the mortality experience, but a very stringent selection will reduce the number of people eligible for insurance. This is especially true in India where the average person is constitutionally weak. The effect of medical selection on mortality is an important consideration. "Medical selection by itself does not persist for more than one year and any persistence of the forces of selection beyond one year and upto two years in certain age groups may be due to the effect of the other forces" concludes Mr. Vaidyanathan after a masterly analysis of the forces of selection in the Oriental Investigation into the Mortality of Indian Insured Lives. This statement is amplified in the Indian Insurance Year Book, 1944 "there is no reason to suppose that the experience of other insurers in this respect should be different from that of the 'Oriental' and this may be assumed as a feature, at least for the present, of medical selection for assurances in India." Mr. S. C. Thompson emphasises the same point. Mr. C. D. Sharp, with his long experience of Indian lives as the Actuary of the Gresham Life Assurance Co. Ltd., Indian Branch, writes:[2] "The force of this argument (for non-medical business) is increased if, as is true in tropical regions, medical selection affects

[1] See also the section entitled "Rating up of age" later in this Chapter.
[2] *Journal of the Students' Society*, Vol. IX, Part I, July 1949.

only a comparatively short period because of the rapid onset of tropical diseases and because of the rapid deterioration in health which can occur from comparatively minor causes." These deductions from actual experience of Indian conditions do not call for any relaxation of the severity of medical selection: on the contrary they emphasise the need for the introduction of stricter selection whereby all impairments and constitutional weaknesses which may invite the rapid onset of diseases are detected. Tropical conditions and the absence of prompt diagnosis and treatment among the middle classes who constitute by far the largest group of the insured people, reduce the effect of selection considerably. A rigorous selection may make it possible for the companies to get those lives which are exceptionally good, and have, consequently, a high degree of resistance to future illnesses. As has been emphasised by succeeding Presidents of the Indian Life Offices' Association, there is much room for concerted action in this regard.

(*b*) *Occupation.* Occupational hazards may be extra deaths from (1) greater exposure to accidents as for instance electricians and construction engineers, (2) adverse effect of occupation on health, e.g., employees of the chemical industries, (3) a combination of these two, e.g., mining engineers. Both the present and the previous occupations are important since bad health might have induced the applicant to change his occupation from a hazardous to a non-hazardous one. An economic and social factor may also be introduced by the nature of the occupation for there is a possibility of a poorly paid worker drifting into a poorer and less healthy occupation by reason of his inability to purchase proper medical aid. Lives involving hazardous occupations are charged extra premiums to cover the extra risks.

Aviation stands on a different footing. Fare-paying passengers on regular air routes of scheduled air lines are subject to no greater risk than passengers on rails, but pilots and persons engaged in the industry with varying degrees of liability to go up in the air are charged extra premiums. The modern tendency is to class the pilots of scheduled air lines and most of the other commercial pilots as safer risks than private pilots on account of the greater safety recorded by the former. Aviation personnel other than pilots are usually charged extra rates at least for the first few years depending upon the frequency of flying required in the normal discharge of their duties. Where the hazard is considered severe or the intention of the proponent with regard to flying is indefinite it is customary to insert an exclusion clause whereby aviation risks are excluded.

During times of peace, when there is no immediate prospect of war, naval and military personnel are subject to a small extra premium to cover war risks which is removed on retirement. Insurances at ordinary rates may be issued without this cover.

(*c*) *Residence.* Offices generally issue policies free from all restrictions on travel and residence as far as possible, but where, from available information, a company is satisfied that an undue or unusual hazard attaches to a proposal insurance at standard rates cannot be granted. Not all parts of the country can be considered healthy but the problem of residential hazard has been of little importance so far. Insurance is generally confined to the cities and towns where reasonable medical care and sanitation keep mortality what it is, but if insurance is extended to the rural and semi-urban areas, sanitation or the lack of it and availability of medical aid may be two factors for consideration. Some of the rural areas are notoriously insanitary, and polluted water in wells and tanks with no facilities for chlorination breed malarial mosquitoes and help the spread of water-borne diseases such as cholera. Inadequate facilities for the collection and disposal of night-soil spread infection with the greatest of ease. And lack of proper medical aid adds to the risk. Superstition aggravates it. On the other hand natural surroundings, active life, wholesome food and fresh air offset the extra mortality to a considerable extent.

(*d*) *Moral Hazard.* Habits, mode of life, reputation and social environments form the basis of moral hazard. Habitual use of alcohol (which thanks to prohibition may not be a serious problem), narcotics and drugs is bad. Where insurance is effected for business purposes the financial standing and reputation have a definite bearing on insurability. Persons habituated to a social circle notorious for violent quarrels naturally constitute extra hazards. More often than not the reports of the referee and the personal inspection of the agent provide very valuable data on the health and habits of the proposer.

(*e*) *Financial hazard.* The question whether an applicant's finances warrant the amount of insurance applied for is of paramount importance; where the insurance already in force and that proposed amount to more than what the proposer can reasonably pay out of his income, detailed enquiries have to be made to determine whether there is wilful concealment of any of the sources of income or there is present any mortal disease. If the medical examination also reveals a doubtful case, it may indicate an intention to cash in as much as possible. Even the severe need for new business does not warrant overinsurance, which may be one of the contributory factors of the high lapse ratios.

Time was when it was considered equitable to let a man carry the amount of insurance he wanted and could pay for, but recent trends in socio-economics tend to fix a definitely close relationship between a man's income and the amount of insurance he should be allowed to have. It is hardly possible to decide what constitutes such an equitable relationship, and different theories have been propounded on the subject. The problem is especially difficult in India where a large class of people live on the borderline of economic sufficiency. In recent times the increasing spiral of prices has made it all the more difficult to fix a proportion between income and the amount of insurance a man *could* carry. Barring the highest income groups both the upper and lower middle classes who form the bulk of the insuring public, are faced with the problem of effecting any insurance at all rather than the amount of insurance that could be effected.

Financial hazard plays an important part in the policies issued on the lives of debtors. A creditor is within his rights to insure the life of a debtor in case the debt can reasonably be expected to be repaid but if the chances of repayment are remote or none, the insurance is *mala fide* and amounts to speculation.

Insurances at extreme ages. Insurance is issued to persons who have attained the legal age of maturity, and who are below a maximum age limit, either 55 or 60. The bulk of the policies are issued on persons between the ages of 25 and 40. Being a legal contract, a policy issued to a minor is not enforceable in a court of law, but a proponent may be able to repudiate the contract and successfully contest a claim for repayment of all premiums paid after the insurance has been in force for some years on the ground of legal inability to enter into the contract. Insurances, if effected at very low ages, will be subject to attractively low premiums and whilst mortality in the first year of a child's life is severe, it is really very low for the many years following, so that both from the company's and the insured's points of view there is a definite case for lowering the age at which a policy may be legally entered into. In the case of children's policies, the risk against death commences only after the child attains majority.

All offices refuse to entertain proposals for insurance from persons of advanced ages, say over 55 or 60. The higher cost of insurance at those ages, the much higher percentage of people who are ineligible for insurance due to physical impairments and the existing insurances on many of those who are eligible, leave only a small number of people with any genuine need for insurance at higher ages. Applications from older people for larger amounts are suspicious for it might be an indication of a desire to provide a fortune for younger people on whom they might be financially dependent. If that is so, it amounts to speculative insurance and the company has to satisfy itself as to the legitimate reasons for covering the risk.

Insurance on Female Lives

Insurances on women will have to be reconsidered in the near future, due largely to the higher percentage of women, who, after the war, have begun to earn their living. With marriage compulsory among girls of practically all communities and societies and with usage and custom keeping women financially dependent upon men, the need for insurance did not arise in pre-war days, except in unusual circumstances. Four factors may tend to alter this state of affairs in the future (1) increase in the number of ladies with independent incomes due to the equality of opportunities guaranteed by the constitution, (2) the recent social evolution brought on by political consciousness and the teachings of Mahatma Gandhi, wiping out, among other things, compulsory pre-puberty marriages, the odium attached to unmarried women and their inferior social status, (3) the increasing emphasis on female education which will tend to eradicate, much earlier than was thought possible, the low literacy among them and (4) economic distress compelling women to supplement family incomes by gainful employment.

The fundamental problem in this connection is the need for a reliable mortality table of Indian insured women. In this, as in every other problem of mortality, the experience of other countries is hardly a standard for Indian conditions. Nevertheless, that experience has been that the average longevity of women is higher than that of men, and the reason is not far to seek. Few women lead bad or intemperate lives; insurance for business reasons is practically absent and large policies are rarely needed. The diagnosis and treatment of diseases peculiar to women have improved considerably, and child-birth is not attended with the grave dangers of the past. In advanced countries like America insurance is therefore given to single women, with independent incomes on the same basis as men.

The position is different in India. Girls of tender age and feeble constitutions marry early, become mothers before they have built up a mature physique and undermine their vitality and constitution by frequent child-bearing; the result is a high rate of female mortality, as is evident from the following comparative table of mortality for males and females: [1]

Table No. 42

Death rate per 1,000

Age	1933		1939	
	males	females	males	females
15-20	8.0	10.0	8.0	9.8
20-30	9.0	11.0	9.4	11.8
30-40	12.0	12.0	11.9	12.6

The census reports of 1931 gives the following expectation of life for males and females at different ages:

Table No. 43

Life Table, 1931

Age	Males	Females
0	26.91	26.56
10	36.38	33.61
20	28.67	27.08
30	23.60	22.30
40	18.60	18.23
50	14.31	14.65

Whilst the female expectation of life in other countries is higher than the male, the expectation of life in India is higher for males than for females except at the age of 50. An investigation carried out in Madras about 20 years ago by Dr. Lakshmanaswami Mudaliar gives the following figures of maternal mortality: (See Table No. 44, opposite page)

The higher risk of death at lower ages is a direct result of physically weak children becoming mothers: death is only, very often, the final release from a period of suffering and incapacitation. *The higher death rate of girl mothers is accompanied by a large pro-*

[1] *Our Economic Problem,* Wadia and Merchant, page 79.

Table No. 44

Age Period	Maternal death rate per 1,000 confinements
under 15	46.51
15-19	23.74
20-24	17.91

portion of cases suffering from varying degrees of discomfort and disablement in comparison with child bearing mothers at later ages.

Another factor of considerable importance is the effect of purdah on health. Dr. Rose A. Riste, Director of Tuberculosis and X-Ray Departments of the Women's Christian Medical College, Ludhiana, has opined: (*Indian Medical Gazette,* September 1938) " the earlier seclusion, including *burqa,* of the Mahomedan girls shows its effect in the earlier rise of her tuberculosis death rate to 44.46 in the 10-14 age group as against her Hindu sister's 18.81. Their brothers' rises were slight; to only 6.88 for the Mahomedan youth and to 12.70 for the Hindu. A few years later, during the universally critical period of child-bearing, practically all members of these purdah families get the full effect of their seclusion, and their death ratio increases." Although Drs. Butt, Shuffi Tyabji and M. A. Hameed of the Bhore Committee have contended that this increase in mortality is not exclusively due to purdah, there is no doubt as to the deleterious effect of purdah on the health of those women who observe it.[1]

Superstition and lack of adequate clinical attention and illiteracy add to the evil effects of child marriage and purdah and the cumulative effect of all these is to limit insurance to those women who are literate, have completed the age of 21 and do not observe purdah. The risk of first confinement is almost generally excluded and among other restrictive conditions may be mentioned the need for an independent income. Special questions like the age, number and health of children and details of confinements have to be answered, and the insurance is subject to an extra premium which is at present Rs. 5 per thousand per annum, including Joint Life Policies where one of the parties is a lady. A few companies remove the extra after the age of 45 or 50. Restrictive conditions differ as between companies.

There is a case for reconsideration of the whole question, though not immediately, at least in the very near future, in the light of

[1] Report of the Health Survey and Development Committee, Government of India, Vol. I, page 18.

changing social outlook. Child marriage, for instance, is fast disappearing. The proportion of single women with independent incomes is rapidly increasing. Economic distress is forcing more women to take up more lucrative jobs and to view the series of child bearing in successive years as unfashionable. In the urban areas at least medical aid for women is improving. It is therefore pertinent to pose the question whether, if all conditions are favourable, any valid reason exists to treat educated, single, economically independent women on a different footing from men.

The case of the married women is different and restrictive conditions on their lives seem reasonable. Practically all of them are dependent upon their husbands for living and should therefore show a valid reason for insurance, and to minimise the financial hazard, insurance for an equal or higher amount on the life of the husband is a reasonable demand.

Non-Medical Insurance

The absence of any prolonged persistence of selection has raised the pertinent question whether medical examination may not altogether be dispensed with. Mr. Vaidyanathan writes:[2] "One direction in which insurers can practise economy is by the issue without medical examination of policies of which the sum assured does not exceed Rs. 1,000. Insurers would not be taking any great risk if they transact non-medical business subject, *inter alia,* to the following conditions: (a) the sum assured does not exceed Rs. 1,000 (b) declaration of good health is taken in every case and properly scrutinised (c) in case of death in the first year a part of the premium paid alone is returned according to a sliding scale (d) the papers relating to the personal and family history of the proposer are subject to a very careful scrutiny and the insurers reserve the right, in case where these are not entirely satisfactory, to call for medical examination. This would call for concerted action on the part of all insurers. After investigating the experience acquired by the issue of non-medical policies for Rs. 1,000 over a period of, say five years, and finding it satisfactory, insurers may extend the principle to policies not exceeding Rs. 2,000 for a considerable time." The considerable saving in medical fees thereby effected will cover any increased mortality experienced by the absence of mdical examination. Before the Insurance Act 1938 placed a lower limit of Rs. 1,000 on the sum assured under a single policy a limited amount of insurance was

[1] *Indian Insurance Year Book,* 1944.

issued for small sums without medical examination. These schemes were almost completely withdrawn when the Act placed a lower limit on the amount of insurance on a single policy. Mr. Vaidyanathan's remarks gave a spurt to this scheme and many companies now issue non-medical policies, thus opening up possibilities of extending insurance to districts where lack of proper facilities make medical inspection practically impossible.

The agent's report is of paramount importance in the selection of lives for non-medical insurance. It has to be fairly comprehensive and, besides the usual personal and family history, should call for detailed investigation by personal enquiries. This report may be supplemented by the report of a field officer or some other responsible representative of the company to ensure better results. Full risk of death is rarely assumed from the commencement, only a proportionate amount being paid in the case of death from blood pressure, syphillis, cancer, diabetes, tuberculosis etc. during the first two years. Insurance is rarely issued above the age of 40, and the contract carries a proviso giving the right to the company to enforce medical examination in case of doubt.

Much progress can be made in writing non-medical business especially in pursuance of a programme of rural insurance development. The policies should be limited to such sums as the company is able to underwrite without undue risk in the event of unfavourable overall mortality experience. An upper age limit, say 40, should strictly be enforced as the mortality of higher age groups on such insurance plans has been unfavourable in countries where the scheme has been successfully operated. Two factors tend to increase the mortality on non-medical schemes: firstly a certain amount of unavoidable adverse selection against the company by the wilful concealment of known impairments and secondly ignorance of the presence of organic defects. This increased mortality will be offset considerably, at any rate in any broad basis of operation, by the savings from medical fees, for in rural areas where the scheme has particular use, the absence of qualified doctors would render the medical system of selection considerably costly if travelling expenses for the usually longer distances to be covered are taken into account. In adjudging the effect of the relatively better physique of rural lives on mortality as a favourable factor for this class of business, an important consideration is the locale, for certain districts like the Wyyanad of Malabar are known to be unhealthy. Sanitation and available medical facilities also have an important bearing. In any case rural prospects are generally initially known to the agents and considerable reliance may be placed on the intelligent appraisal of an honest agent.

The scheme has been successfully operated in America in pursuance of a systematic programme of insuance development. Rural districts were covered in the beginning with considerable success and insignificant loss. It was then extended to small border towns where a greater degree of scrutiny was needed, and finally it was extended to larger cities where the utmost care was required in selection as the prospects were practically unknown to the agents. This care was exercised by a careful scrutiny of the personal and family history of the applicant, the questions asked covering the whole range of information elicited from him both in the Proposal Form and the Medical Report. This, together with the report of a reliable agent and a referee reduced the risk considerably.

Apart from rural and selected city lives, non-medical schemes are applied in three directions: (1) group insurance (2) savings bank insurance and (3) additional insurances on the lives of previously medically selected persons. Group insurance is small but growing. Savings Bank Insurance is operated only by two offices and the experience of one of them which is exclusively engaged in this class of business has been extremely satisfactory as will be seen from the following extract from its latest valuation report: [1]

Bases of valuation: Oriental (1925-35) Ultimate Table, 2.¾% interest, reserving 7.68% of premium for expenses.

Renewal expense ratio: Nil.

Business in force: 14,328 policies for Rs. 1,35,32,000 (including bonuses).

Life Fund: Rs. 35,71,000.

Surplus: Rs. 2,07,000.

Allocation: Policyholders Rs. 1,72,000: Shareholders Rs. 17,000: Reserve Rs. 18,000.

Bonus: Simple reversionary bonus of Rs. 4 per thousand per annum on policies issued before 1-9-44 and Rs. 7 per thousand per annum for those issued after 1-9-44 plus Tontine Bonus at same rates.

SUB-STANDARD LIVES

If a group of people, insured by a company, shows a mortality greater than what is anticipated normally in accordance with the table adopted by it, that group is substandard or under-average. Occupation, impaired physical conditions, lack of vitality, bad

[1] The Depositors' Benefit Insurance Co. Ltd. Particulars from *Insurance Year Book,* 1948.

habits, heredity, previous illnesses, residence in unhealthy surroundings or under unfavourable conditions of climate—all these individually or collectively contribute towards the extra hazard, which is covered by an extra premium.

Barring persons with proved mortal diseases such as cancer or tuberculosis, no person is uninsurable in theory, but large numbers of people are unable to obtain insurance chiefly due to the magnitude of the extra risk on their lives. The hazard can, however, be so great that a prohibitive rate of premium alone can cover it: in that case the demand for insurance may be practically absent.

The need for sufficiently large numbers to ensure average results is important. In practice, most of the small and medium sized offices may find it difficult to get sufficiently large numbers of substandard lives: the risks are then either declined or reinsured. If a company is financially strong it may also accept the risk in the hope of getting more proposals in the future. A complaint that is not infrequently voiced is that a proposer had to pay a higher premium and then lived to a ripe old age. If experience showed that twelve out of every 1,000 assured, suffering from high blood pressure, died at the age of 40 against the normal rate of eight, the mortality rate is higher, the risk greater and the premium payable consequently more, but it is beyond the power of man to select the particular individuals contributing towards the extra mortality. In the circumstances it is hardly correct to argue that a person classed as substandard should not have been subject to extra premiums if he lived to a ripe old age.

Extra Rates

The extra mortality from a given cause has been fairly accurately determined in foreign countries in a large number of cases, but no such investigation has been made in India, although a few individual offices have roughly assessed their experiences. Extra premiums are therefore arbitrary or based on foreign experience.

The number of additional deaths due to a specific cause or a combination of causes during a given period is a measure of the degree of the extra risk during that period. From the financial point of view the chief consideration will be whether the extra deaths occur in early life, middle age or at older ages, or whether they are equally likely to occur throughout the currency of the policy. Occupational hazards exposed to greater accidental deaths persist throughout the period of exposure whilst occupational impairment of health may increase mortality only at a later age as in the case of slow poisoning. Again an unhealthy climate may produce an increased mortality only during the early stages, for, later, the system usually builds up strong resistance within itself. On the other hand impairment due to overweight generally produces an increasing rate of mortality with duration.

These considerations point to the necessity of classifying all substandard risks in accordance with the degree of extra hazard due to specific causes in a given period. For purposes of computing the extra hazard all substandard lives fall under one of three broad groups: (1) where the additional hazard is fairly constant at all ages, as in the case of many occupational hazards (2) where the extra risk increases with age, as for instance overweight, and (3) where the risk of additional mortality decreases with age, as for example most cases of previous illnesses. A fourth type is the risk which increases for a time and then decreases but this may safely be ignored as too abstract theoretical considerations are neither practical nor necessary. Four methods of granting insurances are in force: (1) rating up of age, (2) flat extra premium, (3) liens and (4) percentage basis.

1. *Rating up of age*: Here, in theory, a policy is issued at a rate of premium applicable to a higher age than the applicant's true age, the assumption being that the proposer is equivalent to a person of the higher age. In endowment policies, particularly those issued at lower ages, and maturing at short durations, the extra premium, even by a substantial rating up of age is very small, as may be seen from the following table:

Table No. 45

Table of annual premiums for Rs. 1,000 endowment assurance at normal risks and additional premium for extra risks of mortality provided by five years rating up of age—Oriental Table of Premium Rates.

(Without Profits)

Age at issue	10-year endowment		20-year endowment	
	Normal premium	Extra premium provided	Normal premium	Extra premium provided
20	104 9	0 2	50 4	0 6
25	104 11	0 6	50 10	0 13
30	105 1	0 12	51 7	1 10
35	105 13	1 11	53 1	2 15
40	107 8	2 15	56 0	4 11

Thus the extra premiums, except in the case of long term policies or at higher ages, are small. In practice, therefore, in the case of an endowment policy, an extra premium that would have been charged if the proposed policy had been a whole life assurance is added on to the endowment assurance premium calculated at ordinary rates. A point to be remembered is that a change in the premium for a whole life policy for one year's difference in age is quite small at the young ages at entry, but is appreciable at the old ages. Simplicity is the keynote of the system. For all practical considerations such as surrender values, reserves, etc. the policies are treated as a separate group of standard policies. It is also easily understood by the insuring public.

2. *Flat Rate Premium*: This method is practically similar to the rating up method except that the extra mortality is covered by a flat addition to the premium irrespective of age at entry. The best illustration of this method is the extra premium for female insurance: most of the occupational hazards are also met by flat extra rates.

To a policyholder there is not much of a difference whether the method adopted is the rating up of age or flat extra premiums, for in either case, he pays an additional premium for the same amount of insurance. Both methods are used in India and often by the same company.

3. *Liens*: The risk on impairments such as the presence of tuberculosis in the family decreases with every succeeding year for if the assured passed the middle age without any symptom of the disease, he might be considered immune from it for the rest of his life. The usual practice is therefore to create a lien against the policy for such an amount and for such a period as would offset the extra risk. The policy is normally issued at the standard rates, but if death occurs during the term specified, the amount of the lien is deducted from the sum assured: when the period has passed without any untoward incident the full sum assured becomes payable. In many cases the method is applied in a modified form by which the amount of the lien is gradually decreased until it is finally wiped out in a few years' time.

Many applicants may question the decision of an office if the risk is classified as substandard, for they may be unconvinced of the reasons. In the case of a tuberculosis in the family, for instance, the proposer would contend with all the force at his command that as he had taken adequate precautions against infection, he should not be charged extra premiums and all the logic and statistical data would be futile. To substantiate himself, he would be quite prepared to create a lien on his policy for a time and the office can accept the offer for the extra mortality will be confined to the first few years. A drawback of the lien system is the relatively large liens needed to meet the small degree of extra mortality during the earlier years: it is also liable to be misunderstood by the large body of policyholders who are generally ignorant of the refinements of modern medical selection. As the policyholder will not be there to attest the correctness of the deduction when the claim is met, it may be construed as an attempt on the part of the company to cheat the beneficiary of his legitimate dues.

4. *Numerical Basis*: A system that is not current in India chiefly due to lack of adequate statistics is to classify each risk as a fixed percentage of the average mortality of the insuring office and to charge an extra premium which bears the same proportion to the normal rate at the age of issue. In practice each proposal is allotted a basic rating of some figure around 100 usually depending upon the height and weight. Points are added to this figure called debits for adverse features and points are deducted from this figure called credits for favourable features. The resulting figure represents the percentage of the normal mortality to be charged for in the contract. Usually three to six substandard classes are established after investigating the effect of all substandard hazards on mortality and every risk is assigned to its appropriate class within which it falls and rated up accordingly. This system of numerical classification has great advantages even if some other basis is adopted by the office. The extra rating up of age, for instance, may be made on the basis of the numerical value assigned to the particular risk. When a joint investigation of substandard lives is undertaken a system of classifying risks into broadly allied groups may be attempted.

Removal of Extra Premiums

A question that often arises is whether, if a person who had an impairment, reports and provides proof that he is normal, the extra premium may be removed. Theoretically it is not possible to do so for all the substandard lives belong to an extra mortality group and whilst a few among them might have reverted to normal it is highly probable that most of the others would have deteriorated to a point where they are no more insurable risks. Those uninsurable people cannot be charged extra premiums and so the office cannot afford to remove the extra premiums charged to safe cases too. In practice, however, many companies are willing to remove the extra rate if a subsequent medical examination reveals the absence of any impairment: care is taken that the return to standard conditions and therefore to normal rating is permanent and not temporary.

Importance of Substandard Insurance

Insurance on substandard lives has distinct advantages especially in India where the average man has a poor standard of physical fitness. This poor standard of health, due largely to malnutrition and the absence of adequate medical facilities, makes a large number of people stay on the borderline of insurability and it will be unfortunate if they are unable to enjoy the wholesome benefits of modern life assurance on the grounds of health alone. Besides, it is only fair to let the institution of insurance provide benefits and adequate cover to all those who are willing and able to pay for it at the rates corresponding to the rates of mortality applicable to them, however bad or hazardous their condition might be. The absence of adequate data on the extent of risk in particular cases should not be a bar to the issue of this insurance, for the matter is so important that a rate of premium, albeit arbitrary, that commonsense suggests and safety demands should be charged until the time when co-ordinated action can supply the required statistics. A case for a thorough investigation into the whole field of substandard insurance with particular emphasis on extra mortality from various causes is nevertheless urgent.

Substandard insurance would open up a wider field of activity to the agents. It will enable the companies to underwrite the lives of persons who would otherwise be declined. It will offer the advantages and benefits of insurance on reasonable terms to the maximum number of citizens and especially to those who, due to causes largely not of their making, show an impairment and therefore stand most in need of protection.

RETENTION AND RE-INSURANCE

Depending upon the total amount of insurance in force and the amount of surplus funds, every company fixes a maximum limit of insurance on a single life. The relationship between the total assets and the aggregate liabilities has a definite bearing on this limit and the considerations that chiefly weigh in fixing it are:

1. the extent of all types of insurances on the books

2. the scale of resources possessed by the company in comparison with its obligations
3. the probable effect of retention upon the amount and rate of profit and upon the maintenance of increasing bonuses
4. the extent of fluctuations in respect of all the above factors which it will be prudent to incur in the interests of sound and permanent business.

A young company retains a low amount of insurance but as the resources increase, the maximum limit increases. After fixing an upper limit, policies for amounts in excess of this figure are issued and the excess reinsured with other companies. In India reinsurance is offered and accepted on a reciprocal basis; most of the companies have an upper limit of their own for accepting reinsurance and one of the conditions usually attaching to the transaction is that a reinsuring company has not itself issued a policy to the proposer. The office placing the reinsurance risk is the 'ceding company' or 'Principal Office' and that to which the reinsurance is offered is the 'Guaranteeing Office.'

Two Forms

There are two types of reinsurances: the Net Risk Plan and the Coinsurance Plan. The former is not current in India but is common in America and the Continent. In this exceptionally advantageous plan, only the net amount of risk during every policy year (i.e. the face value less the terminal reserve) is reinsured at the yearly-renewable-term rate applicable to the attained age. As the reserve on the policy at the end of succeeding policy years automatically increases, the net amount at risk correspondingly decreases, but with each succeeding age the yearly-renewable-term rate increases slightly, so that under the plan an automatic reinsurance is obtained, under any given policy, of a sum at risk decreasing annually at a rate of premium which increases annually, the result being a premium which increases slightly in the early policy years, subsequently decreasing until the date of maturity. By its very nature, surrender values or additional benefits are not covered, for these benefits are included in the reserves but the ceding company is covered fully on just the amount at risk (or mortality) and all profits from investments, surrenders and other sources remain with the principal office. The advantages of the net risk plan to a small or medium-sized office is therefore considerable.

Coinsurance is the current plan in India, although one company at least places a certain amount of reinsurance under the net risk plan. Under the coinsurance plan a part of the sum is reinsured with the Guaranteeing Office which, in its turn, receives a proportionate part of the office premium less commission, and is consequently liable for a corresponding part of all payments made by the ceding company. The contract is thus in effect a contract of insurance on the life of the assured between the ceding company and the guaranteeing office, which issues a policy or coinsurance certificate. The reinsurance company should consequently be satisfied as to the insurability of the proponent in accordance with its own standards and copies of all relevant papers which led to the consideration of the proposal are filed with the guaranteeing office. In general practice the policy terms and conditions of the ceding company apply equally to the reinsurance contract. This is not wholly satisfactory, for if the terms and conditions of the offices differ the reinsuring company may find it difficult to accept the terms of the ceding company. There seems to be room for concerted action for the evolution of agreed terms and conditions applicable to all transactions of reinsurance as in other countries.

The net risk plan has certain decided advantages. Under the plan profits from investments, expenses, surrenders and lapses are retained by the ceding company. The Guaranteeing Office does not have to pay any bonuses at all, retaining for itself the entire mortality profits. A certain amount of adverse selection may be inherent in insurances for larger amounts, but this may, often, be offset by the higher economic status of the insured.

In the event of the ceding company not receiving sufficient reciprocal business to make up for the loss in earnings on account of ceding a part of the business to other companies, reinsurance under the coinsurance plan is likely to lower the total business on its books and the total funds available for investments. Not so under the net risk plan, for, as only the net amount of insurance is re-insured, the funds and assets are not affected in any way. In a small or medium sized company the loss of profits is a major factor and the net risk plan is on this score, distinctly advantageous.

Two Systems of Reinsurance

Both the coinsurance and the net risk plan may be on the *automatic* or *facultative* basis. On an automatic form of the contract a guaranteeing office binds itself to accept unconditionally the ceding company's first excess either on the net risk or coinsurance plan, for specified amounts proportionate to the amounts retained by the company in accordance with its own limit of retention. Thus A.B.C. Co. may enter into an automatic reinsurance contract with X.Y.Z. Co. by which the latter binds itself to accept, without question, the first amount of insurance over the maximum limit of the former company. If the respective limits of the companies are Rs. 10,000 and Rs. 20,000 and if the ceding company effects an insurance for a lakh on a single life, Rs. 10,000 is retained by the A.B.C. Co. the next Rs. 20,000 is automatically insured with X.Y.Z. Co. and the balance of Rs. 70,000 with other companies. The plan has its advantages for it enables a company to accept and issue a large policy at once, provided the sum insured does not exceed the total of its own retention plus the amount of automatic reinsurance. For larger policies, as in the instance quoted above, any sum in excess of this total may be reinsured on the facultative basis. All statements and reports in connection with the policy are filed subsequent to the issue of the policy in the automatic form of the contract. Automatic contracts between two companies are usually subject to termination at the desire of either company but that does not affect any reinsurance already granted which is allowed to run to its natural course. In any case the policyholders receive a contract direct from the Principal Office and do not even know that a part of the insurance has been reinsured.

The facultative system is the oldest form of reinsurance. The ceding company first submits copies of all relative papers to the reinsuring company and awaits the latter's acceptance of the risk before completing the contract. This naturally creates delay, and may, sometimes, be disadvantageous to the ceding company. On the other hand, under the automatic plan a reinsuring company may find itself with more insurance and possibly less desirable risks accepted under its contractual obligations than it can safely carry; in most cases it may be willing to take the additional risk if it is able to reinsure the excess itself elsewhere.

In general practice the amount of reinsurance that might be accepted under a single policy depends upon the limit of retention fixed by the ceding company. As the limit of retention increases with the passage of time and the strengthening of its resources, the amount of reinsurance ceded decreases. Small companies with an upper limit for retention of say Rs. 5,000 may be able to effect reinsurance for Rs. 20,000 on one policy so that it is possible for it to accept a contract of Rs. 25,000 but a large office with an upper limit of say Rs. 50,000 may get reinsurance for only one lakh.

Need for a Reinsurance Company

Specialised foreign reinsurance companies underwrite not only the bulk of the reinsurance business in their own countries but a large volume of foreign business too. Indeed reinsurance is the bulwark of the international insurance market and the ramifications of some of the Continental and English Reinsurance Companies extend to the whole of the civilized world, the Swiss Reinsurance Company enjoying a unique position in this respect. The bulk of reinsurance is written on business other than life.

The absence of a reinsurance company in India is a distinct drawback. The bulk of reinsurance on life business was placed abroad until quite recent times but with the growth of insurance much of the business is shared by the companies themselves. The larger companies reinsure with others of equal standing. A part of the considerable expenses incurred by the ceding company in the procuration, issue and maintenance of a policy is refunded by the guaranteeing office by way of commission.

Promotion of a Reinsurance Pool of the member companies of the Indian Life Assurance Offices' Association was mooted some years ago when it was proposed that the pool should determine the maximum retention limit of each insurer and distribute the excess among the remaining offices in proportion to the retention limit of each individual company. Several causes led to the abandonment of the proposal: (1) the absence of any guarantee on the amount of reciprocal reinsurance for the business ceded, (2) the possibility of financially unsound companies joining the pool, as any restricted membership was not possible and (3) the divergence in the rates of premium, bonus and contractual terms and conditions among the different companies. The resolving of these difficulties and differences required time and considerable labour which the sponsors of the move were unable to spare at the time due to the insurance bill then before the Houses of the Legislature. War prevented further pursuit of the subject.

Independently of these attempts, there was considerable activity to form a reinsurance corporation primarily for general business. The first was a move on the part of the Indian Insurance Companies' Association to start a Reinsurance Corporation with a large capital, but the proposal was shelved on account of the peculiar conditions created by war and the pre-occupations of the sponsors with the problems connected with the Government move to amend the Insuarnce Act, 1938. The Post-war Sub-committee of the Insurance Advisory Committee which was constituted in

1946 considered, in its report to the Government, that the existing reinsurance facilities were inadequate and emphasised the need for a reinsurance corporation. Simultaneously with the publication of this report the New Zealand Insurance Company made an attempt to establish a reinsurance company with a large capital contributed by the New Zealand and the Indian companies but the move was abortive due primarily to the lack of adequate response. Early in 1948 the Superintendent of Insurance formulated a scheme for the creation of a Reinsurance Corporation under Government auspices but there was opposition to this move on the ground that the facilities for reinsurance offered in the foreign markets were adequate to meet Indian needs and the terms fair, and that the annual drain on the country's foreign exchange under the present arrangements was largely illusory. That seems to be the last word on the subject at present.

There appears to be difference of opinion not only on the question of the need for a properly constituted Reinsurance Corporation but also on its composition, scope and activities, when established. Thus whilst one section would like to see a purely state-owned, monopolistic institution absorbing all the reinsurance offered on a compulsory basis, others hold the view that a public joint stock company should tackle the problem, with shares subscribed exclusively by insurance companies. There is also a minority view that a public corporation with capital subscribed equally by the Government and the insurance companies should afford reinsurance facilities in competition with private enterprise. This question of a reinsurance corporation registered in India is important. The strength of the Indian insurance market and its place in the international sphere would largely depend upon it.

CHAPTER XI

CONDITIONS, BENEFITS, PRIVILEGES

Historical Aspect

Before the business of life assurance was run on scientific lines policies were deplorably unfavourable to the insured. The underwriters guaranteed to pay the sum assured in consideration of the premiums and often imposed restrictive conditions such as prohibition of travel outside prescribed limits. They contested the claims on the most whimsical grounds and strained their nerves to detect possible flaws and shortcomings in the meagre policy conditions. A lapse in the payment of premium annulled the contract irrevocably and made the assured forfeit all the premiums paid till then, the gains from forfeited policies constituting a constant source of profits, sufficient, in many cases, to meet the entire expenses of a company.

Then came the recognition of equity as the guiding principle of life assurance. With that it was no longer considered fair to forfeit all the premiums paid on a policy that was lapsed and a portion of those premiums was paid in cash to the assured on his surrendering the policy or was utilised to purchase paid-up assurance of a reduced amount. The great public indignation of 1870 at the failure of the Albert and the European [1] probably encouraged this reform; the need for greater public enthusiasm liberalised the conditions further. The evolution of liberal conditions in England was thus the demand of business exigency; subsequent technical progress aided the process. Still, for many years thereafter, liberal conditions were the exception rather than the rule for benefits and privileges were introduced gradually. Competition was and still is a potent factor, and at one stage several offices went to the other extreme and treated policies with undue, and occasionally unsafe, liberality.

America is an excellent example of a country where State regulations liberalised policy conditions. The first Non-forfeiture Act was passed by the Legislature of Massachusetts in 1861 requiring companies operating in that State to grant surrender values to lapsing policies in the form of 'extended term assurance'. This granted temporary assurance of the full amount to a defaulting

[1] See Chapter XIII.

policyholder, limited to such a period as could be purchased by the net surrender value.

Immediately afterwards the National Mutual Life Association of Australasia founded by Colonel Templeton C.M.G., F.I.A., granted a completely new and attractive benefit under which a contract on default was kept in force by advancing loans to pay for the premiums out of the surrender value, so long as it lasted, with the option of redeeming the policy after paying the premiums so adjusted together with a nominal interest. This benefit is the fore-runner of the present-day automatic non-forfeiture benefit granted by almost all companies in the world.

In 1879 was enacted a non-forfeiture law in the State of New York which granted paid-up assurance of a reduced amount in the event of lapse but an escape clause which applied the benefit only when demanded within a period of six months after default enabled most of the companies to virtually neutralise it. Growing competition led to a gradual liberalisation of policy conditions.

Indian offices copied most of the policy conditions from the British, but while the established companies kept pace with the developments in England, not until recent times were policy conditions liberalised by many offices. The evolution of liberal terms took place in three stages: (1) prior to the formation of the Indian Life Assurance Offices' Association policy conditions were mostly severe and restrictive (2) scramble for new business and keen competition in the thirties determined the benefits and privileges and the Association strove to make them uniform and liberal (3) the Insurance Act 1938 introduced Government rules to liberalise policy conditions to a limited extent.

POLICY FORM.

The Policy Form differs as between offices although it follows certain well-defined principles. Printed privileges and conditions have added to its length but a modern policy is shorter than many other legal contracts such as sale deeds or fire and marine policies. The use of plain language as opposed to technical or legal phraseology is distinctly advantageous and a man of moderate English education and average intelligence is able to follow the provisions comparatively easily.

The policy commences with a decoratively displayed heading setting forth the name of the company and the location of its head office which issues the policy and pays out the sum assured eventually. Each policy is serially numbered either immediately after the displayed heading or in the 'schedule' referred to later.

The policy proper commences with a recital of the proposal made by the applicant and his declarations to the medical examiner. It expressly states that the proponent has agreed that the proposal form he has filled in and signed, the declarations made by him to the doctor and the statements contained in them will form the basis of the insurance.

Age: The declaration of age in the proposal stands on a different footing. A false assumption of age vitiates the contract, yet practical considerations discourage the company from demanding proofs of age before acceptance. Consequently the phrase 'whereas the assured has agreed that his age on the basis of which the premium is payable shall be a material factor in this assurance' is included, although some companies omit it on the assumption that the reference to the proposal and declaration includes admission of age too.

Premium: The clause relating to age is closely followed by the statement that the first premium has been paid. It is generally held in law that no binding contract, and therefore no liability for the risk, exists before the first premium has been paid and accepted, and this has the force of custom. The company is entitled to get the elucidation of all material facts concerning the assurance right upto the date of the acceptance of the first premium and failure to disclose any fact which would have a bearing on the condition of the risk, even after the acceptance of the proposal and declaration, would render the insurance void. The statement 'the first premium has been paid' assumes that the policy has not been executed and actually delivered until after the receipt of the first premium. It is therefore customary not to issue the policy until the first premium is paid, as it may not be always possible to enforce any claim for extra payment of premium in case an extra risk is discovered after the delivery of the policy.

The policy then states that if subsequent premiums are paid as provided in the schedule that follows, the company will pay the sum assured to the person or persons entitled to it, without interest, at the head office of the company, upon the happening of the contingency described in the schedule. This payment, as is expressly stated, is dependent upon the production of proofs satisfactory to the Board of Directors about (1) the happening of the contingency (2) the title of the claimant to receive payment and (3) true age, unless it has been admitted previously. A reference to the conditions and privileges attaching to the policy is then made. They are usually printed at the back of the policy and not over the signature and seal; a clause referring to these conditions, therefore, becomes essential.

Schedule: Policies in general may be divided into two broad groups: the schedule and the non-schedule. All particulars are relegated in the former to a schedule and in the latter they are written into the body of the policy. Modern preference is for schedule policies as they avoid repetitions and give better facilities for display. The schedule is a printed frame with blank space for the insertion of relevant particulars. If the life of a person is assured by another as sometimes happens, it is usual to describe the person taking out the policy as the 'proposer' and the person whose life is assured as the 'assured'.

Conditions: Policy conditions in India are not standard in the sense that they are uniform with all companies, although Government rules under the Insurance Act 1938 and general agreement among the companies have combined to give the conditions sufficient liberality, extend the scope of the privileges and achieve a large measure of uniformity. There is another aspect too. Liberal conditions and generous privileges are obviously not enough; equally important is the lenient interpretation of the benefits conferred. If the benefits are treated as baits to rope in an increasing amount of new business, the cause of insurance suffers. On the other hand, a catholic outlook pays dividends in the long run through increased goodwill and prestige. According to Mr. Vaidyanathan:[1]

> "Policy conditions should be further liberalised. It has to be stated that the requirements of section 113 are the barest minimum that insurers are required to give and the usual defect of statutory fixations of making the minimum the norm should have no play whatsoever. In the case of most insurers section 113 did not confer any new benefit on the insured which insurers were not themselves giving on perhaps a more liberal scale even before the Insurance Act 1938 came into force".

The privileges and conditions may be classified under three broad heads: (1) Provisions relating to payment of premium (2) those relating to the payment of the sum assured and (3) miscellaneous privileges and benefits.

I. PAYMENT OF PREMIUMS.

Liability for the risk of death commences from the date of receipt of the first premium and is conditional upon its continued payment over a pre-determined period on due dates. Any break in payment voids the contract. Nevertheless keen business competition, public demand and equity have combined to provide many privileges and considerable latitude in the payment of the periodical premium which fall under three main heads: (1) reductions (2) non-forfeiture periods and (3) special privileges for surrender and lapse.

1. *Reductions*

(*a*) *Annual and Half-yearly Premiums*: A company's table of rates quotes premiums payable annually and in advance. To afford greater convenience to the assured it is usual to allow payments to be made in half-yearly, quarterly or even monthly instalments of proportionate amounts in lieu of the annual premium. Until recently a small percentage of the annual premium used to be charged extra for half-yearly or quarterly payments to make up for the loss of interest, but currently proportionate amounts of the annual premium are accepted half-yearly or quarterly, although, mainly due to additional clerical work, monthly instalments carry, in the case of many companies, a small addition. The procedure in such cases is to add 5 to 6¼ per cent to the annual premium and to divide the total by 12 to get the monthly rate. This privilege is mainly confined to Indian companies, most of the foreign offices still retaining the additional charge applicable to half-yearly or quarterly premiums. An inducement to pay premiums annually is provided by a concession of 2 to 2½ per cent (or Rs. 0-12-0 per thousand sum assured per annum) of the scheduled rates and a corresponding 1 to 1¼ per cent (or As. 8 per thousand sum assured) for half-yearly instalments. These rebates are allowed by all companies, although the actual rates differ.

b. *Deposits.* The customary practice is to get a deposit of the first instalment of premium from the proposer before medical examination, but if the first premium is below a minimum (usually Rs. 12 to Rs. 15 per thousand) he may be asked to combine more than one instalment to make up the deficit. This is intended to cover the cost of medical examination and other incidental expenses and is returned if the risk is not acceptable at the rate and on the conditions specified in the proposal, but if, after acceptance, the proposer fails to take it up it is forfeited and adjusted against the actual expenses incurred. The principle underlying this is that the proposal is an offer to the company to enter into a contract, but if, after acceptance of the offer, the contract is not taken delivery of, the proposer has to compensate for the loss incurred by the acceptor due to his failure to perform his part of the obligation.

c. *Dating back.* Premiums are usually charged according to age next birthday of the applicant for insurance to commence at the date of acceptance. Occasionally a proposer has just passed his birthday on the date of commencement of the policy and wishes to have the contract 'dated back' to the day previous to his birthday in order to enable him to get the benefit of the lower premium applicable to the younger age. All offices are usually willing to do this for many classes of assurances, provided the dating back is not required for a period of over two or three months. By doing so, the companies lose the interest for the period which has elapsed since the date of the contract, but as they carried no risk for that period the loss of interest is considerably offset by the gain in mortality cover. This would not be the case, however, in the case of single premium policies (due to the relatively large amount of interest involved), short-term assurances and those with little or no risk of mortality: it will not be possible therefore for the offices to date back such policies without charging an extra for loss of interest.

d. *Larger assurances.* Except in the case of single premium policies and children's assurances it is customary for all companies to grant rebates of premium for policies of larger amounts, somewhat as follows:

	per thousand per annum
Above Rs. 5,000 but below Rs. 10,000 ..	As. 8
Above Rs. 10,000 but below Rs. 20,000 ..	As. 12
Above Rs. 20,000 ..	Re. 1

This is a return of the loadings for expenses which, in the case of large policies, do not increase in proportion to the sum assured.

e. *Residence.* Comparative statistics of mortality prove conclusively that the rates in tropical climates are higher than in the temperate. If therefore an assured goes out of India and resides in a temperate climate such as Europe, parts of America, Australia or Japan (with the possible exception of countries backward in medical facilities such as China) the saving in mortality may be considerable. Indian companies therefore offer reductions of premiums during travel or residence in Europe, America or Japan, north of 33° North Latitude and South of the Line of Capricorn; a few companies, however, exclude the southern temperate regions from the scope of this concession. The concession may be as high as 10 per cent.. The minimum period of residence for eligibility of the concession ranges from two to three months from the date of leaving a port in India, Burma or Ceylon to the date of return to such ports. It does not apply to children's policies or other types of assurances in which the mortality element is either little or absent; full concession is applied to Joint Life Policies only if both the lives proceed out of India, and when one of them goes the rebate is reduced to half.

It is argued occasionally that as parts of India such as the magnificent valleys of Kashmir, fall within the temperate zones and are even otherwise salubrious, the concession should be extended to travel or residence in those places, but as some other parts are definitely unhealthy there is not much point in the demand, especially as all of them contribute to make up the average mortality.

Thus the savings in mortality, interest or expenses effected under certain contingencies are passed on to the assured.

2. *Non-forfeiture periods.*

Days of Grace. The contract of insurance is primarily conditional upon the payment of all renewal premiums strictly on the due dates; failure to do so would invalidate the contract. The accumulation of reserves makes it possible for a company to show certain indulgences in the event of failure to pay the premiums strictly on the due dates and considerations of equity suggest that it should be so. The days of grace constitute the first of the benefits under the indulgences shown by companies to keep the policies in force without payment of premium. The usual provision is to grant a calendar month (or 31 days) from the due date within which payment would be received without any charge or interest, the policies being kept in force meantime irrespective of the state of health of the assured. This period applies equally to annual, half-yearly and quarterly payments and for all types of policies, the period for monthly premiums being usually reduced to fifteen days.

The contract generally implies payment of premiums at the head offices, free of all cost to the companies. No bill collector goes round for collection but power is given to the numerous branches, sub-offices, chief agents and authorised representatives to collect premiums and issue valid receipts on forms printed with the signature of the chief executive. Similar arrangements are made with many banks with branches spread over most of the towns in which policies are issued. The days of grace, therefore, give an added facility to send the premiums in time even from the most remote districts. The premium notices which are usually issued a month before the due date together with the days of grace thus give the assured over eight weeks' time in which to pay the renewal premiums, but these notices may usually be overlooked unless followed by a second notice before the month is over as is sometimes done.

The company fully covers the risk assumed under the policy within the days of grace and if death takes place then, the instalment of premium due is deducted from the sum payable, but for purposes of calculating interest the days of grace are ignored and interest calculated from the date on which the premium fell due. Premiums are payable annually and in advance, so if a claim materialises before a full annual premium has been paid, any balance to complete that year's premium is deducted from the sum payable.

Before we discuss the second non-forfeiture period, let us pass on to a consideration of surrenders and lapses as all three are inseparable.

3. *Surrenders and Lapses.*

a. *Cash Surrender Values.* We have seen that it is inequitable for a company to forfeit all the premiums paid if an instalment due is not met. On the date of default a part of the premium would have been used in procuring the policy, maintaining it and meeting death claims, but the balance would have been reserved against future liability. It is now recognised universally that, after about two or three years of issue, during which time premiums had been paid in full, the policy may be surrendered to the company against payment of a sum of money in cash, except in cases like term assurances which carry no reserves. The natural question is: How much cash will a company pay for such a surrender? Equity would suggest the largest amount of money which can legitimately be paid without disturbing the financial position of the other policies in force; that amount should have some relation to the net contribution made by the surrendering policy towards the reserves, the net contribution being arrived at after deducting the expenses and all other contingent payments. No penalty is imposed solely because of surrender, but at the same time, for obvious reasons, a policy that is surrendered should not get better terms than a policy which is kept in force, for, to do so, would be to provide an incentive to everyone to surrender the assurance before the full term. The cash surrender value on any given date is generally the reserve on the policy on that date less a varying amount which decreases with duration and is finally wiped out so that a policy nearing maturity will get almost the whole of the reserve. The cash value of a surrendering policy will depend upon the plan of assurance, age and duration.

State regulations or usages determine the actual form in which the guaranteed surrender values are worded in different countries. In America, for instance, most of the States have prescribed by law the minimum surrender values applicable to different classes of assurances and made the endorsement of the values. payable in successive years compulsory. In Canada government laws are vastly similar. No such laws govern the companies in Great Britain. The usual procedure there (which has been largely copied in India) is to indicate the payment of guaranteed surrender values by a reference to it in the terms and conditions of the policy. Prior to the passing of the Insurance Act 1938 inclusion of the clause in respect of surrender values was left to individual discretion but in 1941 an amendment to section 113 of the Insurance Act 1938 sought to include a schedule of surrender values payable at different periods in the policy itself, which, on the representation of the companies, was later accepted by the Government as amounting to mean:

> "A policy of life insurance under which the whole of the benefits becomes payable either on the occurrence or at a fixed interval or fixed intervals after the occurrence of a contingency which is bound to happen, shall acquire a guaranteed surrender value after all premiums have been paid for at least three consecutive years and the (minimum) guaranteed surrender value shall be equal to . . . per cent of all premiums paid under the policy excluding that for the first year. The surrender value for any subsisting bonus already attached to the policy shall be added to the guaranteed surrender value calculated as above."

This form is now included in all policies with, sometimes, a rider to the effect that 'the cash surrender value will be paid after an application is made during the currency of the policy in the form prescribed for the purpose if there is no legal impediment and the policy bond duly discharged is surrendered to the company'.

Endorsement of cash surrender values on every policy at each attained age and duration has its own advantages, for it enables an assured to know at any time the amount of money he is entitled to receive on any particular date and to compare the relative merits of surrendering the policy and keeping it in force. On the other hand, it is hardly worthwhile to incur the additional expenses in the laborious work of preparing tables of surrender values on policies most of which may not be surrendered at all. Offices quote the values on any policy immediately upon demand and there does not seem to be any difficulty for a man desiring to surrender the policy. Loans and other indebtedness are deducted before payment of the surrender value, and it is usual to demand satisfactory evidence of age if it has not been already admitted, before considering payment.

In America following the temporary closure of the banks and the resulting state-imposed moratorium on payment of cash surrender values and policy loans in 1934 a 'delay clause' was adopted as the standard non-forfeiture law under which the companies had a right to postpone payment for a period of six months. That is the current law today and is peculiar to America.

A large number of applications for surrender are from people whose financial need outweighs considerations of protection against death, but their interests would be served better if the company suggests alternative methods of tiding over an accidental need for ready cash such as temporary loans on the security of the policy. A surrendered policy ends any further insurance cover, unless the assured is prepared to take out a fresh policy in which case he may probably have to pay a much higher rate of premiums—in case he is an eligible risk then—so, it is hardly worthwhile to surrender a policy if the financial strain is only temporary.

b. *Lapses.* Changes in the financial condition of the assured may be either temporary or permanent. If the financial impairment is permanent, he need not necessarily surrender the policy for cash, but can keep the insurance in force by availing himself of anyone of two options viz., 'extended term assurance' or 'reduced paid-up policy'.

1. *Extended Term Assurance.* Extended term assurance or 'continued insurance' as it is sometimes called, provides for the continuation of the policy on the basis of temporary term assurance for the same amount as under the original policy and for such a period as could be purchased by the net cash surrender value. This option is not granted by all companies for very

good reasons. If a policy is encumbered by loans or other indebtedness the granting of this option becomes complicated. A loan may be viewed as an advance payment of part of the face value of the policy. In the event of death, any outstanding loan and interest is deducted from the sum assured even when the policy is in force on a regular premium paying basis. It is therefore unreasonable to expect the insurance to be anything but for the reduced amount if premiums have been stopped. If that were not so, a man with only a few days to live, may be tempted to take out a substantial part of the surrender value as a loan, keep the insurance in force under the 'extended term' plan with the balance of the surrender value and leave the full amount of insurance to his beneficiaries.

Let us take a concrete example. Suppose a man had a 20-year endowment assurance for Rs. 30,000 on which he has paid ten annual premiums. His policy would have acquired a surrender value of about Rs. 11,000 and he may be allowed a loan of Rs. 10,000 at the time. If he is struck by some mortal disease such as cancer and is given only a few weeks to live, he may be tempted to take out a loan for Rs. 10,000, keep the policy in force for the full amount of Rs. 30,000 on the extended term plan by utilising the balance of the surrender value and bequeath the insurance to his heirs. That would mean that on his death a sum of Rs. 30,000 would have been payable in addition to the Rs. 10,000 already paid to him unless there is some sort of restriction. That restriction is applied by reducing the amount of loan from the face value of the policy and by applying the surrender value less the amount of the loan to calculate the period for which the 'net surrender value' would purchase the reduced assurance. The combined effect of deducting the loan from both the sum assured and the surrender value will be to considerably shorten the term in which insurance will be kept in force. Benefits by adopting this course are therefore negligible unless the policy is for a very large amount and the loan relatively small.

By deducting the loan from the face value of the policy ,and the surrender value equity may be had but not the goodwill of the insured, if, as so often happens, he is ill-informed. To circumvent this companies usually demand repayment of the loan with interest together with any unpaid premium before granting the option. This is hardly satisfactory in practice, for a man who is already involved in financial difficulties may hardly find cash to meet the dues. But there is little else that can be done..

The privilege is worded thus: "After at least three annual premiums have been paid, the life assured is entitled to a paid-up term policy, without profits, in lieu of the surrender of the policy, if in force and otherwise unencumbered, whereby the full sum assured will be payable should death occur within the term extended which will be stated on application ".

Despite these limitations the option is valuable in those cases where the cash value is more than sufficient to pay for a term assurance of the full sum for the balance of the period originally contracted for. This option gives only simple insurance protection and no amount is payable when the full surrender value has been used up. No man will get satisfaction from knowing that the premiums he has already paid would get him temporary protection for a few years or months—a very intangible quantity—and nothing else, unless he has an incurable disease with a few weeks to live. This option has therefore only a limited scope for application, except in the case of many endowment assurances.

If the surrender value exceeds the amount required to pay for a term assurance of the full sum terminating at the original maturity date of an endowment assurance, the balance is utilised to purchase a 'pure endowment' payable to the assured on his surviving the original date of maturity. This may be best illustrated by the following table for a 20-year endowment which shows for definite ages: (1) the amount of annual premiums payable throughout the term (2) cash surrender value (3) the period of extended term assurance and (4) pure endowment payable at maturity after the policy has been in force for 5, 10 and 15 years:

TABLE No. 46.

		After 5 years				After 10 years				After 15 years			
Age	Premium	Cash Value	Period extended		Pure Endowment	Cash Value	Period extended		Pure Endowment	Cash Value	Period extended		Pure Endowment
	Rs.	Rs.	y.	m	Rs.	Rs.	y.	m	Rs.	Rs.	y.	m.	Rs.
20	53-8	155	15	—	88	378	10	—	462	660	5	—	768
25	54-3	155	15	—	72	379	10	—	455	660	5	—	765
30	55-4	157	15	—	39	382	10	—	440	661	5	—	760
35	56-15	158	13	9	—	383	10	—	405	660	5	—	749
40	60-10	160	10	10	—	384	10	—	348	658	5	—	732
45	65-15	160	8	2	—	383	10	—	252	653	5	—	702

In a 20-year endowment assurance, therefore, the surrender value, after five years pays for an extended term assurance for the full period of the policy and for a pure endowment upto the age of 33; after ten years it will not only meet an extended term assurance for the full period remaining but will also pay for a pure endowment. In all cases and types of policies the benefits depend upon the surrender value.

2. *Reduced Paid-up Assurance.* The second option is to grant on default an assurance of the same type and for the same period but for a proportionately reduced amount. Section 113 of the Insurance Act 1938 makes it obligatory for the companies to allot a guaranteed minimum surrender value to all policies on which three years' premiums have been paid and,

> Notwithstanding any contract to the contrary, a policy which has acquired a surrender value shall not lapse by reason of the non-payment of further premiums but shall be kept alive to the extent of the paid-up sum insured, and the paid-up sum insured shall for the purposes of this sub-section include in full all subsisting reversionary bonuses that have already attached to the policy, and shall where the policy is one on which the maximum number of annual premiums payable is fixed and the premiums are of uniform amount, be before the inclusion of such bonuses not less than the amount bearing to the total sum insured by the policy exclusive of bonuses the same proportion as the total period for which premiums have already been paid bears to the maximum period for which premiums were originally payable.
>
> These sub-sections shall not apply:
>
> (*a*) where the paid-up sum insured by a policy, being a policy issued by an insurer, is less than one hundred rupees inclusive of any attached bonus, or takes the form of an annuity of less than twenty-five rupees, or where the paid-up sum insured by a policy, being a policy issued by a provident society as defined in Part III, is less than fifty rupees inclusive of any attached bonus or takes the form of an annuity of less than twenty-five rupees, or
>
> (*b*) where the parties after the default has occurred in the payment of the premium agree in writing to some other arrangement, or
>
> (*c*) to policies in which the surrender value is automatically applied under the terms of the contract to maintaining the policy in force after its lapse through non-payment of premium.

Policies with a definite number of premiums such as limited payment whole life, endowment, double endowment, etc., are granted reduced paid-up assurances of proportionate amounts; whole life and other assurances on which the number of premiums is not fixed get the benefit on a different basis.

This is by far the best of the non-forfeiture provisions, especially if altered finances make it impossible for a man to continue payment of periodical premiums. A few companies grant this (and other non-forfeiture options) after two years—a commendable practice if the basis of the reserve allows it. Prior to 1939 the minimum paid-up value of the assurance to make the option operative was variously fixed by different companies, sometimes as high as Rs. 300. By fixing it at Rs. 100, the Insurance Act 1938 made its application uniform and its scope wide.

So far as can be ascertained, with the exception of one company life offices in India do not allow reduced paid-up policies to participate in future bonuses. Conversion of a policy to a paid-up one implies, it is held, the discontinuation of all benefits, privileges and options allowed on the original policy, including the right to participate in future profits especially as premiums are not paid which alone contain loadings for bonuses. Another view is that as they also contribute towards profits from mortality and interest, they are entitled to a proportionate bonus. Competition may, in the future, extend the benefit of bonus to paid-up policies too, naturally of smaller amounts.

c. *Automatic Non-forfeiture period.* This is the second non-forfeiture period referred to earlier. So far we have been considering the case of an assured who is unable to pay premiums throughout the full term of the policy. Finances may not be altered so dismally and often a setback is only temporary enabling the insured to restart payment of premium at a later date. In order to assist him, life offices automatically apply the surrender value towards the payment of premiums and keep the policy in full force as long as the value lasts. These advances are treated as loans and are made in cases where the surrender value less current indebtedness is sufficient to pay at least one full month's premium. This creates a lien on the policy in favour of the company and if death or maturity occur during the time, immediately following the days of grace, during which time a policy is thus kept in force, all advances are deducted with compound interest. The policy can be freed of the lien any time during the non-forfeiture period usually without the production of any evidence of continued good health by paying all arrears of premium with interest. Before the whole of the surrender value is used up a series of attempts are made to induce the defaulting policyholder to resume payment of the premium.

The provision is immensely beneficial, especially when non-payment is due to inadvertence or temporary financial difficulty and the assured has no intention of discontinuing the insurance altogether, for it enables the assured to free his policy of all encumbrances without the production of fresh proofs of continued insurability, and unlike the other non-forfeiture benefits such as the option to convert the policy into a reduced paid-up one or extend it as a term assurance, does not reduce any of the other benefits like bonuses, disability or double indemnity.

Yet it has distinct disadvantages and limitations. Where premium payments are not resumed after a reasonable period due to causes usually beyond the power of the assured, every instalment of premium paid by means of an advance from the surrender value, together with interest, will reduce the amount of money available for such advance and will continue to reduce it, until finally it disappears altogether, if, in the meantime, premium payments have not been resumed. The precise moment at which this happens and the policy lapses will depend upon the amount of the surrender value available at the time of the first non-payment of premium and this, in its turn, is controlled by age, duration and plan of insurance. It is obvious that the period during which the policy is kept in force is less than under the extended term plan, for the smaller amount of premium payable on the 'term basis' extends the period for which the surrender value will last. For a time after the date of the first non-payment of premium the proportionate paid-up assurance, under that option of non-forfeiture, may be less than the amount payable under the automatic non-forfeiture plan, but with time, as the amount of the loan advanced increases, the sum payable will decrease gradually, level up with the reduced paid-up assurance, then continue to fall below it and eventually disappear altogether. Where premium payments are not resumed, therefore, the plan operates against the interests of the assured.

In the case of endowment assurances, the surrender value may be sufficient in some instances to keep the policy in force for the full term and in addition provide a pure endowment payable on the original date of maturity. That would depend upon the plan, age and duration.

This option of non-forfeiture has a psychological drawback. When the provision is automatically applied, the incentive to prompt payment of the overdue premiums is lost for it eliminates the need to keep the policy in force through payment on the part of the assured. When once a payment of premium has been discontinued there is a natural tendency to repeat the process, so that, in theory at least, there is bound to be an increase in the lapse ratio. A point of importance to the assured is: the company cannot advance the premium indefinitely; at one stage the surrender value may be completely eliminated and if and when that happens there is no more liability on the contract.

* * * *

To sum up, four options are available on default of premium payment on a due date: (1) surrender of the policy for cash (2) application of the surrender value to purchase a reduced paid-up assurance (3) application of the surrender value to extend the insurance on a term basis and (4) application of the surrender value to keep the policy in force for the full sum for as long as it will last. Discarding the first option as it is perfectly straightforward the comparative advantages of the other options are:

Contingency	Extended term assurance	Reduced paid-up assurance	Automatic non forfeiture
Loans outstanding	Considerably reduce the extended period and the amount payable	Create a lien on the reduced amount to the extent of the loan and interest, or, alternatively a still reduced paid-up policy free from loans and interest	Reduce the period of non-forfeiture
Death	Full sum payable during extended period: nothing payable if it is afterwards	Reduced sum payable during original term of the policy	Full sum during non-forfeiture period: nothing payable if it is afterwards
Survival to date of maturity (endowment assurance)	Pure endowment payable if surrender value not fully used up	Reduced sum only payable	Pure endowment payable if surrender value not fully used up
Benefits like Bonuses, disability, etc.	No benefits payable	No benefits payable	Full benefits payable during non-forfeiture period

Application. The option of the extended term assurance is suitable in those cases where the net surrender value will be equal to or more than what is needed to extend the insurance to the original term. In the case of endowment assurance, as a healthy man in the prime of life may use up the whole of the surrender value within the original term, any indiscriminate use of this option is bad unless the full implications are realised by the assured. If no sum is received on the policy, as is bound to happen in certain contingencies, the option should be used with discretion, for the public judges a company not by what is right or wrong, but in the light of what the assured gets out of it; even the remote possibility of forfeiture of the premiums paid will have serious repercussions.

No such considerations need weigh with the companies in granting a proportionate reduced paid-up assurance. Even an illiterate man will understand and appreciate the option, and consider it fair and decent. When the inability to keep the policy in force is permanent the benefit should be granted immediately in order to give the fullest value for the premiums paid.

Where the insured is temporarily afflicted financially or neglects to pay the premiums due to inadvertence, temporary absence, illness or some other equally accidental cause, the non-forfeiture clause which keeps the policy in full force temporarily is eminently suitable. In point of fact this is the most popular and advantageous non-forfeiture clause, suitable in a majority of cases, but within limitations.

Discarding the extended term assurance which has its limited application, the other two options, viz., the reduced paid-up assurance and the automatic non-forfeiture clause are worded thus:

A. It secures automatically to the policyholder and his dependents in the event of cessation of payment of the premiums under his policy a Paid-Up assurance bearing the same ratio to the original sum assured as the total number of premiums actually paid bears to the total number stipulated in the policy, subject to the provision that premiums have been paid under this policy for not less than two years and that such proportionate paid-up assurance amounts to not less than Rs. 100. In the case of policies entitled to participation in the profits of the company all bonuses declared and still attaching to the policy at the date of cessation of payment of premiums remain attached to the reduced proportionate paid-up policy but the policy is not entitled to participate in the profits declared thereafter.

B. Should payment of the premiums be discontinued under the policy after it has acquired a surrender value, the company will automatically advance the premiums as they fall due and maintain the policy in force so long as there is sufficient net surrender value (after deduction of any indebtedness to the company with accrued interest) to cover these advances together with interest thereon at 6 per cent. Such advance together with interest may be repaid either in whole or in part at any time while the policy is so kept in force. In the event of the policy becoming a claim during this period the claim will be entertained subject to deduction from the policy moneys of the amount so advanced together with interest thereon. If the surrender value is exhausted by reason of such advance and no repayment of the advance with interest is made before then, the policy will lapse and all liability of the company will terminate.

The clauses explain themselves. It is a good rule to make the assured elect one of the options at the time of the proposal, but too often he refuses to do so, or having made it, forgets it later. When an office keeps a policy in force automatically for as long as it is possible to do so, it lapses after a time; to obviate this defect the non-forfeiture clause is sometimes framed in such a way as to give the assured only a reasonably long period to rectify any accidental omission or overcome any temporary financial stringency which resulted in the non-payment. With this restricted object in view the non-forfeiture clause is re-worded thus:

> "After the policy has been in force for three years if any premium due is not received in time, the policy does not lapse but will be kept in force automatically for a period of six months from the due date of the unpaid premium and if the premium along with interest at 6 per cent is not paid within this period the policy will automatically stand declared paid-up in accordance with the regulations pertaining to paid-up policies as described hereafter. In the event of death during the period of six months full claim will be payable but the overdue premiums along with interest at 6 per cent and the balance of the premium for the current year of the policy, if any, will be deducted.

Indiscriminate use of non-forfeiture provisions can spell danger unless the system applied to a particular policy is simple, easily understood and is of such a nature as to eliminate even the remote suggestion of loss to the policyholder. With a little encouragement and personal contact anyone may be made to realise the implications of each option. What may be suitable, and even advantageous, in one case may have a limited application in another and individual needs determine individual course of action. In the absence of any definite direction from the policyholder, a wise course may perhaps be to apply the modified non-forfeiture clause automatically whereby premiums are advanced for an initial period of six months, and to pay the surrender value on application or use it to purchase a proportionate paid-up assurance; such a course, accompanied by facilities to restore the policy to its full value perfectly easily at the convenience of the assured, may evoke less criticism.

Present state regulations give freedom of action to the insurer to apply whatever method of non-forfeiture is suitable; in the absence of any other system the contract will stand automatically converted to a proportionately paid-up policy. In law the policyholder has no right to receive premium notices—and this fact is brought home to him every time he receives a notice (which happens whenever premiums are due)—but an insurer is obliged to intimate the options available within three months of the first default; impersonal notices of premium are rarely as good, or as effective, as personal contacts.

Revival of lapsed policies.

The insured can usually revive a lapsed policy within the original term irrespective of the time lapsed; a few companies however limit the right to a reasonable time after lapse. Proof of continued insurability is essential for, in its absence, those who are no longer insurable would, in most cases, take advantage of the right to reinstate while many of those in good health may not do so. Even as it is restoration is accompanied by a certain amount of selection against the company. No evidence of good health would normally be demanded if an application for revival is made within three months of lapse, a personal declaration of continued good health may be accepted in good faith within six months but a fresh medical examination at the expense of the assured is necessary later.

Reinstatement is conditional upon all arrears of premium being paid with compound interest. The right of reinstatement does not exist on principle where the cash surrender value has been exhausted either in buying a reduced paid-up assurance or in extending the period of non-forfeiture, as full consideration would have been given; frequently requests for revival in the face of the need to pay all arrears of overdue premiums with interest would be for reasons adverse to the interests of the company. In practice, companies take a very liberal view of their right in this matter and refuse to revive a policy only for very good reasons, as for example, want of insurability.

> If the premium is not paid within the days of grace, the policy, unless protected by the Automatic Non-forfeiture Benefits described hereinafter, shall lapse to the company. It may, however, be revived at the discretion of the Directors for the full sum assured at any time before the expiry of its term provided the life assured is alive at the time of revival and subject to the following conditions:
>
> 1. Payment must be made of all outstanding premiums, with compound interest thereon with half-yearly rests at the rate of 6 per cent per annum or such other rate as the Directors may determine from time to time subject to a minimum sum of annas eight,
> 2. Production of proof of continued insurability of the life assured to the satisfaction of the directors at his own expense.
>
> The Directors will be prepared to consider the question of revival without evidence of health if the period of lapse does not exceed three months, and thereafter on a personal declaration on the form prescribed by the company, but in case the period of lapse exceeds

six months, in addition thereto, a medical examination report on the form prescribed by the company by an approved doctor of the company.

Revival in the early period

Many companies have of late introduced a method of reinstating a lapsed policy which has no surrender value, whereby a new policy is issued advancing the date by the period during which the policy stands lapsed. Full credit is given for all premiums paid on the original policy, the new contract being subject to new rates of premium corresponding to the age on the date of revival.

Subject to the proof of insurability being furnished at the cost of the assured to the satisfaction of the directors, a new policy will be issued in lieu of the original policy under the same plan, for the same amount and for the same term of assurance as the original policy, but antedated for exactly the same term of assurance as the original policy was in force and having, therefore, the same unexpired term at the date of revival as the policy had at the date of lapse. The premium on the new policy will be the same as would be payable at the age nearest birthday of the assured at the date of commencement of the new policy. The assured will have to pay the difference of premium under the new policy and the original one with interest at six per cent compounded half-yearly with a minimum of Re. 1/- and the premium on the new policy on the date of revival. The old policy will have to be surrendered for cancellation. This concession will be allowed only once on an original policy and will be allowed in case of policies which have stood lapsed for a period exceeding six months but not exceeding two years and if the policy has been in force for less than three years. It will not be applicable to cases where a new policy cannot be issued at the age nearest birthday on the date of commencement of the new policy.

One company has a slightly modified process. After one full year's premium has been paid this office keeps the policy in force for twelve more months on payment of a small monthly 'interim premium'; at the end of this period the assured is given the option of (1) paying the outstanding premium for the year plus interest or (2) having the policy postdated as explained above. The rates of monthly interim premium quoted by this company range from As. 14 at age 20 to Rs. 5-7 at the age of 60.

II. PAYMENT OF THE SUM ASSURED

When an assured dies or a policy matures, the amount of insurance is paid at the head office, with or without interest, on the production of satisfactory proofs relating to:

(a) the happening of the contingency,

(b) the title of the claimant to receive the sum,
(c) the true age, if it has not already been admitted.

The office sends out an intimation when a policy matures. Claims by death have to be preferred with the following proofs:

(a) certificate of the doctor who attended the deceased during his last illness,
(b) certificate of identity from a responsible person of the locality not interested in the assurance or related to the deceased,
(c) certified extract from the police, municipal or district board death register,
(d) certificate of cremation or burial.

Here we may digress on an unusual feature in India. Many deaths are not reported immediately, claims in consequence being preferred several years later. This may be the result of ignorance in cases where the policies remained paid-up for a number of years; sometimes it springs out of the fear that the relatives may demand a share of the proceeds; often the policyholder himself would have kept it a secret. Rarely can an office keep track of an assured, when payments of premium have ceased, especially if he also changes residence.

A valid assignment or nomination, effected when the policyholder is living, notified when the policy is in force and endorsed on the policy will establish title easily ; otherwise a claimant may have to produce :

In Presidency Towns: Probate of the Will from the High Court, if a will has been left, or Letters of Administration from the High Court if no will has been left or where the total amount of the estate left by the deceased does not exceed Rs. 2,000 a certificate of title from the Administrator-General,

In Districts: Succession Certificate whether or not a will has been left from the Court of the District Judge having jurisdiction where the deceased resided or an Administrator-General's certificate as mentioned above;

Outside India: Whenever a Succession Certificate or Letters of Administration or a Probate of a Will is granted by a Court situated outside India, such a Certificate of Ttitle is required to be attested by any accredited representative of the Government of India residing in such a foreign country and having authority to attest such certificates of title; or

Such other proofs that the directors may demand.

This question of title is often complicated and sometimes difficult, especially when the claimant is poor and illiterate. Part of a company's services may well extend to help in securing valid documents of title.

Payment into court

Before the Insurance Act 1938 came into force no legal provision existed for the disposal of the proceeds if a conflicting claim arose or if the title was not satisfactorily proved. The position is better now. Under section 47 of the Act life offices can, and often do, deposit the sum in Court if a satisfactory discharge is not possible ; this has to be made after six months and before nine months from the date of maturity or receipt of claim. The 1950 amendment dispenses with the nine month limitation so that offices can now deposit the sum any time after six months. A further provision made in 1950 is that disputes of policies for less than Rs. 2,000 exclusive of bonuses may, at the option of the assured, be referred to the Controller for disposal, whose verdict will be final and enforceable by a Court.[1]

Proof of Age

Satisfactory proof of age may be:

(a) certified extract from Municipal Register of Births and Deaths, or
(b) original horoscope made at the time of birth, or
(c) certificate of baptism giving date of birth, or
(d) certified extract from family record, or
(e) certified extract from school or college records or university certificates or extracts from service books in each case containing the age or date of birth;

failing any of these,

(f) a sworn affidavit by an elderly person in the family who knows the assured right from the birth or who has knowledge as to the probable date of birth or the headman, patel or some responsible official of the village where the assured resides or some respectable gentleman who knows the assured and his family for a long time and has knowledge of the probable age of the assured, the affidavit being on the company's printed form.

Even this long list of acceptable documents may prove inadequate in some cases and a company may have to fix an arbitrary age which, in its opinion and on the strength of the documents in its possession, is considered correct.

As described earlier no proof is demanded before a policy is issued, and so a number of falsifications are detected every year. Some ages are underquoted, possibly to get the benefit of a lower premium and probably through inadvertence ; if detected during the currency of a policy the office either (1) charges the difference (with interest) between the actual premiums for the true age

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[1] See amendment to section 47, relating to claims by maturity and new section 47A, Insurance (Amendment) Act 1950.

and those already paid, or (2) adjusts the sum assured proportionately:

> If the true age is higher than the age stated, the sum assured and the bonus addition thereto, if any, having been calculated on the age stated shall stand reduced to the amount as would have been secured for the true age by the premiums actually paid unless the assured during the currency of the policy pays to the company the accumulated difference between the premium for the true age and the original premium from the date of commencement of the policy to the date of making such payment with interest thereon at six per cent per annum compounded half-yearly and also pays the future premiums as for the true age.

Rarely is an older age quoted, but if that happens the excess premiums paid may be refunded or adjusted towards future premiums.

> If the true age is lower than the age stated the assured will be entitled to get back the difference between the amount of premium paid and the amount of premium payable on the basis of the true age without interest.

In still rarer cases policies may have been issued to those who were, on the date of acceptance, beyond the age at which insurance is acceptable: that may be a clear case of fraud and if so the office reserves the right to void the policy and forfeit the premiums paid :

> Minors and persons above the age of fifty nearest birthday are not eligible for assurance. The company, however, issues endowment policies on first class male lives upto the age of 55 (or 60) nearest birthday. If it is found later on that the actual age at the time of insurance is above the maximum age or below the minimum age for which an insurance can be accepted, the policy will become null and void and the company shall cancel the policy and the premiums paid thereon shall be forfeited.

or, if the office is averse to taking that extreme step, an unintentional error may be rectified thus:

> If the true age is higher than the age for which insurance under the plan and|or term could be granted under the policy the policy will stand converted to such plan or term for which assurance could be granted under the rules of the company prevalent at the time of the issue of this policy by the company.

Optional Modes of Settlement

On a private investigation an American company once reported that over 85 per cent of the beneficiaries lost their policy moneys within five years of settlement. That shows the imperative need for making a suitable arrangement to invest the sums in some suitable manner. Part of the services of life offices cover meeting the needs of policyholders in this matter, and a claim may be settled in various ways.

i. Fully Paid-up Policy. On the date of maturity of an endowment policy the sum assured may be utilised to purchase a single premium limited payment whole-life insurance. Such a plan will usually bring a higher paid-up assurance than is ordinarily obtainable at regular tabular rates. Thus, to take the published tables of a prominent company, every unit of Rs. 1,000 (including bonuses) of an endowment assurance maturing at age 45, may be converted into a fresh, fully paid-up assurance of Rs. 1,494, payable at the death of the assured. Compare this with a non-participating, whole-life assurance of Rs. 1,335 only at the tabular rates at that age for a single premium of Rs. 1,000. The amount of the paid-up policy that is issued in lieu of the payment due on a maturing endowment varies as between companies, but generally the terms are more favourable to the assured. This is conditional upon the age attained upon maturity falling within the insurable age of the assured ; some offices demand a fresh medical examination while others do not, if the option is availed of within two years of maturity. The following table gives typical values for paid-up whole life assurance granted for every thousand rupees due at different ages :

Table No. 47.

Age next birthday	*Paid-up life assurance values for each Rs. 1,000 due.* Rs.
30	1,938
35	1,766
40	1,618
45	1,494
50	1,394
55	1,315

ii. Payment of interest. An office may arrange to retain the sum assured and pay interest annually or as required at a fixed rate during the lifetime of the assured, or make the interest payable to a beneficiary or to his estate for a definite number of years or till the death of the beneficiary, with or without the right to withdraw the whole or part of the principal during that time. Some of the uses to which this highly beneficial option may be put are (1) the insured desires that his estate or his beneficiary should have an emergency fund but otherwise should be free to utilise the interest (2) the principal should remain intact for a definite use in the future (3) the principal should be passed on to someone else upon the death of the original beneficiary who should, when living, make use of the interest. A typical case is that of a man who desires his wife to enjoy the interest on the sum assured after his death so long as she lives, the sum itself to be passed on to his children on the death of his wife. This may be combined with a power for her to draw part of the sum to meet an emergency or a contingency such as the marriage of a daughter. Numerous childless widows depend upon their fathers or brothers for maintenance and when the latter die, are left to the mercies of other relations. An option of this kind may be made to give a widow annual pensions equal to the value of the interest as long as she lives, the principal being retained in the family.

iii. Annuity Settlements. a. The sum assured may be paid by monthly, quarterly, half-yearly or annual instalments over a pre-determined period, in which case the amount of the instalment would depend upon the size of the original sum and the number of years selected; if desired, the amount of the instalments may be fixed and the period adjusted accordingly.

b. Annuities may also be arranged for a definite number of years certain and then continued during the life time of the beneficiary if still living at the end of the term. In that case the amount of the instalment will depend not only upon the number of years selected but also on the age of the beneficiary at the time of the commencement of the annuities.

iv. Combinations. Settlements may be made by a variety of combinations of the above methods. One such would be for the beneficiary to receive the interest for a time and a definite number of annuities thereafter.

Any of the options made by an assured at any time during the currency of a policy may be incorporated in it by endorsing an 'irrevocable clause' preventing the beneficiary from assigning, anticipating or commuting any part or the whole of the income unless such was specifically authorised by the assured during his lifetime. The absence of such a clause may give freedom to the beneficiary to claim immediate payment of the sum, thus defeating the original intentions of conserving the principal and of preventing its dissipation through speculative investment or extravagance; consequently an irrevocable clause may become imperative.

Individual needs determine individual settlements and a company's services should include competent advice on the best methods of meeting those needs. Above all, the assured should have the right to settle his assurance to suit his family needs and to change the form, if needed, in the light of subsequent developments in his family. All the methods of settlement are intended to aid those who are normally unaccustomed to handling the investment of funds ; the options are therefore eminently suitable in cases where the insurance is payable to the wife, children or wife and children but not where the beneficiary is a company or partnership firm ; in the latter case a single sum payment may be the only way of settlement.

Most of the banks and trusteeship companies accept the proceeds of life assurance policies as executors under a deceased person's will and administer them ; in such cases they are made the beneficiaries. Where large sums are involved the method is really advantageous, especially if the bank or trusteeship company is able to offer services suitable to the requirements of the individual, although the services offered by some of the companies through one or the other of the optional modes of settlement meet all normal requirements.

III. MISCELLANEOUS PRIVILEGES AND BENEFITS

Indisputability.

The reader will recall that the principle of *uberrima fides* (superabounding faith) as opposed to the principle of *caveat emptor* (let the purchaser beware) applies to all contracts of insurance. A policy is based on the statements in the proposal form and the declarations made before the medical examiner and the application of the principle of good faith makes it essential for the proponent to make a clear, true and complete disclosure of all material facts within his knowledge which have a bearing on the risk assumed by the company. Misrepresentations, non-disclosures or mistakes in the enumeration of any or all the facts which would influence an office in assessing the actual cost of assurance or in deciding the insurability of the individual, should consequently render a contract void. The only exception should be, ordinarily, omission to disclose a material fact which is beyond the knowledge of the assured, as for example, a case of illness as yet in an undetected stage.

To make this principle valid and to automatically discharge an insurer from his obligations under the contract in case of misrepresentations, non-disclosures or fraud, the proposal form and that portion of the medical report which contains his statements are usually given the force of 'warranties' by inserting a declaration in the two documents reading :

> the above answers and statements are true and that I have not withheld or concealed any material information and I do hereby agree that this declaration together with the proposal should be the basis of the contract between me and the .... Insurance Company and that if it shall hereafter appear that any material information has been withheld, then the said contract shall be void and all moneys which shall have been paid on account of the assurance shall be forfeited.

The statements and the declarations should become a part of the policy to render the warranty effective either by complete recital or by a reference to those documents. The documents are usually accessible to the assured and certified copies are supplied on demand with or without the payment of a small fee ; a few companies are willing to attach photostatic copies.

This is the usual practice, but it need not be so. The modern tendency of many foreign offices is to consider the statements and declarations not as warranties but as 'representations' in which case the statements need be true merely substantially instead of literally ; the contract in that case can be invalidated only if the false statements are material to the risk and provide definite inducements to issue the contract. A representation is not a part of the contract but a statement made in a separate document by one party to the contract to the other in order to induce the latter to make it. In the case of warranties the statements and declarations are incorporated as part of the policy either by reference or by recital. Failing such incorporation in the policy the statements and declarations will be representations only.

This principle of invalidating a policy on the ground that a statement was false or a fact was suppressed would react against the interests of a policyholder if some sort of restriction is not imposed on the insurer. For given absolute freedom of invalidation, an insurer can deliberately induce a policyholder to make a statement that may not be literally true and then forfeit all the premiums paid at a later date. So, State regulations have legalised what, in many countries, is a sound insurance practice. Section 45 of the Insurance Act 1938 took away the right of an insurer to call a policy in question after a period of two years from the date of its issue on the ground that any statement made in the proposal form or other documents leading to the acceptance of the contract was false or inaccurate. The only exception is where an insurer could prove (1) a statement made thus was on a material matter (2) such a false statement was made fraudulently (3) the policyholder knew at the time of making such a statement that it was false and was material to the policy (4) if it was something suppressed, then it was material to disclose it (5) the fact was suppressed with fraudulent intention and (6) the policyholder knew that it was material to disclose the fact. A contract of insurance is, in consequence, indisputable for all practical purposes, after two years.

This does not affect a misrepresentation of age. If the age were also indisputable (as happened in the short interval between the enforcement of the Insurance Act 1938 and a subsequent amendment in 1941) it would greatly inconvenience all the parties, for in most cases a policy would have to be deferred until such time as the true age was admitted, which is an obviously impractical proposition.

In many States of America the indisputability clause makes no mention of fraud in obtaining a policy, a contract being indisputable after two years, except for non-payment of premium. It would appear at first sight that such an exception is unnecessary since any legal contract is voided *ab initio* if obtained by fraud; nevertheless the weight of judicial opinion points to the conclusion that, in the absence of such a clause, a policy obtained by fraud may be enforced against a company provided the period of contestability was over. To cite an instance, a man with cancer may, by suppressing it, obtain a policy fraudulently and die shortly after. If the beneficiaries wait for two years before making a claim the company may have to meet it in the absence of definite provisions excluding fraud. The American indisputability clause is therefore more stringent and the utmost care is exercised in the scrutiny of the papers before a policy is issued.

Moral Hazard

In its bearing on a contract of life assurance any action which lies within the power of the assured taken to bring about a total loss or to increase the risk of loss is a moral hazard. Moral hazards are either excluded from the scope of the contract or restrictions are imposed either by definite provisions for extra premiums in the event of the assured exposing himself to the extra risk or otherwise. To those who are uninitiated to the technical or legal implications of the provisions, the inclusion of restrictive conditions on moral hazard might seem inconsistent with indisputability. Arguments have not infrequently been advanced, for instance, questioning the validity of restrictions on residence or occupation after the policy was in force for two years. Actually the indisputability clause refers to any dispute over misrepresentations or suppression of facts present at the time of acceptance but where a policy was issued excluding certain risks and if the assured exposed himself to those risks subsequently, such an exposure to a risk not covered by the policy may very well be contested. Two points may arise in considering the moral hazard: (1) an insurance may operate as a direct motivating factor to bring about loss or increase the risk (2) the insurance is not a direct motive to increase the moral hazard.

1. *Direct motive.* If the existence of the insurance acts as a direct motive or inducement for the moral hazard, no insurance company can afford to underwrite the risk for no amount of premium can be adequate and no satisfactory basis for insurance can be worked out. This risk is however negligible in life assurance for the only manner in which an assured can bring about a loss or an increase in the hazard is by committing murder or suicide. It is against the principle of public policy for a person to claim any material benefit arising directly out of a crime ; if therefore an assured voluntarily takes his life while of sound mind or dies at the gallows his beneficiary will not be able to recover the sum assured, for both are crimes against society. Likewise it is against the principle of justice to allow a man to collect the amount of assurance if he insures the life of another and subsequently murders him, although legal history is interspersed with cases of callous husbands pushing over unsuspecting wives over precipices or drowning them in bath tubs in order to collect insurance. When death occurs from *felo de se* (his own felonious act) or by the hands of justice or out of wilful murder the policy is automatically voided irrespective of any restraining clause. If the company elects to pay a claim in the circumstances, as it can very well do on compassionate grounds it does so voluntarily and not under legal obligation : where a third party is put to pecuniary loss, as for instance, when the policy has been assigned for a consideration received, the interest of the third party is safeguarded. The position is different in the case of suicides while of unsound mind, for then the person is not accountable for his actions and the rule of public policy does not arise ; a company is liable in that case unless there is a restrictive clause. The coroner's verdict, though not conclusive evidence, is usually accepted to determine liability.

The legal position being what it is, equity suggests that the possibility of future suicide is one of the hazards of life and should be included in any scheme of insurance for its entire exclusion may well rob life insurance of much of its value. Deaths from suicide are included in the mortality tables and there is therefore no valid reason to exclude them altogether from liability. The common practice is to combine both the principle of equity and public policy by inserting a restrictive clause in the policies:

> in the event of the death of the life assured by his own hands whether sane or insane, or at the hands of justice, within thirteen months (or twelve months) from the date of commencement of the risk on a policy or from the date of issue of the first premium receipt whichever is later, or from the date of revival of the insurance, if any, the policy shall be voided and all payments made to the company shall be forfeited, but the interests of a *bona fide* assignee for valuable consideration will be protected to the extent of his pecuniary interest (not exceeding the sum assured) provided notice of the assignment has been given to the company at least one month prior to the date of suicide or the date of the offence for which the life assured meets with death at the hands of justice, as the case may be.

2. *Absence of direct motive.* The second kind of moral hazard is where the assured exposes himself to an increased risk by changing his occupation into a more hazardous pursuit or proceeding to an unhealthy locality. These acts, perfectly legitimate and sensible in a man's life, are usually prompted by considerations of prolonging life rather than ending it and the existence of insurance is not even a remotely contributing factor. The extra risk is capable of being satisfactorily assessed in most cases of increased hazard and when it is present or contemplated at the time of making the proposal the risk is covered by an increased premium. Even after a policy has been taken a man is apt to expose himself to considerable risk in the pursuit of his livelihood and not infrequently without the knowledge of the company. If the condition is temporary and the assured goes back to a healthy occupation or a salubrious climate without impairment it may be difficult to enforce an extra premium after the event. Restrictive conditions may be imposed to void a policy in such an event but such restrictions may not be capable of being enforced in practice. On the other hand, if a man elects to incur an extra risk and dies from causes which are directly attributable to it the policy may be voided : it is, however, difficult, if not altogether impossible, to determine satisfactorily whether death occurred exclusively from the extra risk except in perfectly obvious cases. If an assured engages himself as an electrician and dies

as a result of contacting a live wire the position is perfectly obvious, but if he contracts pneumonia while out on a testing job it will be almost impossible to establish the cause of death as being directly due to the risk of occupation.

Companies do not have uniform rules in respect of an extra risk incurred after a policy has been issued. Many offices restrict any change to a more risky job and demand an immediate intimation in writing if such a change is effected with subsequent liability to pay extra premiums ; failure to do so may lead to cancellation of the contract, the company's liability being limited to payment of the surrender value acquired on the date of the change. If he subsequently reverts to a non-hazardous job without impairment of health the extra premium is usually removed.

That used to be the practice. The modern tendency is to issue policies free from any restrictions on occupation, residence or travel ; and where the life assured has no prospect or intention of engaging in a hazardous occupation at the time of taking up insurance, most offices will now grant a world-wide policy free from any restrictions as to occupation, travel or residence. The one general restrictive clause is the exclusion of the risk of war or aviation. The evolution of the atom and hydrogen bombs has made it absolutely impossible for companies to assess the extent of destruction that may be wrought by a future war with resasonable accuracy. Methods of destruction develop so rapidly that the experience of one war is hardly likely to indicate the possible consequences of the next; at the same time, international political events take such rapid turns that the possibility of a major war occurring during the currency of a contract cannot be ruled out entirely. If war risks are covered there may be a catastrophic drain on an office's resources in the event of a future major war, but life assurance will lose much of its value if adequate cover cannot be granted to every event of death from whatever cause it might occur. The usual procedure is this: ordinarily war risk is excluded but if the assured proceeds to, or finds himself in, a danger zone of war-like operations that extra risk would be covered by the payment of an additional premium. If such an extra premium is not paid the company reserves the right to (1) deduct a proper amount of extra charge before the claim is paid or (2) pay cash surrender value alone if death or maturity occur soon after taking up the occupation. The extra premium is removed on return to normal conditions. This applies to civilian lives only as members of the defence services stand on a different footing. War or war-like operations may be an unavoidable contingency in their lives and the risk, in times of peace, is sometimes covered by an extra occupational premium of (usually) Rs. 3 per thousand per annum which is generally removed upon retirement; if this is not done war risk is excluded from their policies, the sum payable on death due to causes directly or indirectly connected with war being limited to the surrender value. In the latter case companies are usually willing to cover the war risk also, for the time the assured proceeds on active military service, at an additional rate of premium considered suitable at the time. Non-combatant personnel are treated on a par with civilians but are required to pay an extra premium when they proceed to theatres of war.

Aviation risk is treated in much the same manner *i.e.* either excluded or accepted at a suitable extra premium except that full cover is provided for travel as a fare-paying passenger in a licensed passenger aircraft on a regularly scheduled air route or service. Advanced technique in the design and construction of planes and improved facilities and devices for taking-off, flight and landing have undoubtedly reduced the risk of aviation considerably and will reduce it further in the course of time; this may result in a gradual reduction of the extra premium.

Loans

The usual privilege of granting a loan is not a 'condition' of the contract in the sense that it is impossible to issue a policy without this clause: nevertheless that is never done for the simple reason that the payment of regular level premiums creates an asset which has an assessable monetary value immediately after a policy has acquired a surrender value and if the company is not prepared to lend on the security of that asset, the policyholder has the right to surrender the policy for cash or get a loan outside. The granting of a loan is therefore a happy compromise.

The rate of interest chargeable is left to the discretion of the offices; the most common rate is six per cent, sometimes more, sometimes less, but never less than five. Once a rate is fixed it is very unusual to alter it during the currency of a policy, irrespective of its term or the size of the loan; some offices however vary the rate from time to time and according to the amount of the loan, although, even they, seldom alter it once a loan is granted and before it is repaid.

The granting of a loan is greatly advantageous to the policyholder, less so to the company. He can, for instance, repay it in small instalments at his pleasure but the company has no right to enforce repayment so long as interest is paid regularly or there is sufficient surrender value; consequently many of the loans are repaid only at the termination of the contract. This is grossly unjust to the company and to the large body of policyholders who do not borrow, for if the rate of interest on private borrowings is lower it tends to reduce the number of applications for loans but if outside rate is higher than what is charged by the company loan applications will increase. Unfortunately there is no way out of it. There is also an unhappy aspect. The demand for a loan is usually the first sign of the crumbling finances of the insured and a total lapse may not be far off. It would therefore be better if policy loans were discouraged or granted in exceptional cases of temporary financial difficulty. 90 per cent of the surrender value is usually lent, but a few foreign companies offer to grant loans of an equal amount. The loan clause reads thus:

> The company, if there is no legal impediment, will grant loans on the security of the policy within ninety per cent of the cash surrender value less any amount which may otherwise be due to the company, but not less than Rs. 50. No loan shall be granted on this policy if this is lost Interest is payable in advance on 30th June and 30th December every year at 6 per cent per annum or at such other rate as the directors may determine from time to time. The interest for the period between the date of loan and the date on which the interest is payable will be deducted from the loan advanced. If interest is not paid within 30 days of its falling due, compound interest will be charged. In the event of non-payment of two consecutive instalments of interest the company shall have the right to surrender the policy and the assured will be entitled to difference, if any, between the cash surrender value and the amount due to the company. The loan can be paid back by instalments. No instalment is to be less than one-tenth of the original loan. The amount of the loan and the interest thereon, if any, due at the time of maturity or surrender will be deducted from the amount payable as claim or cash surrender value under the policy.

Nominations and assignments

A policyholder can, at any time, nominate one or more persons to receive the policy moneys on death or maturity. A nomination will not be effective against a company unless it is registered and endorsed on the policy. A special clause may be inserted to make a nomination irrevocable and unless this is done the policyholder loses none of the rights, privileges, options and benefits under the policy, including the right to alter the beneficiary: the latter is entitled to receive policy moneys only. In the absence of an irrevocable nomination, the death of a beneficiary will render all the rights under the policy revert to the assured.

An assignment is a transfer and being a personal property a life assurance policy is assignable and frequently assigned with or without consideration. Assignments may be endorsed on a policy or made out as a separate document; in either case no assignment will be binding upon the company unless the endorsement or the separate deed or a certified copy of it is registered at the head office of the company, the date of such registration determining the priority of the claims under the assignment. An assignment may be voluntary, conditional or absolute. Voluntary assignments are made without valuable consideration and are effective provided they are made in good faith and not for any evasion of law. Conditional assignment is the usual form of commercial security generally used for securing debts. The original rights under conditional assignments revert to the assured in the event of a future contingency; evidence that the secured debt has been discharged will suffice to cancel a conditional assignment. An absolute assignment is equivalent to a sale of the policy. It is usual to include a clause in the policy to the effect that the company assumes no responsibility as to the validity of the assignment. This is hardly necessary for the office is bound to take cognizance of a notice of assignment but is in no way bound to examine the deed or to give an opinion as to its legal effect until the time of payment. If, at that time, there is a reasonable doubt as to title, the proceeds of assurance may be paid into court.

Married Women's Property Act, 1874

Section 6 of this Act provides that a policy effected by a man on his own life and expressed to be for the benefit of his wife and/or children or any of them shall create a trust in favour of the objects named in the policy and shall not be subject to his debts. Under this Act the proceeds of the policy are payable not to the beneficiaries direct but to the official trustee of the Province or to his executors, administrators and assignees. This does not apply to nominations effected under Section 39 of the Insurance Act 1938.

Income Tax Abatement

It has long since been recognised that it is in the best interests of the nation as a whole to encourage taxpayers to insure their lives. Section 15 of the Indian Income Tax Act 1922 provides that an exemption from income tax will be allowed to a person who has insured his own life or that of his wife or who has effected a deferred annuity contract on his own life or that of his wife in respect of the annual premiums paid by him to the extent of—

(a) one-sixth of the total income or Rs. 6,000 whichever is less, and

(b) one-sixth of the total income or Rs. 12,000 whichever is less in the case of a Hindu undivided family

subject to the limitation that if the premiums paid in a year on a policy except a deferred annuity exceed 10 per cent of the capital sum assured the rebate will be calculated as though the premiums were exactly Rs. 100 for each Rs. 1,000 of the sum assured.

Since the exemption is a *rebate* of tax no sum can be obtained in excess of the amount of tax actually paid by the claimant.

Such then are the general terms on which a contract of life assurance is issued. Much of its attraction is derived from the privileges given and the indulgences shown. The policy is a human contract, founded to meet human needs, based on mutual co-operation and regulated by human laws. Every benefit that is granted adds to the utility of the contract. To a large class of people who insure the benefits are real; restrictions and limitations prevent their application to the good of one individual at the expense of a group, and the law penalises an insurer who tries to deprive a man of his legitimate rights. This human contract is thus a happy blending of legal rights, moral rights and rights of equity, based fundamentally on good faith, astonishingly human and largely beneficial to the society as a whole.

DISABILITY BENEFITS

Historical Note

The revolutionary system of travel and transport heralded by the introduction of the railway locomotive in the early days of the nineteenth century brought in its wake an increasing number of fatal accidents. In 1830, for example, on the opening of the Liverpool and Manchester line, Mr. William Huskisson, Leader of the House of Commons, seeing the Duke of Wellington on the opposite track, stepped in front of the oncoming engine to greet him. Poor Huskisson, as a member of the ruling classes, had been used to having things stop when he wanted to cross the road, but he did not live to learn the lesson that Stephenson's new wonder was not so tractable. Attention was naturally focussed on the need for 'cover' against the risk of accidents and the Fatal Accidents Act of 1846 was passed to give the representatives of a person who had been killed as a result of an accident (which expression included an unlooked-for mishap or an untoward event not expected or designed) the right to recover damages from those negligently contributing towards the causes of death. Almost immediately thereafter the first companies were registered to provide insurance protection against accidental deaths, and when an Act of Parliament in 1889 made it compulsory to notify cases of smallpox and other infectious diseases to a Medical Officer of Health, the Accident Insurance Policies were extended to cover the risk of infection by certain diseases. The protection was gradually extended to include all sicknesses and 'Accident, Sickness and Disease Policies' grew into one of the most popular classes of insurance business.

American Developments

While these developments were taking place in England some of the life offices in Europe and Fraternal Societies in America wrote a new clause into their life assurance contracts providing for indemnity against total and permanent disability in the shape of waiving the assured's liability to pay future premiums. In 1896 the Fidelity Mutual Life Assurance Company of Philadelphia introduced the provision for waiver of premium, or, in the alternative, settlement by annuity in the event of total and permanent disability: by 1910 American companies generally adopted the clause in some form or other.

Gradually privileges under the disability clause were extended to immediate payment of the sum assured in equal instalments for a term of years with provision to pay the balance if death occurred before all the instalments were paid. A little used alternative to the waiver of premium was a provision for immediate settlement in the shape of equal instalments over a period of years, unaffected by the death of the assured.

A further stage in the development of disability benefit was reached with the introduction of an annual income payable till death or maturity coupled with the waiver of premium, not as an alternative to the sum assured but in addition to and supplementing the amount of assurance which was still payable at death or maturity. The instalment usually commenced at the end of the policy year in which the disability occurred and amounted to at first 10 per cent of the face value and later to a standard monthly payment of \$10 for every \$1,000 of life assurance.

Standard Provisions

Simultaneously in 1921 many companies adopted a standard clause by which a total disability was presumed permanent during the period of its continuation if it continued for a period of three months. This 90-day clause led to serious complications especially as it co-existed with an unsatisfactory basis for the extra premium calculations. Losses were heavy and continuous. Investigations into the combined experience of various companies and the determination of an equitable basis for premium rates followed, resulting in the adoption of standard provisions for total and permanent disability benefit, which, with some modifications, came to be accepted as the general conditions and benefits for this type of contract. Briefly they are:

> Benefits are applicable for total and permanent disablement. Total disability is presumed permanent if it continued for six months after occurrence, total disability being defined as that caused by bodily injury or disease which prevents performance of any work, following any occupation or engaging in any business for remuneration or profit. Disability should begin before default of premium or in the event of default not later than the last day of grace. Exceptions: intentionally self-inflicted injury, military or naval service in times of war, bodily injury or disease occurring before the insurance was effected and known to the insured but not disclosed. Age limit: 55 and prior to maturity of the policy. Due notice of disability must be received by the company during the life time of the assured and the continuance of the disability, before the expiration of one year after default and not later than one year from the anniversary of the policy nearest to 55th birthday or maturity. The company may demand proof of continued disablement but not oftener than once a year after two full years.

The types of benefit granted are (1) waiver of premium, (2) waiver of premium combined with payment of the sum assured by a series of annual instalments, the first falling due six months after occurrence, (3) waiver of premium and the immediate payment of the sum assured either in a lump sum or by a series of instalments equivalent in value, (4) waiver of premium together with the payment of a monthly income for life (or until maturity) in addition to the sum assured.

In Britain

Meantime British companies with perhaps a solitary exception did not include any disability benefits until the wide popularity of American and Colonial experience induced many of them to introduce the scheme with but partial success. Apparently due to the highly popular 'Accident, Sickness and Disease' policies of the Accident Insurance Companies, contracts involving disability benefits did not prove more propular than the others. The most popular form of the benefit was waiver of premiums coupled with payment of an annual sum (generally 10 per cent of the sum assured) for life, the sum assured itself being payable when a claim arose. But, whereas the simple waiver of premium variety could be operated at a very small cost the moral and financial hazards involved in the additional benefits of annual payments supplementary to the sum assured were large, necessitating prohibitive rates of extra premiums. When therefore a few American companies operating the clause reported unfavourable experience and substantial and increasing losses (due probably to inadequate premiums) the additional benefits were generally dispensed with, companies retaining only the simple waiver of premium clause.

In India

The benefit is a recent innovation in India, largely modelled on British lines, with the reservation that benefits have at no time been extended beyond the waiver of premium. The insertion of a disability clause is general but the actual benefits granted vary. The most commoon of the conditions are—(a) *scope and limitation.* It is customary to limit the benefit to disability occurring as a direct result of an accident: no benefit is allowed unless it is total, is proved permanent and such that neither then nor at any time thereafter the assured can ever sufficiently engage himself in any occupation or profession to earn or obtain wages, compensation or profit. Accidental injuries which, independently of all other causes and within ninety days of the occurrence, result in the irrevocable loss of the entire sight of both eyes, in the amputation of *both* hands above the wrist, *or* both feet above ankles, *or* one hand *and* one foot are admissible as total disabilities. Total disability is presumed permanent if it is continued for ninety days. (b) *age.* Benefits are confined to accidental disability occurring before the age of sixty and during the currency of the policy. (c) *claim.* Notice of disability should be furnished immediately; proofs of continued disability upon the company's printed forms should reach the office within 120 days after the occurrence. An authorised medical representative or an agent of the company has the right to examine the person of the assured to determine the validity of the claim or to determine whether the disability is total and permanent. The right for judicial action in connection with the claim is limited to one year after the occurrence and before two years. (d) *benefits.* It is customary to limit the benefits to waiver of premiums alone and confined to the first Rs. 15,000 of insurance (this amount varies with companies) either under one policy or in combination.[1] Joint life assurances get full exemption in case of total and permanent disability to both lives, but only waiver of half the premium if the disability is confined to one of them.

In view of the small or practically negligible loss involved in the limited benefits allowed no extra premiums are generally charged: accidental disability as a direct result of a hazardous occupation, unless intimation of a change in occupational risk was communicated and extra premiums paid, is excluded from the purview of the benefits. Total and permanent disability has not been satisfactorily defined, except that a total disability should be proved permanent to the satisfaction of the company. It is difficult to assess the effect of this benefit on insurance as a whole in the absence of published statistics.

Currently a few companies are extending the benefit of waiver of premium to include total and permanent disability as a result of diseases also. Some of the offices that do so charge an extra premium of 5% over tabular rates but others do not. All of them limit the waiver of premium benefit to the first Rs. 5,000 of assurance. Immediate settlement of the sum assured by equal annual instalments spread over a definite number of years, although rare, is followed by a few companies: additional benefits are not granted.

Future of Disability Benefit

Such are the benefits of disability granted in India. Much remains to be developed. The simple waiver of premium benefit is good but not enough and the scope of disability may be extended to causes other than accidents. While the absence of extra premiums, justifiable when the benefit is limited to waiver of premiums and the disablement to accidental causes, may be a bar to extending the benefits, there is no reason why those in need of them should not pay additional premiums for extra benefits.

A survey of the causes which led to total and permanent disablement conducted by the Actuarial Society of America (1929) on the experience of 29 American and Canadian companies re-

[1] This is important in view of the fact that, as it is an indemnity against the loss of income, benefits should not exceed the loss of earning capacity. An indemnity is a contract for making good a loss and in general no greater amount is payable than the amount of the loss, irrespective of the amount of the policy. Life assurance stands on a different footing: not only is it impossible to put a limit to the financial value of a man's life but since a claim can arise only by death or maturity, there is no temptation for the insured to put in a claim under a policy unless one of these two things happened. Not so under a permanent disability clause.

vealed that out of every 100 cases to which benefits were paid 34 were from tuberculosis, 11 from insanity, 7 from tumour or cancer, 3 from non-mental diseases of the nervous system, 2 from heart diseases, 34 from miscellaneous causes and only four from accidents. And in America the accident rate, especially from automobiles, leading to death or permanent disablement, is higher than in any other country. There is no reason to suppose that the ratio of accidental disability to total disablement in India will be higher than in America, which only goes to prove that the benefits from total and permanent disability should be extended to disablement from other causes.

Yet extension of benefits is not an easy matter. Firstly the total absence of personal accident and sickness insurance and therefore of comparable data to base premiums is a real handicap. Secondly health and living conditions differ considerably in different parts of the country and locale, as much as the lack of organised medical and hospital facilities, increases the risk of total and permanent disability much more than the rate of death. To cite only a specific instance parts of the otherwise healthy Travancore are the home of that dreaded disease filariasis, which, though not mortal, invariably causes permanent disability within the definition of the term. Thirdly extension of disability benefits will be attended by a certain amount of inadmissible claims—some of them fraudulent, others apparently genuine but nevertheless inadmissible—so that there might be a tendency towards litigation (so much dreaded by companies) if payment of huge sums in dishonest claims is not countenanced. Fourthly economic distress makes it impossible for a man to maintain a desirable standard of health and malnutrition adds to the incidents of disablement. Fifthly expenses of supervision in determining the continuity of disablement, so essential for successfully operating the scheme, may be much more than what the company could bear on any economic basis of premium, at least in the initial stages. Nevertheless the need is urgent to extend the benefits to all cases of accidents, sicknesses and diseases.

If any attempt is made to extend the benefits, some of the points that deserve consideration may be:

(a) *Selection of risks.* The eligibility of the assured for disability benefits is directly dependent upon the degree of importance attached to the different elements of medical selection. Personal and family history, age, habits, sex, economic and social status, physique, occupation, residence, etc. have different significance in selection for disability. A worker on a mechanised farm for instance may be a very good risk at standard rates for life assurance but may be refused disability benefits.

(b) *Premium.* In the absence of proper statistics, premiums may have to be on an arbitrary basis and would necessarily be on the safe side.

(c) *Contract.* In the initial stages a stricter definition of disability may have to be followed; a satisfactory limit to the amount of insurance on which alone the benefit will apply may have to be fixed; an initial waiting period of six months for the commencement of instalment payments may have to be a precautionary measure.

(d) *Review of claims.* The successful operation of disability benefits will depend as much upon careful selection and admission of claims as upon the care with which claims are periodically reviewed to determine the continuance of disability. Human nature being what it is claims will be promptly notified, while recoveries may go unintimated.

(e) *Benefits.* The most ideal benefit may be a monthly income payment during the remaining term of the contract together with waiver of premiums supplementing the sum assured. If a satisfactory basis of premium rates cannot be evolved for that benefit, the Canadian practice of 'decreasing' income benefits may be tried: it provides a disability income of $10 monthly per $1,000 of assurance for 50 months, followed by $5 monthly for 100 months after which income payments cease and the sum assured is paid. This scheme has successfully checked the American experience viz., the rate of claim increases if the benefit is increased, and recovery rate is reduced if it is to the assured's financial advantage to remain disabled.

Female Lives

Disability benefits to women are very greatly limited. They do have a much higher rate of disability; the age at which their earning power ceases is lower while few women have real earned income. Dependent married women are very rarely, if at all, accepted for the benefits, while to independent unmarried women benefits are limited to waiver of premiums. The question may not arise in India for a considerable time.

DOUBLE INDEMNITY

For some years now Indian companies have been willing to pay double the sum assured in case of death as a result of an accident. The main considerations in the provision are:

(a) *Scope and limitation.* An accidental death may not leave much room for doubt in the public mind, yet unfavourable legal decisions in other countries have prompted the companies to define the conditions of double indemnity payment in unmistakable terms. Suicide is excluded for instance but a death from drowning may not always be unintentional. An automobile accident may perhaps be a clear case of suicide, yet a coroner may return a verdict of accidental death. A case was reported some years ago where a claim for double indemnity was paid on the death of a gentleman who fell down a precipice, on the strength of the coroner's verdict, but two years later, his private letters established suicide. Generally speaking the provision of double indemnity excludes deaths resulting directly or indirectly from certain specific causes such as:

(a) Suicide and attempted suicide
(b) Aviation and ballooning either as a passenger or as crew
(c) Riots, civil commotion, rebellion, insurrection
(d) War
(e) Breech of the Law
(f) Disease or bodily infirmity.

Participation in aeronautics as a fare-paying passenger on a regular airline route is sometimes included. A few companies exclude other causes such as poisoning, injuries which show a visible contusion or wound on the exterior of the body with the exception of drowning or asphyxiation and injuries inflicted by a third party. Among the limitations imposed on the payment of double indemnity mention may be made of the age over which no claim is entertained; with most companies it is sixty, although 55 is also common. A general condition is that death should take place within three months of the occurrence and should be intimated within fourteen days (sometimes seven days).

(b) *Premiums.* In the absence of reliable statistics on the experience of companies premiums are arbitrary and range from Re. 1-8 per thousand per annum to Rs. 3. A few offices offer thrice the amount of insurance for the same extra rate of premium for deaths from travel in a train, tram, omnibus or lift; with them the extra premium is Rs. 3 per thousand per annum for all double indemnity benefits as against the customary rate of Rs. 1-8, so that there is relatively little extra risk.

(c) *Female lives* are usually excluded from the benefits.

It is customary for the companies to reinsure the excess sum to be paid on accidental death with companies transacting personal accident business so that the question of reserves do not arises: where companies assume future liability themselves a lump sum calculated from past experience is reserved.

CHAPTER XII

LEGAL ASPECTS: ORGANISATION

A life assurance policy meets the requisites of a legally enforceable agreement, and so is a legal contract. Yet the application of the general rules of law to the particular rules of a contract of life assurance raises many interesting and technical questions.

Requisites

In the absence of a specific legal definition, the definition of a legal contract is applicable before the law to a life assurance contract, viz., "an agreement made by the free consent of the parties competent to contract, for a lawful consideration and with a lawful object, and which is not hereby expressly declared void". Paraphrased, a valid contract of life assurance must be (1) an agreement between parties based upon an offer and an acceptance, (2) with the free consent of the parties, (3) contracted by parties legally competent to do so, (4) for a legal purpose, (5) in accord with public policy, (6) in a legal form and (7) supported by a lawful consideration. In attempting to apply these general rules of law to the particular rules of life insurance a few broad principles arise which may now be considered.

i. Legal Capacity

The insurer and the insured constitute the two parties to the contract. The competence of an insurer is determined by Part II, Section 2C of the Insurance Act (as amended in 1950) which specifies that a public company or a co-operative insurance society (including those incorporated outside India) can alone validly transact insurance business; an individual, a private limited company or a partnership firm cannot. Failure to comply with any of the provisions of the Insurance Act may not nullify a contract made by an insurer, which would remain binding between the company and the insured, the former rendering itself liable to the statutory penalties for non-compliance. A minor[1], a lunatic, a convict and a drunkard (when under the

[1] Under the Indian Law, a contract entered into by a minor is absolutely void; there is thus no question of ratification after he or she comes of age. In India a person attains majority when 18 years of age are completed.

influence of drink) are some of those who are legally debarred from entering into valid contracts ; married women have restricted powers. A contract with an alien friend is valid ; with an alien enemy void ; with an alien friend who subsequently becomes an alien enemy revivable (if it is possible to do so) when the former status is regained.

ii. Insurable Interest

The law voids a wagering contract. That a contract of life assurance gives a large financial gain upon the early death of an individual does not make it a wagering contract (although death itself is left to chance) so long as there is an insurable interest. The question what constitutes an insurable interest is often intriguing and sometimes the subject of litigation. For instance, to the extent that "a man can protect his estate from the loss of his future gains or savings which might be the result of his premature death"[1] he has an insurable interest in his own life almost to an inestimable amount ; but if he insures his life and makes an assignment as a subterfuge to evade the rule of law requiring an insurable interest, the contract becomes immediately void. A doubt would frequently arise when the assignee is an unrelated third party and the assignment without valuable consideration ; an explanation would usually clear the doubt. Still a proposal on the life of a person applying for insurance would raise the question of insurable interest but rarely ; a policy on the life of a third party very often. If a person, who proposes insurance on another, reasonably expects to benefit financially by the continuance of the life of the latter or to lose financially upon the latter's death, an insurable interest is created. Thus a husband has an insurable interest on his wife, and the wife on her husband ; a creditor on the life of his debtor (but not a debtor on that of the creditor) ; a surety on the principal ; a commercial firm on its keymen (but not on all employees) ; partners among themselves ; trustees on the legal rights and interests of the trust properties and so on to a never-ending limit. But this question of insurable interest has a few interesting phases. For instance, a sister has an insurable interest on the life of her brother if he supports her, but not otherwise ; a wife on the life of her husband even if he does not. In the former case the absence of the legal right of support is immaterial in the presence of the moral right ; in the latter the legal right supersedes the actual condition. In

[1] Bunyon.

other classes of insurance the insurable interest should exist continuously from the beginning to the end of the contract ; in life assurance merely at the time it is effected, largely because of its long-term nature.

iii. Legal relationship

Before the law the insurer is a debtor (and not a trustee) and the insured a creditor. Thus the former is not obliged to render any accounting of the premiums received, nor may the latter question any item of expenditure, investment or method of operation, even when a vital question such as the equity of bonus allocation worries a participating policyholder, for the law gives no right to the insured to question a company's policy except to the limited protection given by some of the provisions of the Insurance Act, such as the election of Policyholders' Directors and the right of collective petition to the Controller. So long as the terms and conditions of the contract are carried out the law gives absolute discretion to the insurer in all matters of conduct and policy, subject only to State regulations.

An insurer may be sued on the contract and is frequently faced with litigation. The ordinary rules of construction as are applied to all written instruments apply equally to life assurance policies. Words and phrases used in the contract and the documents leading to the contract will be construed in their ordinary and popular sense, unless, through usage and custom, they have acquired a recognised technical sense. Where ambiguity exists, that interpretation is to be preferred which favours the policyholder and operates against the party which prepared the contract, in this case, the company. In a Court of Law it is usual to place such a construction as will enable policyholders to feel secure upon the ordinary common usages of language ; nevertheless, every endeavour will be made to protect the companies against wilful fraud, for which the peculiar financial transactions involved in life insurance offers excellent temptations. A company usually prefers to avoid litigation because of bad publicity, unless strong grounds exist to resist payment in the larger interests of the large body of honest policyholders.

iv. Nature of the contract

A distinguishing feature of the fire and other classes of insurance is that they are contracts for indemnity. Not so a contract of life assurance. A contract of indemnity makes good a loss and is subject to the principle of 'subrogation' whereby the insurer has the right of recovery against a third party causing the loss. The value of a life is inestimable, and its loss, except in a limited sense, cannot be made good ; consequently the principle of subrogation has no application in life assurance.

The unlimited extent of the value existing on a life does not create a right to secure an unlimited amount of insurance, since no company will accept a proposal for insurance larger than is suitable to the circumstances and the means of the proposer. Moreover, where the insurable interest arises from causes other than natural affection or relationship, the insurance would have to be limited to the risk involved. Thus a commercial firm can insure the life of a technician to the extent of the expenses involved in replacing him, but cannot insure a general employee since no cost of replacement is incurred on his death[1] ; a creditor can insure the life of a debtor to the extent of the debt, and is entitled to recover merely the amount of the debt together with interest and expenses ; if the debt is repaid the policy may be assigned to and continued by the debtor. A friend can pay the premiums on the policy of an insured out of friendship but has no right to collect the insurance unless a valid assignment exists.

Next to the law of contract, the law of agency has the most significant application, since the business of life assurance is transacted almost entirely through agents. An agent, in a legal sense, is a person who, with or without remuneration, acts for another, either with unlimited powers to do all lawful acts that his principal could do (called a *universal agent*) such as the directors or principal officers ; with authority limited to all actions necessary to carry out his agency (called a *general agent*) such as for example branch managers ; or with specific powers to perform specific acts (called a *special agent*) such as soliciting agents and medical examiners. A few considerations in this regard may now be discussed.

i. Presumption

No one can presume before the law that a person acts for another. Thus if a person represents himself as an agent of a

[1] This should not be confused with the insurable interest in group life and group annuity contracts which, though entered into by the employer, insure the lives of individual employees, with their consent, with their contribution (either express or implicit) and for amounts payable to their representatives.

company and absconds with the initial premium, the proposer has no claim against the company ; on the other hand, if the company had supplied him with receipt books, proposal forms, prospectuses, etc. the presumption is there that the agency exists, and the company's liability is established.

ii. Apparent powers

If the status of an agent vests him with apparent powers, the company may not divest itself of its liability to honour his actions in pursuance of that power. Thus if a principal officer accepts the insurance of an uninsurable life, the company may not be able to repudiate liability on the ground that its bye-laws gave the officer no authority to do so, since his status implied unlimited powers. Further if a branch manager habitually waived interest on payments of premium after the days of grace and the company did not in the past question his authority to do so, the presumption exists that he acts within his powers, until a limitation of his powers is notified. But a waiver of interest granted on one policy does not create a presumption that he has similar powers in regard to a similar action in the case of another.

iii. Limitation

The power of an agent soliciting insurance is limited to the act of soliciting insurance from prospective applicants and collecting initial premium. These limitations, usually communicated to the public through the prospectuses, preclude pledging the credit of the company, altering the terms and conditions, modifying the rates of premium or collecting renewal premiums, but do not exclude responsibility for ordinary and necessary actions performed in the course of his agency and legal presumption that the knowledge of the agent is the knowledge of the company. Thus if an agent promises to insure an impaired life at ordinary rates he acts beyond his powers ; if he commits a libel during the course of his business the company is responsible ; if he promises a benefit which the company does not honour the insured may demand cancellation of the contract and return of the premium paid within a reasonable time, but may not demand fulfilment of the illegal promise as, thereby, other policy-holders will be adversely affected. The agent is the legal agent of the company and not of the applicant ; and a doctor who gains knowledge of an applicant's physique in the course of his examination can be presumed to have communicated that knowledge to his principal.

iv. Uberrima fides

It was mentioned in the last chapter that the principle of of *uberrima fides* (abounding faith) applies to all contracts of insurance. The onus of a high degree of good faith is applicable to both the insured and the insurer. Thus the company must rely, in an unusual degree, upon the truth and completeness of the statements made by an applicant, and the latter, in an unusual degree, upon the good faith of the company to ensure that all the terms and conditions of the contract are just and equitable. A complete understanding between the insured on the one hand, and the insurer and his various agents on the other is implicit in the contract and will pay dividends in an increasing amount of goodwill. Many questions would naturally arise which might intrigue and sometimes confuse the issue, but commonsense and mutual understanding would solve many of them.

STATE CONTROL

The essential importance of insurance in the social fabric of a nation, and the complicated nature of the business, particularly in its technical, financial and legal aspects, would at once raise the question : How far should the state intervene in the operations of insurance to ensure justice and equity to the large body of policyholders who are generally ignorant of the complications in its activity? The problem of equity and justice to individual policyholders would place the question on a strictly social level and suggest state *supervision* ; the growth of the business into the gargantuan proportions it is today in many countries, with power to control unlimited funds in trust for the policyholders and to exert great influence on the financial markets of the nation, would place the question on the higher level of national policy and introduce the much debatable problem of active state *participation* in insurance.

At one time or other that question has been asked in all countries where insurance has outgrown its infancy. Different nations have tackled the problem with different degrees of state control. At one end stands the United Kingdom with its traditional emphasis on minimum control of private trading with maximum publicity and other nations like America and Canada where state control is real but does not amount to active state participation. At the other end stands the U.S.S.R. and countries of the communist group where insurance has for several years been conducted as a monopolistic government institution. In between stood several Central European countries before the last war and stands France after the war, where a system of 'open' competition between a Government insurance institution and private insurance companies has been developed. What system of control would give the greatest benefit to the nation is a problem that raises important questions of political, social and economic theories fundamentally involved in the greater controversy of socialism *vs.* capitalism which is hardly a subject for discussion in this book, especially as Indian insurance is just entering its adolescence. More to the point is: what degree of control should the State exercise.

Extent of State Control

That again is a question which is as delicate as it is controversial; yet the degree of control exercised by the Government should have some relation to the degree of insurance development and should meet the needs of the situation. In all countries where insurance has grown into a great social force its origin was inseparable from sporadic, uncontrolled, unscientific gambles on human lives. The first legislative acts eliminated the gambling element. Then came control on indiscriminate company promotion by prescribing minimum financial standards. Evolution within itself revolutionised the basis of its operations, put it on a scientific basis and helped the state to curb the activities of the unwary elements. Insurance gained in strength as a consequence and unscrupulous financiers were lured into it in quest of easy money, and state controls became stricter. That was what happened in America; that is what is happening in India.

Protection of the policyholders' funds is the primary function of state control. This protection, under the Indian law, is achieved, among other things by seven fundamental provisions. Firstly it prescribes a capital structure which, whilst ensuring equity, protects a company from the misconceived intentions of interested financiers. Secondly it provides for deposits and minimum capital so as to check the entry of financially unsound companies. Thirdly it prescribes wholesome rules for valuation thereby ensuring minimum reserve values and continued solvent operation. Fourthly it regulates the investment of assets in such a way as to ensure the safety of the funds and to eliminate interlocking with banks and other industrial institutions. Fifthly it prohibits excessive remuneration to its executive officers in order to conserve policyholders' funds. Sixthly it controls the expenses of management so as to prohibit dissipation of the reserves. Lastly it vests power with the Government to investigate into the affairs of a company and to manage it through an administrator, if necessary. The provision for the compulsory election of policyholders' directors, the regulations regarding the directorate and the power to appoint additional Government directors make the policyholders' voice heard in the management. The cumulative effect of all these provisions, regulations and rules is to write SECURITY in capital letters into every policy of insurance issued in India.

Policyholders' rights

The technical nature of life insurance involves many complicated questions of law beyond the comprehension of a large majority of the policyholders. The insuring public have no part in the preparation of the contract, are usually unfamiliar with both the principles of life insurance and the general rules of law and are, in many cases, too weak financially to fight the organised institutions. Were life insurance contracts subject merely to the general rules of legal contracts, technical questions of a complicated nature would make the position of policyholders doubly insecure. Special rules of law are therefore provided in the Insurance Act which, whilst retaining equity and good faith as the guiding principles of the contract, protect the rights of policyholders. Such, for example, are the provisions relating to indisputability, non-forfeiture, surrender values, assignments, nominations, paid-up policies, appeal to the controller, payment of money into court and the like.

Agents

The regulations regarding the appointment, training, qualifications, service and remuneration of all classes of agents are intended to foster sound practices in selling insurance to the ultimate good of both the insured and the insurer. The aim of these regulations is the rationalisation of the profession and much would depend upon the practical application of the regulations.

National Rights

Certain of the regulations give economic protection to the rights and liberties of Indian companies against their foreign competitors. These take the form of the right of the Government to take retaliatory action, differences in deposit and investment regulations and such other measures.

Life Insurance Council

An important departure from the laws existing in other countries is the formation of a statutory Insurance Association of India, with all Indian companies as members and all foreign companies as associate members. The Association has two councils, the Life Insurance Council and the General Insurance Council. We are only concerned with the Life Insurance Council in this book.

The Life Insurance Council, consisting of all the members and associate members of the Association, acts through its Executive Committee, composed of one Chairman (an official nominated by the Government), 15 members (of whom one is a nominated official of the Government, 8 representatives of members elected by life offices, a nominated non-official in public life and five non-officials nominated by the Government to represent insurers from unrepresented areas or groups) and an official secretary. None of the officials are vested with voting rights. The Executive Committee has been given power to hold qualifying examinations for insurance agents subject to the approval of the Central Government. The functions of the Executive Committee include (1) evolution of decent standards of conduct and sound practices of insurance to ensure efficient service to policyholders (2) to bring to the notice of the Controller any prejudicial acts of any insurer and (3) advice on the limitation of expenses of insurance companies.

It is unfortunate that the original intentions of the Government to vest statutory powers with the Executive Commitee to fix maximum limits of expenditure were replaced by merely advisory rights. Still this experiment is a step in the right direction and, properly handled, should prove beneficial to the future of Indian life insurance.

Functions of the Controller

Under the Insurance Act 1938 and its Amendment (1950) the Controller has a wide range of duties, immense authority and unlimited responsibility. He is responsible for the approval and control of new companies and their organisation. He is required to supervise the capital structure, investment of assets, expenses of administration and other details of management of existing companies. He has to check the periodical valuations, decide whether policy reserves are adequate and investigate the stability and soundness of companies. The Controller also checks the numerous detailed statements submitted under the rules, prepares statistical details of the companies' operations every year and publishes them under the authority of the Central Government. By licensing and controlling the appointment, service and remuneration of the agents he ensures maintenance of proper professional standards. Frequently he has to settle disputes between the companies and their policyholders.

INTERNAL ORGANISATION

The business of life insurance with its complicated mechanism of technical, financial and legal controls is essentially technical in its administration and requires a large body of highly trained personnel to man its various specialised departments. Its nerve-centre is the Head Office. A series of branches in the territories (and countries) in which a company may operate may deal with many details of administration and procure most of the new business. Whilst the delimitation of departments at the head office and the qualifications and functions of the officers in charge of them, as also the extent of the duties and responsibilities delegated to the branches, would largely depend upon individual discretion, a broad outline of the subject may be given.

Head Office

The supreme control of a life office is exercised by the Board of Directors elected by the shareholders and policyholders of a proprietary company or by the policyholders of a mutual office. The general policy is determined at the periodical meetings of the Board and is implemented by the Manager (or General Manager) through his executive staff. The executive functions of a Manager may be taken over by the Life Manager of a composite company (so far as the life department is concerned) or by the Managing Director of a company in which the Chief Executive Officer has a seat on the Board, or, occasionally, the actuarial and managerial functions may be combined. The internal organisation of the head office is one of departmental specialisation.

The passage of a policy

The passage of a contract for insurance from its rather nebulous beginnings in the mind of a prospective policyholder to its final emergence as a claim several years later, may provide an interesting study into the intricate workings of a life office. First comes the agent in quest of an ever-increasing volume of new business. He is directly attached to the Agency Department (corresponding to the sales organisation of a commercial concern) whose chief, called the Agency Manager, is frequently an executive officer of the company. The Agency Department has general charge of the company's branch offices and agencies and of the conduct of the company's business transacted by them ; not infrequently it is indistinguishable from the new business department. The applicant, whenever possible, is 'inspected' by an inspector of the company and examined by one of the several medical examiners specially appointed for the purpose. The completed papers connected with the proposal are sent to the new business department where a staff of trained specialists including the chief medical referee subjects them to the minutest scrutiny in all aspects of the risk. A large part of the routine work of selection, especially in the majority of cases involving moderate amounts of insurance, may not call for any special skill; in other cases the chief medical referee deals with all matters pertaining to medical selection, calls for additional details when necessary and may be instrumental for prescribing medical standards for selection. The non-medical selection may occasionally call for expert advice from the actuary. If the proposal for insurance is accepted by the Board a letter of acceptance is despatched to the proposer usually through the agent. The relative papers are then passed on to the 'first premium collection' department and, after the premium has been received, to another section which prepares and issues policies. From then on the Renewal and Accounts Departments deal with most of the matters which arise until maturity or claim.

Various highly specialised sections may deal with many of the incidental questions in connection with the policy such as loans, surrenders, lapses, alterations, assignments, nominations, bonuses, etc. requiring frequent references to the actuarial, accounting and legal departments. An enormous amount of clerical work is done consisting of multifarious recording of particulars of the new business transacted, duplicated records of all dealings with existing policyholders, statistical work peculiar to life insurance business and the ordinary duties performed by the clerks and shorthand typists of commercial firms. The claims department scrutinises the relative papers, deals with all legal questions that may arise and sanctions payment of the sum due. In this process some of the numerous departments and most of the officers in charge of them take on specialised functions.

Actuary

Next to the Chief Executive officer, variously designated as General Manager, Manager, Managing Director or Life Manager, is the actuary. Many offices are unable to maintain a full-time actuary nor a full-fledged actuarial department, in which case the services of a consulting actuary are requisitioned. Where an actuary combines the actuarial and managerial functions he usually retains only a supervisory interest in the purely actuarial side of the business which is then handled by specialised staff assistants.

The professional attainments of an actuary qualify him to deal with all questions affecting insurance and particularly life assurance, from the mathematical, statistical, financial, legal, medical and economic points of view. The primary training of an actuary is concerned with mathematico-statistical calculations in connection with contingencies of life and fits him particularly to specialise in certain departments of the business or, in some cases of outstanding ability, to make valuable contributions to actuarial science.

The primary function of an actuary is to see that the business of his company is operated on a sound financial basis. In addition to such work of a purely technical nature, an actuary advises the other officers of the company and the Board on various matters affecting the company's business. The actuarial department deals chiefly with premium rates, valuations, reserves and bonuses, keeps all records required for reserves and valuations, supervises the statistical department, furnishes tables of cash and surrender values and makes all necessary calculations when policies are lapsed, surrendered, paid-up or altered. An important function is the preparation and maintenance of records of mortality experience of the company and the conduct of any mortality or statistical investigations which may be needed, for which his training, equipment and knowledge are particularly suited.

Accountant

The chief accountant (or accountant) is usually a person of proved ability during long years of service and has the big responsibility of managing the company's accounts; frequently he is a man with professional accountancy qualifications. He maintains the ledgers and other books of accounts, examines and audits all the financial statements submitted by the branch offices and is responsible for preparing the company's annual financial statements.

Secretary

The secretary of an insurance company, when that designation is not applied to the company's chief executive officer (as is sometimes done), has duties similar to the one holding the post in any other joint stock company. It is one of the most responsible offices in an insurance company, demanding the highest qualifications and his duties would include filing the numerous returns required under the Companies' and the Insurance Acts, registration of the company's stocks and shares, custody of the investments and frequently keeping track of the legislative enactments affecting life insurance.

Investments

A few companies have special investment managers, but generally the Board and the chief executive officer decide the investment policy. The investment of the immense funds of insurance companies, at a reasonable rate of interest commensurate with security, demands a profound knowledge of market conditions, sound judgment and special study of the subject; the intense training of an actuary makes him eminently suitable to tender competent advice in this regard.

Mechanisation

The normal functions of many of the specialised departments would generally require an immense amount of paper work usually of a routine nature, much duplicating, large-scale recording and elaborate calculations. Details of a proposal may have to be recorded in several departments, and summarised statements of a policy in as many, registers of the policies and the transactions on them may have to be maintained by a variety of departments including the accounting and the actuarial. In the circumstances mechanisation is the only practical method of economising administrative expenses.

Mechanisation of work in an insurance company is a subject for special study. The Adrema machines print off essential details of the proposal form from specially embossed metal plates; the same metal plates with alterations reprint loose-leaf sheets for the policy register, card indexes (both at the head office and the branch), the valuation cards, renewal cards and premium notices and receipts. Arithmetical calculations in the actuarial and accounting departments are greatly simplified by the latest calculating machines. The Hollerith or Powers machines handle much of the routine work of the statistical department both at normal times and during valuation and for their wonderful qualities of adaptation for a variety of individual requirements they have not so far been excelled. Still they are too costly or too elaborate for the smaller offices. Much of the routine duplicating of circulars and inter-office communications is done by stencilling machines. This question of mechanisation is a subject of supreme importance at the present time when economy in administration is of the utmost concern.

THE FIELD

Agency Manager

Production of new business is the main concern of the Agency Department, frequently under the control of an executive officer of the company, selected for his outstanding ability to produce a large volume of new business. His administrative duties include the management of the outside officials and their agencies, the control of the branch offices and the business transacted by them, the preparation of prospectuses and other canvassing literature, advertising and the selection and training of field workers.

Inspectors

Production of new business at the head office is usually handled by a number of inspectors—salaried persons acting as a liaison with the agents. In addition to producing a large volume of personal business, the inspector has to organise the field force under him, select and train the agents and stimulate them to produce increased business. Indian offices usually limit the duties of an inspector to production of new business, and therein lies much of the weakness of the sales force.

For production of new business can, by no means, be the end of an inspector's activities; service to the general insuring public can, and should, form an equally important responsibility of this worthy individual. By all appearances he is the only person with any actual contact with the public who has, at the same time, the real interests of the company at heart, for the agent, so long as he remains a spare-time worker (as most of the 'pin-money' agents of the present day usually do) has only a limited interest in the concern. Usually an inspector sees the proposer, has abundant opportunities for promoting goodwill and should be the most competent person to explain the implications of insurance, help the proposer in selecting contracts to meet his needs, take steps to keep the policy on the books and pave the way to write more business from the contacts already established. He should, on the one hand, keep the interests of his company safe by judicious selection of the risks, and on the other build up prestige and goodwill through competent service. He is the keyman in the field and his selection is of considerable importance. A presentable personality is important; a sound knowledge of the business imperative; a flair for field work a necessity; and ability to get along with people and influence them indispensable. The usual practice in England is to promote capable men with several years' outstanding service in various 'indoor' departments, study in connection with examinations of the Chartered Insurance Institute and practical experience of actual field work, as inspectors and the practice should serve as a model to build firm foundations for a sound sales force.

Special Agents

Several organisers (or special agents as the Insurance (Amendment) Act 1950 calls them) may work for an inspector. The law defines a special agent as 'a person who, not being a salaried employee of an insurer, in consideration of any commission, procures life assurance business for the insurer whether wholly or in part by employing or causing to be employed insurance agents on behalf of the insurer but does not include a chief agent'. His remuneration has been statutorily fixed at ½ per cent of single premium policies, both insurances and annuities, 2 per cent of the first year annual premiums of deferred annuities and 15% of the first year annual premiums of other classes of insurance with no commission on renewal premiums. To qualify for these commissions a special agent has to employ at least two insurance agents under him, and procure a minimum of Rs. 50,000 new business in each calendar year. The employment of a special agent may be justified if he becomes a real 'under-study' to the inspector; but, on the other hand, if he turns out to be an agent who appoints 'dummy' agents as a subterfuge to claim the combined remunerations of both, he may become the weakest link in the field force.

Mofussil Organisation

In all countries where life assurance has made any material progress, two systems are in vogue for securing new business from the mofussil areas which may be called, for the sake of convenience, the Chief-Agency and the Direct-Agency systems. In the former a chief agent (who may be an individual, but usually is a firm) may be given exclusive representation of the company in a specified area. Insurance (Amendment) Act 1950 defines a chief agent as 'a person, not being a salaried employee of an insurer, in consideration of any commission, (i) performs any administrative and organising functions for the insurer and (ii) procures life insurance business by employing or causing to be employed insurance agents on behalf of the insurer' and specifies other conditions for his appointment.

The proper place of a special agent is under a Chief Agent; he is largely out of place in the direct agency system of a company where usually inspectors can efficiently perform all the functions. A chief agent has to employ at least six insurance agents in cases where the total business in force of the insurer is less than Re. 1 crore and at least 12 insurance agents in all other cases, and each of such agent should procure at least Rs. 10,000 new business. The Chief Agent is usually paid the maximum commission on all business in his territory, both new and renewal. He is entirely responsible for the organisation, appointment and remuneration of the insurance agents under him who make their contracts with him and not with the company. He is usually responsible for the collection of renewal premium and for various other administrative functions connected with the business in his territory. Generally he is selected for his ability to influence and produce business and not infrequently guarantees a minimum income from his territory

Direct Agency System

Under the Direct Agency system a branch takes the place of the chief agency and the manager in charge of the branch is a direct, salaried representative of the company, usually selected (from among the company's experienced inspectors) for his outstanding ability to produce a large volume of new business. His salary occasionally consists of a basic sum independent of production, with additional remuneration depending chiefly on the amount of new business produced annually and on the persistency of such business—a very sound practice indeed. The contracts he enters into with the agents are binding on the company and not infrequently he may be assisted by one or more inspectors with several organisers.

His administrative functions may be as much or as little as the head office decides but usually he has powers to determine all matters of a routine nature, not involving any important question of policy, necessary for the efficient functioning of his branch and for the effective rendering of service to the insuring public. In this he is usually assisted by a branch secretary or other senior assistant, to whose discretion he may leave much of the internal administration.

The personal attributes of a branch manager are outstanding ability to produce a large volume of new business personally, capacity to select, instruct and stimulate agents, a sound knowledge of insurance principles and practice and a certain amount of administrative ability. The agency manager or some other superior officer at the head office is usually selected from the ranks of successful branch managers.

It is usual for most of the larger companies to extend the jurisdiction of the provincial branches to territories beyond the immediate municipal limits of the principal cities and to have inspectorates or sub-offices under the control of branch managers to ensure effective coverage. Thus the Bombay branch, with headquarters in Bombay, may have inspectorates or sub-offices at Poona, Hubli, Dharwar, Nasik, Ahmedabad, Surat, Baroda and a number of other places.

The two systems compared

Whether the Direct Agency system or the Chief Agency system is the most advantageous from the company's point of view is debatable. Admittedly the Chief Agency system is cheaper at the outset because of the commission method of remuneration, depending chiefly upon the turnover, but may prove costlier in the long run when the business has increased considerably. A direct agency system, on the other hand, gives the head office greater and more effective control of individual agents, helps to manage the sales force with greater efficiency, ensures uniformity of operations and keeps the control of the company's activities in the hands of the officers at the head office where it belongs. An efficient sales organisation can be built up only through a system of directly controlled branches.

Agents

It is regrettable but true that the agents are the weakest units of the whole field force. Whoever that can introduce business, irrespective of ability, qualifications or personal attributes get selected as agents. A majority of them write a few policies from near relations or friends, rebate part of their remunerations, and cease to function as agents the moment any sales ability is required of them. This is not intended as an indictment of a profession which has helped to produce some capable gentlemen but the sad review of a system which emphasises the production of new business *at any price* much more than service to the public. The whole basis of selection, appointment, service and remuneration hardly helps to provide a sound foundation for the sales organisation, with the result that the quality of the business written is low. How can the present position be improved ?

It is a well established maxim that the only way in which any considerable volume of business can be secured is by the employment of active agents. The expense of their maintenance is inseparable from the business of life insurance. To be able to produce an increasing volume of healthy business, which will remain on the books until maturity or claim, except in unavoidable circumstances, calls for certain attributes of personal ability, personality and character without which an agent has no business to remain in the field.

Some people are born business getters; with some that ability can be cultivated; the rest have neither the natural aptitude nor the basic qualities which may be developed. Upon the ability of an office to differentiate the first two classes of people from the third will depend the success of its personnel selection. A good personality, intelligence, abundant common sense, absence of self-consciousness, ability to talk and a good general education are the essential qualities of an agent; but no less important are those secondary qualities which can be achieved by diligent application of one's own natural talents, viz., a burning desire to make good, absolute faith in one's ability to succeed, creative ability through the medium of auto-suggestions, organised planning and specialisation, vivid imagination, ability to make quick decisions, persistence at the job and control of emotions. These qualities are acquired and come through the will to win.

Training

Next to selection, training is the most important factor in the success of a sales organisation. A good general education is essential for further specialised training in psychology, human relations, salesmanship, the fundamentals of life insurance, elements of commercial law, the contracts and practices of the company and generally all matters in regard to which the agents will be called upon to advise both prospective and existing policyholders. Such a training should equip the agents to protect the interests of their company, aid the proposers to select suitable schemes of insurance, create an abundance of goodwill through complete insurance service throughout the duration of the policy and build an ever-increasing circle of clientele. Obviously the ability to compare the premium rates of different companies alone do not, by any means, constitute sufficient qualification to sell insurance, nor does the vilification of other companies' practices.

Remuneration

The question of remuneration is vital. On it may depend the entire success of the sales force, for no man can devote himself to the difficult task of selling life insurance without adequate compensation. By prescribing qualifications and licensing the Insurance Act 1938 raised the professional status of agents; by limiting the maximum rates of commission payable to them it tried to prevent the payment of exaggerated remuneration; by making rebating a penal offence it tried to eliminate the unholy practice. But the law was able to check neither the excessive commissions nor the obnoxious system of rebating which, in actual practice, curses him that gives and him that takes. The Insurance (Amendment) Act 1950 has introduced new rules and new rates of remuneration but will hardly attract capable men into the profession, unless the companies are prepared to view the matter from an entirely different perspective.

Section 64 I is a healthy attempt at raising their professional status. The redistribution of the commission payable in the first year among the first three years is an obvious attempt at stimulating the agents to ensure persistency of the business until the policies have acquired a surrender value. To the extent that their renewal commissions are guaranteed throughout the duration of the contracts, the law gives them stability in the profession. But unless the law recognises the fact that *payment of commission constitutes compensation for services rendered throughout the duration of the policy* and *should be conditional upon rendering that service as fully as possible,* it can hardly solve the problem.

Any system of remuneration should recognise three broad principles : (1) the agent is not merely a salesman for new business but must be a properly qualified life insurance adviser (2) compensation should be related to the extent and quality of his services, and (3) more of his total income on a policy should depend upon *keeping* it on the books than *placing.* These three basic factors alone can help to build up an efficient and creditable sales force. If by convention, contract or practical application of the new rules healthy trends are not built up fully recognising these three fundamental factors, the present unhealthy state of affairs will be perpetuated. The seeds of healthy growth are there in the Act ; it remains to be seen how far the growth is stimulated.

It would have been obviously a better course had the law prescribed a system of conditional 'renewal service fees' continuing throughout the duration of the policy, depending entirely upon the amount and quality of service an agent is prepared to render to existing policies and the companies played the game in good faith. In its absence, the law may tacitly perpetuate the principle that the total commission payable is compensation for introducing new business. If that happens the law will perpetuate an unsound principle. The entire weakness of the whole insurance business revolves upon one fact : the non-recognition of the principle that the writing of new business is only the beginning of service to a policyholder.

An adequate income during the training period of an agent, when he is far from self-supporting, is a practical problem that may have to be solved. The present tendency of making advances against future earnings is, to a certain extent, defective, both psychologically and financially. A burden of debt before entering the field is hardly conducive to effective canvassing as every salesman knows to his cost. Any initial failure to make good in the field might result in his giving up the attempt with considerable loss to the company. Careful selection and a system of remuneration during the initial training period depending upon the work done in the field, as opposed to insurance sold might meet the situation to a very large extent. An agent has to feel that *failure has no place in his make-up ; it can be done.*

So long as the agents do not follow insurance selling as a whole-time profession the problem of retirement allowance would hardly arise ; when they do, the agent would certainly have merited favoured treatment on a par with other employees of the company.

Such then are the intricacies of the problem of selling insurance. The sales force is weak today with 'too many people for too little business'. To eradicate that weakness and build up a strong, efficient, devoted, well-knit sales force, capable of enhancing the goodwill, prestige, service and business of a company should be the aim of every agency manager.

PART II

HOW INSURANCE HAS WORKED

CHAPTER XIII

BLUEPRINTS

Modern Life Assurance has a British origin. When or how it started in India is still one of those mysteries which may never be unravelled. The rise of the East India Company in the beginning of the seventeenth century completed the political and military dissolution that had set in after Akbar's regime, and the vacuum thus created was extremely receptive to the western social, religious and educational ideas which Britishers introduced. The reaction to those ideas helped towards the political and spiritual reintegration of a United India; and when the exposure of her people to the full force of British industrial and commercial strength led to the establishment of British commercial organisations, Indian institutions like banking and insurance were founded, fundamentally changing her social, economic and commercial outlook. We must therefore probe into the origin of British power to look for the blueprints of Life Assurance in India.

The East India Company

When several hundred London merchants, having successfully met Spanish sea power, sought Crown approval for an eastern venture, Queen Elizabeth granted them a Charter as the ENGLISH EAST INDIA COMPANY on 31 December 1600. Their vessels made directly for the East Indian centres of spice trade, only to find the Dutch deeply entrenched there and determined to exclude all other powers from their chosen domain. So the disappointed merchants turned to India, clearly their second best, built factories along the coastal towns and protected them by forts paid for, in part, from the revenues of adjoining territories which they rented from the Rulers.

The problem of defending the factories grew more urgent as the power of Imperial Delhi over the provinces began to fail and local rulers exerted more pressure on the traders. Bombay and Madras built forts, early after settlement, but Bengal was badly exposed. Sir Josia Child said in London: "We want to found a large well-grounded sure English dominion in India", and ordered Job Charnock, the agent in India to seize Chittagong. Charnock failed, six of the Company's factories were lost, the English sued for peace and were let off with a fine.

Growth of Calcutta

It was not long before Job Charnock selected a tiny village called Sutanati by the mighty Hooghly to build a fort (Fort William) to defend the Bengal factories, and Calcutta grew up around that fort in all its eastern glory. For a long time Calcutta was the best centre of India's flourishing trade in fine silks, muslins, calicoes, textiles, yarn, handicrafts, spices, indigo, saltpetre and sugar, which were bartered for English gold, silver, luxury goods and wool. The days were prosperous, for trade was good. Frequent battles changed the political map constantly, traders of the East Company became rulers but organised life was risky to the settlers. The heat and malaria took heavy toll, incessant battles gave no rest, doctors were few and medical aid poor; but lure of trade kept the British merchant to his post and the fear of his bosses kept him a bachelor. There followed a period of economic and political chaos for the people of India and of prosperity and strength for the English.

When Life Offices were established in large numbers in Britain, a few of the English companies ventured to issue sterling policies to some of the English residents. Premiums collected here were credited in England largely for English beneficiaries. Business seems to have been brisk and profitable; inaccurate mortality tables and insufficient mortality data of Englishmen in India made premiums heavy—heavier than at home—for usually short-term policies. Insurance was denied to the 'natives' even if they wanted it which they never did, for their lives were always considered risky and sometimes valueless.

The Earliest Company

When General Ochterlony's men staggered back to Calcutta after teaching the recalcitrant Gurkha a lesson in respect, they were overwhelmed at the whole unholy business. Incessant battles to expand unsafe frontiers had made their lives miserable; dysentery, cholera, small-pox, malaria and unbearable heat had made fatal inroads into the British community, bereaving a few of the women who had braved the climate and risked the long journey to join their menfolk out here. And sympathies were stirred up among the helpless men and spurred them on to positive action.

1818 was memorable in more ways than one. In that year were issued the first Indian-owned and edited newspaper in English by a few Bengali gentlemen in Calcutta and a British-owned and edited monthly and weekly in Bengali by the Baptist missionaries of Serampore (the first periodicals to be published in an Indian language); the notorious Regulation III which provided for detention without trial and later figured prominently as a political weapon, had its birth in that year; and a few Englishmen of Calcutta gave practical shape to their humane feelings of sympathy by starting the ORIENTAL LIFE ASSURANCE CO. to afford monetary aid to the relatives of those Europeans who died. (The Oriental has no connection with the premier organisation of that name now with us). Meanwhile the first echoes of the impact of western ideas on Indian thought were beginning to be heard.

By this time a towering personality had risen up in Bengal—Raja Ram Mohan Roy. 'Perhaps the first earnest-minded investigator of the science of Comparative Religion that the world has produced' wrote Monier-Williams, the Orientalist, describing Ram Mohan Roy. Rising to the heights of scholarship in Indian thought and philosophy, world cultures, literature and religion, he was a reformer to the core and tried to reform the Hindu faith and rid it of its abuses and evil practices through the columns of the several newspapers with which he was associated. Moved by the revolting practice of *sati* (his own brother's wife had immolated herself on her husband's funeral pyre) which Lord William Bentinck eventually prohibited in 1829 in the teeth of orthodox opposition, and the sad plight of desperate widows and helpless orphans, Ram Mohan Roy, in his crusade for Hindu regeneration appealed to his wealthy friends through the *Calcutta Journal* as early as 1822: "start an institution of your own to maintain our poor widows and orphans." Babu Muttylal Seal took up the cry and, realising the value of insurance to the destitute women and children, prevailed upon his friends of the Oriental to insure 'native' lives too. Oriental was essentially a British company and catered merely for the Englishmen but because of the pressure, insured some Indian lives too. Oriental was however soon in difficulties, liquidated itself in 1834, reappeared as the 'New Oriental', worked for a time under one Mr. W. F. Ferguson and eventually merged with the Medical Invalid and General in 1853, which later was amalgamated with the Albert Life Assurance Company in 1860. But for these scanty details nothing much is known of this company which may very well be the first life assurance company to be started in India.

Bombay Life

How in 1661 the Crown Prince of Portugal made over the beautiful island-harbour of Bombay 'to the king of Great Britain, his heirs and successors for ever' as a bridal dowry on the occasion of the marriage of King Charles II with the Infanta Catherine of Braganza at Whitehall provides a historic interlude as romantic as its subsequent 'sale' to the East India Company in 1667 by the King of England for a sum of £10! Conspicuous zeal and energy characterised the execution of the prolific ideas which Sir John Oxenden the first Governor had for the development of what Pepys called "the poor little Island of Bombaim"; sustained 'native' opposition marked the determined efforts of successive governors to build and hold what has now become the symbolic Bombay 'fort'; corrupt practices and continuous strife retarded early attempts at the commercial development of what then was a pirates' paradise. But Bombay weathered the storm and, despite the extremely unhealthy conditions, was ready to reap the fruits of organised commercial enterprise and systematic administration by the first quarter of the nineteenth century.

And Bombay did not lag behind long in starting insurance either. 1 May 1823 saw the birth of the Bombay Life Assurance Company (which, likewise, has no connection with the present company of that name). The Insurance Cyclopaedia, compiled by C. Walford, F.I.A., F.S.S., published in 1872-80 gives a few details of the Bombay Life. It issued, so it is reported, no whole-term life policies but confined itself to three classes of short-term insurances:

i. For one year not renewable without certificate of health:
   Premium for age 30, assurance of Rs. 1,000 .. Rs. 34

ii. For three-year term assurance, renewable without fresh certificate of health:
   Annual premium for age 30, assurance of Rs. 1,000 .. Rs. 37

iii. For five-year term assurance, renewable without fresh certificate of health:
   Annual premium for age 30, assurance of Rs. 1,000 .. Rs. 40

Like the Oriental, the Bombay Life liquidated itself soon, but unlike it there was no revival.

Madras Equitable

Madras, where the English had one of their earliest settlements and had erected one of their earliest forts, seems to have been the venue of the next two offices. The Madras Equitable was established in 1829 and functioned with indifferent success, for nearly a century. For a long time it operated under a separate Act of the Madras Legislature and was exempted from submitting returns to the Government when the Indian Life Assurance Companies' Act, 1912 made submission of returns compulsory. Ceasing to write new policies in 1910, the Madras Equitable met with financial difficulties when war depreciated the values of its investments and ceased to function in 1921. A Society was formed in Madras in 1834 called the 'Madras Widows and Orphans Fund' to work as a mutual society and issue assurances to relieve the acute financial distress of widows and orphans. The Society rendered a limited but useful service for a long time under indifferent and consequently inefficient management and eventually closed down in 1926 because of defalcation of funds.

Advent of Missionaries (1813)

By this time the English had deeply entrenched themselves in the Indian soil and had laid the foundations of a just, honest and efficient system of administration. It was inevitable that English ideas would exert a determining influence on people who were subject to an English system of administration. The British Parliament at the time was Reformist and in the vanguard of the Reformers stood the Evangelicals under William Wilberforce. Several of the 'Saints' as they were called, such as Charles Grant and Edward Parry, to mention only two, had seats in the East India Company's Court of Directors. William Wilberforce the leader of these "chosen instruments of Almighty God," as they called themselves cried "Our Christian religion is sublime, pure and beneficient. The Indian religious system is mean, licentious and cruel. It is one grand abomination!" And an aroused Parliament permitted the missionaries to go to India. Some of the immediate results were wholly beneficial; some of the early missionaries were infinitely kind, benevolent, respected and became Indianised. They built churches, taught English, nursed, preached good Christian faith, led the best Christian life and started Mutual Aid Assessment Societies to aid the helpless widows and destitute orphans of the parish. One such was the Christian Mutual of Meerut started in 1847 (later shifted to Lahore); the Bengal Christian Family Pension Fund [1] was another. As mutual help

[1] These two societies are still in operation, the first with its head office in Pakistan (Lahore). The second society was started in 1852 and was exempted from submitting returns under the Assurance Companies' Act, 1912.

and not profit was their motive, and as they worked among those who had a low rate of mortality, they flourish to this day. The Church Missionary Society at Palamcottah started the TINNEVELLY WIDOWS' FUND in 1834 to help catechists and teachers to make provisions for their widows by contributing to the Fund. In 1849 new rules were framed to work the fund on more efficient lines which continue with necessary modifications to the present day. In 1925 the Tinnevelly Diocesan Council took it over and admitted all Christians belonging to the Church of India, Burma and Ceylon in the Diocese of Tinnevelly and all mission workers of other Christian bodies working in and outside Tinnevelly to its benefits and in 1946 rules were amended to enable ordinary life insurance business to be transacted. In September 1949 the fund was registered under the Indian Companies' Act and is now operating in the name of the "Tinnevelly Diocesan Mutual Insurance Co. Ltd."

Religious and Social Conflict

Elsewhere active Church Councils were fired by Christian missionary zeal, although in religious policy the Company itself acted with the greatest caution. In London Charles Grant said "The cure of darkness is light" and largely as an outcome of Wilberforce's work, the East India Company was authorised to spend some £10,000 annually in spreading useful learning in India, which, under the influence of the Company's servants of Warren Hastings' generation, at first went to maintain Sanskrit and Persian scholars and to translate useful text-books into those languages. But Thomas Babington Macaulay thundered "I have never found one among the Orientalists who could deny that a single shelf of a good European library was worth the whole native literature of India and Arabia. . . . I believe that all the historical information which has been collected from all the books in Sanskrit is less valuable than what may be found in the most paltry abridgements used at preparatory schools in England. . . . Medical doctrines which would disgrace an English farrier . . . history abounding with kings thirty feet high and reigns thirty thousand years long and geography made up of seas of treacle and seas of butter." Written in February 1835 as part of his famous Minute on Education—incidentally produced within a few weeks of his arriving in Calcutta to take his seat as legal adviser on the Governor-General's Council and when his first-hand knowledge of India was slight—this sneering report on Indian culture unfortunately reflected the Company's own attitude. Moreover the English system of administration pursued for a long time had produced the need for the training of an adequate number of subordinate clerks able to read and write English. And confident that the spread of English education would undermine Hinduism and extend Christianity, the Christian missionaries lost no time in opening schools to impart general and vocational learning on English lines. This teaching of English was welcomed in Bombay, Calcutta and Madras; the language was readily adopted by the people and two colleges were opened in Calcutta before 1820. Thus by the middle of the nineteenth century the huge administrative machinery of which the foundations were well and truly laid by Cornwallis began to exert a profound influence not only in political but also in social and religious matters. It attracted large numbers of Indians with suitable English certificates to the lower ranks of the Company's clerical services and maintained a large army of British officers, clerks, subalterns, soldiers and professional lawyers. But the seeds of conflict had already been sown.

Great Indian Mutiny

Taught to question the validity of their own sacred books and texts, by the Christian missionaries, Indian students of English questioned also the stories of the Bible. Brahmo Samajists under Ram Mohan Roy rejected the Christian frame of life, accepted certain of their ideas and injected new blood into the Hindus. Little of what the missionaries taught permeated the thick wall of Indian society, for only professional clerks and a few aristocrats learnt English, yet that aristocratic class sponsored an intellectual and religious renascence, founded a powerful press and mobilised public opinion against the Company.

With superabundance of manufactured goods (the industrial era had already started in England) and backed by powerful military strength, eager British traders seeped through the villages into the heart of Indian life. Whereas powerful Indian merchants, like Virji Vora of Surat, though famous for resources and ability, had touched only the coastal towns, there was no barrier to stop English penetration. The weaving industry, long the backbone of Indian export trade, was broken, old trades and crafts crumbled and India became a vast, dependent market for Britain. Political and economic domination was closely followed by exceptional missionary activity. With characteristic fatalism Hindus had accepted Muslim invasion; likewise Indians remained quiescent when the British acquired political power; when economic conquest followed the aristocracy sat up and looked askance, but when missionaries continued to undermine their religion the country was up in arms.

In 1807 a stupid order affecting caste marks, dresses, turbans and beards led to a minor military scuffle at Vellore. In 1857 persistent interference with Indian customs, religion, scriptures and gods enraged the thoroughly aroused sepoys of the Ganges Valley and set fire to a whole magazine of gun-powder. In this they were actively supported by the Oudh landlords, angry over their losing power. Fighting was ruthless, atrocities many and, though within a year, the mutiny was quelled, a blind and hysterical press took up a campaign of hate and revenge. The war of independence was on the horizon.

The usually sober Englishman was shocked out of his wits for the very foundation of his eastern empire shook. In 1858, taking over the formal and direct responsibility for the Government of India, Queen Victoria proclaimed to the 'Princes, Chiefs and Peoples of India' complete religious toleration and the maintenance of 'ancient rights, usages and customs.' Peace was soon restored, administration strengthened, reforms pushed through, but the hard-working businessman lost confidence, albeit temporarily.

The Medical, Invalid and General

The immediate consequences of the mutiny were profound; sober businessmen realised for the first time that wisdom and progress lay in close co-operation and not in petty rivalry; most of the individual businesses were greatly affected, and insurance was no exception.

Aroused by stories of prosperity and profit, the Medical, Invalid and General incorporated in London in 1841 had sent capable men to work in the wake of conquering armies. As more areas were annexed and a ruling power with vested interests in developing trade took charge, the Medical extended its areas of operation, established large connections, absorbed the Agra Life [1] and took over the New Oriental in 1853. P. M. Tate, the then manager of the Medical, was a keen businessman, widely liked, influential and shrewd and with W. F. Ferguson who had been the Manager of the New Oriental and who joined the Medical when the New Oriental was amalgamated, commenced very active operations which were temporarily affected by the mutiny.

[1] There is very little information regarding the Agra Life. Probably it was established in Agra, but the date of its establishment or of its amalgamation with the Medical is unknown.

Albert Life

In this setting did Albert Life enter the field of Indian insurance and rise to its dramatic height, to play a tragic role with devastating and very profound consequences. And few insurers have provided such an object lesson in financial jugglery as the Albert Life. Founded in 1838 by a group of London financiers, the Freemasons and General Life Assurance Loan Annuity Reversion Interest Company, as Albert Life then was, had imposing city offices, a wide network of flourishing branch offices, extensive connections and a large number of supporters. Attractively-worded advertisements eulogised the soundness of the company and proclaimed the benefits offered; an army of capable men offered insurance cover to unsuspecting Englishmen wherever they were. It changed its name to Albert Life in 1849 and to Albert and Times in 1857. A branch was opened in Calcutta in 1860 and a chummy, sociable, popular agent sold life assurance to whoever wanted it and annuities indiscriminately. Chroniclers fail to record categorically whether Albert Life accepted business from the 'contemptuous, irrational and primitive' Indians, (they might have done so cautiously) but they do say that very soon it penetrated all the occupied land, the Presidency towns coming for particular attention. The great amalgamation that took place in 1860 between the powerful Albert and the influential Medical may have been actuated by considerations of policy or by financial expediency but, in any case, was a remarkable event and produced a very strong insurance combine. The newly-formed Albert and Medical, under W. F. Ferguson and P. M. Tate remained the most powerful and strongest force in Indian insurance of the time. The expansionist tendencies of both companies were carried a step further; the Indian business of the Family Endowment (founded in England in 1835) was taken over in 1861 and the business of the Indian Laudable in 1865. It had no rival for the next few years, obtained such a position as no other British Company ever had or probably ever will, had its chief operating office in Calcutta, with branches in Bombay and Madras, made an estimated annual profit of £20,000 to £30,000 in that branch alone, prompted people to vie with each other to become policyholders, published glorified actuarial reports of its prosperity, but one fine day towards the end of 1870, crashed sending numerous people to widespread misery and ruin. Bad selection of lives, low premium rates, costly and unsound management, or even systematic swindling might have contributed for so sudden an end of one of the greatest British life assurance combines that flourished in India, but indiscriminate amalgamations by paying high prices for unsound companies certainly accelerated the pace.

Other Companies

Of the other English companies which operated at this time nothing much is known but what is known is interesting.

The Universal Life Assurance Co. established in England in 1836 opened a branch in 1840 and enjoyed a long period of successful operation until it was taken over by the North British in May 1901; insurances exceeding Rs. 10 crores were issued in India during the time.[1] The Colonial Life Assurance Company started in 1846 under the auspices of the Standard Life Assurance Co. "for the purpose of extending to the Colonies of Great Britain and to India the full benefit of life assurance and for the purpose of giving increased facilities to persons visiting or residing in foreign countries," started operations in India almost immediately and appointed agents with local boards in Calcutta, Bombay, Madras and Colombo. Greatly increased business influenced the Standard Life to take over the Colonial Life in 1866 and the former continued operations for a considerable time, made valuable contributions to the progress of insurance, especially in investigating the mortality experience of assured lives in India, but eventually ceased writing new life business in 1938.

The Royal Insurance Co. Ltd. established in the United Kingdom in 1845 commenced Indian business almost immediately and agents were appointed to operate a fire department in Calcutta in the first instance and in Bombay subsequently. Fifteen years later, probably in 1860, the Royal commenced life business too, but did not issue its first life policy from Bombay until 1871. Today its life department in India is being operated on a very limited scale.

The Liverpool and London and Globe Insurance Co. Ltd., incorporated in 1836 appointed Sir Charles Forbes to operate the Indian business in 1853; the agency was later taken over by Forbes, Forbes, Campbell & Co. Ltd. Concentrating on general business, the company transacted only nominal life business, mainly to oblige valuable European clientele. Records go to show that the extra risk of residence in India was covered by extra premiums of £1 per cent for Whole-Life, 10s. for 10 years' endowment, 15s.

[1] *Life Insurance in India* by Dr. Ray, quoting a letter from North British and Mercantile Insurance Co., Ltd., dated 23rd August 1939.

for 15 years' endowment and £1 for 20 years' endowment; a limited number of Indian lives were insured from 1929, but it ceased transacting new life business on the introduction of the Insurance Act, 1938.

The North British and Mercantile Insurance Co. Ltd. opened its fire department in 1861 and began to transact life business in 1864; it is still with us. The London Assurance started a limited life business in 1864, practically all on European lives and closed down its life department when the Life Assurance Companies' Act, 1912 made submission of returns compulsory.

Available information on the working of these companies tends to make us believe that although the early missionary societies followed the assessment principle in many cases, the system was gradually undergoing a change and the British companies transacted business with tabular rates and on actuarial principles. European lives in India were subject to extra premiums probably on account of the heavy mortality experienced by the Army (which was the only experience available at the time). Where Indian lives were accepted, the extras charged were heavier, but the number of Indians insured were comparatively few.

Institute of Actuaries

The establishment of the Institute of Actuaries in 1848 marked the turning point in the history of life assurance. The main object of the Institute was the "development and improvement of the mathematical theories upon which the practice of life assurance is based and the collection and arrangement of data connected with the subjects of duration of life, health and finance." The evolution of the scientific ideas on which the business of life and other forms of insurance is based is largely due to the continuous study and research of the Fellows, Associates and Members of the Institute. The advancement of the material well-being of millions of people all over the world has been made possible by the application of the theories and scientific principles evolved by these giant brains. Today on the completion of a century of useful existence, the Institute can look back with pride in having made a large contribution towards the advancement of human knowledge, human progress and the material comfort of countless millions in the civilized world. The Institute was incorporated by Royal Charter on 29 July 1884.

Then came the Faculty of Actuaries in Scotland which was founded in 1856 and incorporated by Royal Charter on 21 September 1868. The Actuarial Society of America, New York, was founded in April 1889 and the American Institute of Actuaries, Chicago in 1909.

Acts of Parliament

The Albert was not the only one that failed either. The European, always a close rival to the Albert likewise impoverished thousands of Indian and English policyholders when it foundered in 1870. Out of 285 life offices established in England, 174 failed during a 44-year period. The dawn of the industrial era in England had given the public material prosperity and a benevolent press encouraged them to insure in large numbers. A helpful Parliament even exempted the investment in life insurance from income-tax. Unsound mortality tables enabled unduly high premiums to be charged for badly selected lives. Swindlers thrived, cheats flourished, spurious companies were floated, advertised, expanded and liquidated. The public went mad and public opinion reached fever pitch. Ministers worried and hastily summoned the Parliament.

Earlier in 1853 Parliament had appointed a Select Committee to report on Assurance Companies, mainly due to the social consciousness aroused by the national press. The committee's main recommendations included submission of a valuation report on its risks and liabilities against its assets to its proprietors, members and the Registrar at least once every five years, and the filing of annual statements dealing with amounts of premiums collected, expenses incurred, details of policies, particulars of capital and investment schedule and the table of mortality and rate of interest used in the calculation of premiums. These recommendations were shelved at the time but the public outcry on the failure of the Albert and the European compelled immediate action and Parliament passed the Life Assurance Companies' Acts of 1870 and 1872. These Acts made it compulsory for new companies to deposit £20,000 with the High Court, until life funds reached double the figures with powers for the Board of Trade to control the payment and repayment of these deposits. Composite companies were required to keep separate accounts of life business, with separate funds against the liabilities to life assurance policyholders and annuitants. Annual statements of accounts and periodical investigations by the company's actuary were to be published and copies signed by the chairman, two directors and the principal officer were to be furnished to the Board of Trade, and every shareholder and policyholder, if desired.

The Acts gave the companies as great a freedom as possible to transact their business on legitimate lines without official interference, but imposed a measure of control on their methods of valuation. The publicity involved in the production of financial statements, both annual and periodical, checked illegal practices and protected the interests of policyholders. The principle of minimum control and maximum publicity envisaged in the Acts remains the basis of insurance law in the United Kingdom.

Nationalisation?

Pressure seems to have been brought upon the Government of India at about this time to operate a state-controlled life assurance department, but the Government deprecated the move by publishing certain arguments which may now provide an interesting comment on the situation in the country at the time:[1]

i. The Government of India is not in possession of any sufficient statistics of the value of Native Life, and as European vital statistics cannot be adopted for the Natives of this country, it will be long before materials of the kind can be compiled; meanwhile in the absence of this information it would be impossible to construct the actuarial tables on which a system of assurances must be based.

ii. Even with accurate statistics of Native Life, the data for the ascertainment of the age of Natives of the country are generally uncertain.

iii. The people themselves are not prepared for the practice of assurance; so that it would be inoperative beyond the Presidency towns and the comparatively small body of Native gentlemen throughout the country who are accustomed to European ideas. The number who would avail themselves of the concession would therefore in all probability be infinitesimally small as compared with the public at large, and would not be such as to justify the constitution of an insurance office.

iv. Unless the institution were largely patronised by the public its cost of management would bear a large proportion to the income, and to guard the Government from loss on this account and also on account of the uncertainty as to the value of Native Life, it would be necessary to fix upon a low rate of interest. This would prove an additional discouragement to assurance in a country where the people are accustomed to a high return for their money.

[1] *The Jubilee Brochure* published by the Oriental Government Security Life Assurance Co. Ltd., on 5 May 1924.

v. To start a scheme of the kind, which might either occasion loss to the exchequer or become abortive from its being unsuited to the state of the country, would cast discredit on the Government.

vi. There would be special difficulties in the way of procuring the necessary certificates of death and the inexpediency of any system of assurance by which a motive should be given for the shortening of life has been noticed by Native gentlemen themselves.

Despite these discouraging arguments insurance companies were floated and thrived.

Industrial Assurance

The middle of the nineteenth century also saw the birth of Industrial Assurance, originally intended to meet the demands of a large labour-class to provide a respectable funeral for their families. Even as early as the days of the Roman Emperor Hadrian, clubs existed to provide burial expenses of a deceased member, with the provision that suicide repudiated liability and arrears of subscription terminated membership. The origin of industrial assurance in its modern form is rightly associated with the establishment of the 'Prudential Assurance Company' in 1848 which is today the largest insurance company of the British Empire, with its business extended to include all classses. The early progress of industrial assurance was marked by almost insuperable administrative difficulties, complicated by the necessity of door-to-door weekly collection of premiums and of instantaneous settlement of claims without which funerals could not be carried out in many cases. Today industrial assurance is one of the major branches of life insurance in England, the 1946 premium income reaching the neighbourhood of £105,000 on something over 100,000,000 policies with funds amounting to £680,000,000.

These developments led to the strengthening of the English companies transacting life business, which, as a consequence, began to organise branches in India in larger numbers, helped in their rapid growth by the systematic efforts of the Government to spread English education. By 1870, the blueprints of Indian insurance were on the draft board.

CHAPTER XIV

FOUNDATION (1870-1900)

The development of Bombay from what the Duke of Marlborough called "a paltry island" when he took it over from the Portuguese, to what official documents later described as the 'key of India' took many years in the making and relentless human effort. The outstanding statesmanship of Mountstuart Elphinstone, one of the earliest of governors, gave a great impetus to education and the establishment of a University later consolidated it. Frequent battles brought large areas under British administration and opened up more trade centres; two railway systems brought those centres nearer by 1855. The establishment of the Bank of Bombay on 15 April 1840 was followed by six more within twenty years; likewise, the first cotton mill in 1857 gave a lead to six more in three years and three in the next ten. In 1855 regular P. & O. steamers carried mails between Bombay and Aden; in 1868 all incoming and outgoing mails were regularly cleared in Bombay. The phenomenal development of trade and communications increased the heterogeneous population of Bombay from an estimated 10,000 before 1661 to nearly 6,45,000 in 1872 crowding the inadequate, insanitary residential areas; Government vigilance mobilised engineering skill and open spaces to erect architectural edifices. A deliberate attempt at town-planning gave a delicate beauty to the growing city. Schools and colleges were opened; hospitals were built; charitable institutions sprang up with the munificence of countless merchant-philanthropists. In time Bombay became the centre of Indian trade and industry.

The Civil War in America (1861-65) gave an unprecedented spurt to her export trade in cotton and enriched Bombay merchants by over £80,000,000. An uncontrolled, speculative 'share mania' followed and caused a minor catastrophe. Banks crashed in the crisis, panic spread and the usually cautious businessman lost heavily. Hardly had the panic subsided before the ignominious failure of the Albert and the European shook the unhappy inhabitants.

Bombay Mutual

The adventurous Bombay businessman had taken to insurance with the greatest of ease. The export boom had considerably increased his investable capital and registered a profitable increase in the insurance written. The operations of the two companies in Bombay were wide; their ramifications in the Presidency were widespread; the devastating consequences of the crash were widely felt. People literally went mad; passions were aroused and panic spread with incredible speed. In clubs, gardens and lounges the people talked of the widespread ruin and misery, deeply moved by the catastrophe and cursed the unscrupulous men behind them. And, George Agustus Summers, Registrar of the Bombay High Court, took a decisive step with his characteristic zeal.

On 3 December 1870 Mr. Summers gathered six of his personal friends around him. And " the seven earnest men, seven willing pockets, just seven rupees for initial expenses " gave shape to a plan of offering insurance without the risk of ruin. " No shareholders " they decided, " no paid management, no preponderance of power, but insurance for mutual benefit, self-management, and equality of power for all participating." The lofty ideals that animated the seven and the selfless ideas which distinguished their efforts wrote the first chapter in the history of Insurance by founding the BOMBAY MUTUAL LIFE ASSURANCE SOCIETY LTD., the first and the biggest mutual society in India. .

" All the affairs and every transaction of the Society must be open to the most minute inspection of every member " affirmed the first Articles. " Each member may take part in the management. Business to be conducted with strictest economy. All profits that may accrue must be awarded exclusively to those whose contributions have caused them and to each in due proportion of his contribution." Mr. George Gahagan, a Mechanical Engineer, Mr. David Ebenzer Gostling, Architect, Mr. John Felican Vaz of the Military Department, J. Rich and Mr. George Summers constituted the first Board. " If by March of the following year " they resolved, " it was found impossible to obtain the co-operation of 25 others, the scheme would be allowed to pass into oblivion." 40 enrolled in a few days. The Society started working on 21 March 1871 and received insurance for over a lakh of rupees in seven days. The first balance sheet on 22nd July disclosed 19 policies for Rs. 66,500 and the first claim in 1874 found it prospering. Reasonable rates of premium and uniform rates for all the members European and Indian marked a distinct departure from the practice then current.

The members of the Board agreed to reimburse the Society's funds to the extent of Rs. 5,000 each to meet excessive claims and followed a very cautious and sound policy. New business was limited to what was voluntarily offered until 1918; the first Chief Agents were appointed then and started active operations soon. Further expansion followed in 1927 and today the Society enjoys a unique position.

Table No. 48.

Rates of Annual Premium charged by Bombay Mutual on its inception

Age	*Premium*	*Age*	*Premium*
20	29 10	45	55 2
25	33 6	50	64 2
30	37 2	55	76 2
35	41 10	60	91 2
40	46 14		

The Standard Life Assurance Co. in their Centenary volume (1825-1925) mention the formation of one 'Indian Life Assurance Co.' in 1871 with Head Office at Meerut. Nothing much is known of this company except that it was taken over by the Standard Life in 1878 when it had 444 policies on its books for a total sum assured of £172,265 and 29 Annuities for £1,264 in all.

The Oriental

The Bombay Mutual heralded the dawn of a new era and Bombay witnessed hectic activity in every sphere of administrative, civic and economic life. The New Bank of Bombay had already started functioning in 1869. The formation of the Bombay Port Trust in 1870 was followed by the appointment of its first Board of Trustees in 1873 and the laying of the foundation stone of the Prince's Dock by the Prince of Wales two years later. Tram lines were laid in the wake of the first municipal elections in 1873. Sanitary conditions improved; trade developed; industries progressed; commercial houses sprang up; a prosperous, cosmopolitan population swarmed the metropolis; and Mr. Duncan McLauchlan Slater, with characteristic foresight and considerable enterprise stepped into the limelight in 1874 to launch India's first purely national proprietary office, the Oriental Government Security Life Assurance Co. Ltd., which, throughout its career of nearly four score years, has stood four-square in the forefront of Indian insurance to shape its future with unexampled and unchallenged prosperity.

A distinguished Fellow of the Institute of Actuaries, Mr. Slater brought to bear his considerable experience of Indian insurance, as the representative of more than one company in Western India, upon the task of organising the Oriental, a task in which he was ably assisted by four eminent and influential gentlemen—Mr. Kamrudin Tyabji (Chairman), Mr. Raghunath Narayan Khote, Mr. Jehangir Rustomjee Mody and Mr. (later Sir) Pherozeshah Mehta—who, with their high business attainments and outstanding personalities, constituted the original Board. To give a distinctive character and lasting stability to the new institution, and to instil confidence into those whose faith in insurance was badly shaken, the Oriental formulated definite and original rules of conduct which fundamentally remain as the basis of the Company's distinguished progress.[1]

With an authorised capital of Rs. 10,00,000, three thousand shares of Rs. 200 each were subscribed in 1874 with Rs. 50 paid up and by 1933 the balance of the unpaid capital on the subscribed shares had been allotted as bonuses to place the total paid-up capital at Rs. 6,00,000. Opening for business on 5 May 1874 the Oriental wrote 17 policies for Rs. 54,000 in seven months, 16 more for Rs. 68,000 in the next three, a total of 95 policies for Rs. 3,14,000 in the first fifteen months, and has issued more insurance and carried more business on its books than any other company in the whole of India in every succeeding year, so much so that fifty years after its inauguration a gentleman remarked: "The Oriental is Indian Insurance."

Mr. Slater died in harness in November 1899. Mr. Paterson Brown took up the reins of office then and retired in 1922 to be succeeded by Mr. H. Edwin Jones on whose retirement in 1945 Mr. L. S. Vaidyanathan, the great authority on Indian insurance today holds the distinguished office of Manager of the Oriental.

Political and Economic Grip

As an immediate result of the 1858 mutiny Britain tightened her grip on India. Vast numbers of Englishmen swelled the ranks of the government; and thousands of Indians served them chiefly in clerical, sometimes in a few higher, posts. A unified army maintained 60,000 British troops and numerous 'temporary' British units. Elaborate land revenue codes accompanied extensive law reforms. Communications developed. With the opening of the Suez Canal in 1869, 25 days separated England

[1] These rules are given on page 109, Chapter VII.

from India. A cumbersome, unsatisfactory overland telegraph route connected London with Calcutta in 1865: in 1870 submarine cable reduced the time to thirty-six hours. Railways, telegraphs and postal services linked Calcutta with the provincial towns and a road net-work rose to reach them. From summer hills and winter palaces the Viceroy and his Governors ruled the people through their trusted officers, wilted under the strain of constant Whitehall pressure and sweltering Indian climate and carried efficiency to the limits of injustice. An alien, aloof government, dictated by London financial interests, began, with quicker communications, to exert real, immediate power.

Quicker communications also brought local Indian markets into the orbit of world markets. Indian wheat, rice, tea, coffee, jute, cotton, hides, seeds and minerals fetched higher prices, enriched middlemen and built industries in England. Native enterprise with rare exceptions confined itself to subtle intrigue for favours from the *sahib* and to bartering away valuable raw materials for English-made luxuries and a London-made trade policy. Exports rose from £23 million in 1855 to over £75 million in 1900 and imports from £13½ million to nearly £60 million, and the impact of British economic domination made England the strongest industrial power in the world and India the poorest country.[1]

Brushing aside Indian capital, initiative, skill and enterprise, British capital built large-scale industries too. Coal mining in Bengal and Bihar, jute on the Hooghly, cotton textiles in Bombay, leather and paper in Cawnpore, Nagpur and Madras—all were developed mainly by English capital and in a few exceptional cases by 'acceptable' Indian capital. This 'acceptable' and mostly unwanted capital, nevertheless, thrived. Parsis of Bombay, Hindus of Ahmedabad and a few Muslims took up the trend and entered business and industry, slowly, haltingly and cautiously. In later years they were destined to play a decisive role in Indian insurance. To give greater coherence to their enterprise, Britain extended their system of modern banking and commercial law to India and linked the silver rupee with pound sterling.

Reasonable internal and external security quickened the reproductive capacity of the Indian peasant. Population rose but production did not. Pressure on the soil steadily increased; competitive bidding for available productive land was, for the first time,

[1] These figures are taken from *Handbook of Commercial Information for India,* Government of India (1937), and *India,* by C. H. Philips, Hutchinson's University Library.

introduced and morals correspondingly diminished. Ousted from the industrial field by vested capital, a large part of Indian capital was invested in the only other productive channel, usury. The *kisan* borrowed at ruinous rates, defaulted, sold his land, and starved. Even nature did not help him. Already impoverished, he wilted under disastrous famines in large parts of the land between 1866 and 1878 and again between 1897 and 1908.

And the Government slept in the cool Simla Hills. Regardless of the needs of the country, out of a total revenue of over Rs. 50 crores one-third was spent on the army, one-half on the civil administration like law courts, police and collection of revenues, and strikingly small amounts on education and health services. Higher ranks were manned by Britons at fantastic salaries and the national army was used for imperial purposes outside India, at India's expense, (vide campaigns in Egypt and Sudan, 1882-85, 1896, Boer War 1899 and in China 1900). A famine policy was evolved with elaborate plans and the system was proof against any calamity but famine. Despite the large balances of trade, India's public debt rose to £200 million in London alone by 1900 and British capital invested in India to over £300 millions.[1]

Birth of Middle Class

"Through every branch of government, through every facet of policy, English influences played with increasing force in India."[2] This influence was more pronounced in education. More colleges produced a larger number of graduates, yet literacy never exceeded one in ten. Education produced a pool of cheap assistants for government service and an increasing demand for English goods. A poor government, saddled with top-heavy civil and defence expenses, criminally neglected learning, cultivation and the masses. What was taught in schools and rapidly growing colleges was of low quality, academic, impractical. Undermining culture, it encouraged unintelligent aping of British manners, customs, ways and produced a strongly critical orthodoxy. All the same, it produced a large urban class with the same kind of training, common ideas and interests and similar ambitions of government service. A new middle class was born, a class with poverty as a background and government service as its goal, and which, in later

[1] Public debt was primarily for the expansion of railways; private debt was invested mainly in tea and jute. The budgetary position refers to 1880.

[2] *India* by C. H. Philips, Hutchinson's University Library.

years, developed insurance to the present stage.

Higher civilian posts were theoretically open to Indians, but practical difficulties squeezed them out. In 1863 Satyendra Nath Tagore dared a hostile society, braved the London examination and entered the Indian Civil Service: six years later three others followed. 1878 lowered the age of entry to 19 and virtually closed the door to Indians. Frustrated and with few chances of learning medicine, engineering or other professions, most of the Indians of moderate means turned to law---a very congenial profession--and filled the law courts with distinction then and political platforms with opposition later.

In 1877 Bombay Presidency alone boasted 62 language papers, Northern India the same number, Bengal 28 and the South about a score, besides the influential British press. Journals grew in numbers and journalists swelled the ranks of the new middle class.

This class steadily aped the English ways of life and bought improved medical aid. With most of them the love to hoard gold and silver lingered, and they bought them with much of their savings, but the rapidly invading foreign influences made insurance attractive. And British insurance did not remain idle.

Foreign Companies

In the wake of the conquering British trade, industry and banking, a large number of British insurers started operations. They, more or less, conformed to a set pattern, with a few notable exceptions. The Commercial Union Assurance Co. Ltd. (established in the United Kingdom in 1861) seems to have been one of the earliest companies to establish both general and life departments during the period. Concentrating mainly on general business it achieved a large measure of success right from its entry in 1870 but was never unduly keen on expanding its life organisation; nevertheless it insured a few European lives but closed down the life branch in 1938 when 516 policies assuring nearly Rs. 38 lakhs and guaranteeing annuities for about Rs. 11,000 annually were on its books. The company is still a force in general business.

Incorporated in 1865, the Sun Life Assurance Co. of Canada actually began operations in 1871 and established an experimental agency office in Bombay in 1892. Encouraged by splendid initial success the company very soon expanded its Indian activities with a chief organising office at Bombay. Aided by such wonderful organisers like the late Sir Phiroze Sethna (who joined it in 1901 and took over charge in 1920 from Mr. J. A. D. McBain, C.I.E.)

the Sun Life built up extensive connections, and incidentally writes the largest volume of new business today of all foreign companies in India.

The Gresham Life Assurance Society of England likewise commenced operations in 1893 with Croft Mody & Co. as agents and achieved remarkable success. Greatly increased business made the opening of a separate branch inevitable in 1937 and the Society has latterly made splendid progress.

Of the other foreign offices that entered at this stage there is little or no information; most of them, however, withdrew subsequently. Government exercised practically no control; no law governed them except the regulations of their own country of origin; no statutory deposits or returns were required; and no bar existed on the transfer of unlimited funds out of India. The Commercial Union withdrew in the face of the restrictive provisions of the Insurance Act 1938; the Sun Life of Canada and the Gresham are with us now; the others either amalgamated or withdrew. Nevertheless bare details of five more offices which began operations at that time may be given although the methods of their business or the extent of their organisation are shrouded in mystery.

The City of Glasgow was the first of these and became also the first of the foreign offices to charge uniform rates of premium for European and Indian lives. Opening up a branch at Calcutta in 1881 the City of Glasgow built up extensive connections, wrote a large volume of business on Indian (and European) lives and finally amalgamated with the Scottish Union and National in 1913.

The Equitable Life Assurance Society of New York, reputed to have been the world's largest life office of the time, decided to extend its operations to India and the East, in the eighties of the last century. With a wonderful organiser in the person of one Mr. Dasborough in charge of their Indian and Eastern activities, the Society began active operations in India about 1882, wrote a substantial volume of business within a few months and was forced to withdraw shortly in rather tragic circumstances. For during an explorative tour of Burma and Ceylon after his short, successful work in India, the indefatigable Dasborough had an attack of cholera and met with an untimely end. Tragedy awaited three successive agents who followed, and prevented others from venturing out. The Indian obligations were dutifully met through the agency of a British Fire office.

The New York Life Assurance Company followed the Equitable in 1885, and charged uniform premium rates to both Europeans and Indians. Nevertheless it insured more British lives than Indian till 1900, when the liberal terms offered by many British offices partly induced many British residents to turn away and enabled the company to write more business on Indian lives. The New York Life eventually transferred its Indian liabilities to the Sun Life of Canada and withdrew in 1922. Its experience of mortality during 1885-1921 was investigated by Dr. Arthur Hunter and published in 1926.[1]

The Sun Life Assurance Co. of India Ltd., an offshoot of the Sun Life Assurance Society of London, was floated in London on 20 June 1891 precisely to operate Indian business but was taken over by the parent office at the end of 1896; the Sun Life of London continued operations upto January 1907.

The precise year in which the London and Lancashire Life and General Assurance Association entered India is uncertain but unsatisfactory mortality experience is believed to have influenced its withdrawal in 1907 after about fifteen years.

Pattern of Development

The pattern of development remained the same. Demand for general insurance cover, especially fire and marine, induced many British offices to branch out, either under pressure from their 'home connections' or as a business adventure, obliged valuable customers, their friends and *dalals* with suitable life policies and strictly limited their field to the British community and selected, Anglicised Indians—with the exception, of course, of the purely life offices like the Sun Life of Canada and the Gresham. Fostered by influential London business interests and encouraged by a protective imperial power, the power of the general insurance companies developed in later years to a near-monopoly which is almost retained even today, even with the growth and strength of Indian insurance. That the purely life offices had a good field is illustrated by the striking success they achieved. "No statistics obtainable could give any guidance except in the most general way possible as to the prospects of life of the Indians" wrote one Branch secretary "but as a rule their expectation would be much better than the average of their respective castes. The mere fact of an Indian seeking life assurance would indicate that he was in a fairly comfortable position in life, likely to have inhibited more or less European ideas as to sanitation and cleanliness, the

[1] *Journal of the Institute of Actuaries,* Vol. LVII.

advantages of medical treatment and so forth." Typical of the British mind at the time, it gives the reason why the percentage of Indians among the policyholders of foreign companies was extremely low. "A rigid system of selection will have to be adopted. The expectation of life of a first class Parsi, Hindu or Mohammedan is, I am convinced, quite as great as a European living in India." [1]

Largely due to insufficient statistics, or maybe, dictates of considered policy, '10% extra' on Indian lives was charged by English companies but the practice was neither universal nor uniform. The City of Glasgow, for instance, applied uniform rates. Another office accepted merely Parsi lives at European rates, and the rest at increased premiums. No one knows which or how many companies operated at the time, nor how much insurance was written and at what rates.

Mutual Aid Societies

But this much is certain: communal groups split up the new middle class. Favouritism in the city offices, and separate reservation of seats to groups for statutory civil services coincided with a general religious revival. The torch of renascent Hinduism lit by Ram Mohan Roy was upheld by Dayanand (Arya Samaj 1875) and Swami Vivekananda (Ramkrishna Mission, 1879). Sayyid Ahmed (Anglo-Oriental College, Aligarh, 1877) carried the torch among the Muslims.[2] The ideas were timely, exciting and spread. The enlightened urban class and disappointed graduates took up the idea, deplored the alarming economic life of the clerk and his family and founded mutual aid associations—small, useful, sectarian societies chiefly centred in Bombay and Madras,—which even in 1950 have not outgrown their utility. The Hindu, the Christian, the Parsi and the Goan—each had his own society, with honorary officers, low premiums and no agents.[3]

Indian Life

When Lord Ellenborough, with little justification, annexed Sind, he found a large Goan settlement in Karachi. They had

[1] *Life Insurance in India*, by R. M. Ray.

[2] Sir Sayyid Ahmad also created a Muslim Patriotic Association in 1888 to focus Muslim opposition to the Congress, using a prominent Allahabad English newspaper, as his mouthpiece.

[3] The chief among them are: Bombay Widows' Pension Fund (1876), Indian Ordnance (1883), Indian Christian (1884), Goanese Mutual (1885), Mangalore Roman Catholic (1888), B. B. & C. I. Zoroastrian (1888), Parsi Zoroastrian (1888), Bombay Zoroastrian (1889), Gujerat Zoroastrian (1891) and Hindu Mutual (1891).

probably migrated from the small Portuguese port in Western India and were 'thrifty, not particularly wealthy, but honest, deeply religious and careful in the ways of life.' By 1892 their leaders had recognised the need for mutual aid; on 7 March 1892 the Indian Life Assurance Co. Ltd. was registered in Karachi with Mr. L. C. Duarte as Secretary and an enlightened Board of able men, deeply urged by a spirit of hard work and public service as directors. As early as 1892 the Indian Life introduced the novel idea of electing a Policyholders' director to the Board.

"The formation of the company was the outcome of a scheme for organising a Mutual Aid Association, a form of insurance very popular at the time. A careful examination of the subject revealed the very unsatisfactory nature of the assessment principle on which such institutions were based and the idea was abandoned in favour of an insurance company on an actuarial basis. The chief difficulty was the absence of suitable tables for Indian lives. It was finally decided to adopt the Northampton Mortality basis, but as the various tables required to calculate the premiums, etc., were not readily available, they were worked out, with an incredible amount of labour, cheerfully undertaken by Mr. L. C. Duarte with whom the idea of the formation of the company had originated and who so successfully developed it."

The early history of the Indian Life was a remarkable story of incredible labour, sacrifice and patience, particularly on the part of Mr. Duarte who held the office of secretary continuously for 25 years. An interesting sidelight on his spirit of sacrifice is evident from the fact that the Articles provided 10 per cent of the gross premiums for expenses but the office spent Rs. 2,431 during the first fifteen months including preliminary organisation. This strictly economic management laid the foundation of future stability and steady progress.

Indian Life confined its operations to Karachi, Bombay, Goa and East Africa for several years; opened other centres of business in 1934; registered remarkable progress as an all-India organisation, and serves the insurance needs of all communities alike. In 1947 partition removed its head office to Pakistan, but in no way affected its service to the Indian public, for Bombay has since been developed as the Chief Operational Office for the whole of India. It is perhaps the only office to grant future participation in profits to paid-up policyholders.

The Empire

The cold season of 1896-97 was marred by a severe outbreak of plague in Western India. It raged virulently in Bombay and Poona, dislocated trade and normal life, strained the resources of companies writing life insurance and held up the commencement of business of the Empire of India scheduled on 1 January, 1897. Coming out to India in 1888 in the service of an agency firm of an English Life office, Ernest Frederick Allum saw great possibilities for life insurance and in co-operation with Rustomji Bharucha registered the Empire on 21 November 1896. On 1st March of the following year was held the first ordinary general meeting with Mr. (later Sir) Pherozeshah Mehta (Chairman), Abdulla Dharamsi, Chubildas Lalloobhoy, David Gostling and Allum as directors. Renowned for his original contributions to actuarial science in the application of higher mathematics to problems in life contingencies, Sir George Hardy, the eminent actuary, prepared, in his capacity of consulting actuary, rates of premium to provide the largest possible immediate assurance, consistent with safety, in return for a given outlay, in preference to distributing large bonuses. "Large bonuses," he argued, "were in fact necessarily precluded by the very moderate scale of premiums adopted. The with-profit premiums of the company are much lower than the non-profit premiums of most companies and every policyholder may be said to receive at the outset a substantial bonus in addition to his policy in the shape of a larger sum assured obtainable for a given outlay."

With a small paid-up capital of just over Rs. 50,000 hard work and conservative policy built up a large business and earned for it a very high reputation among Indian companies. Concentrating mainly on life insurance, the company, nevertheless, issued Fidelity Guarantees, and paid shareholders' dividends out of the profits of this department, leaving life profits free for distribution to policyholders.

Planned to issue 2000 shares of Rs. 500 each (Rs. 50 paid-up) Allum and Bharucha limited the issue to 1030 shares. Subsequent calls increased this capital to Rs. 3,09,000 in 1933, to Rs. 4,12,000 in 1935 and to 5,150 fully paid-up Rs. 100 shares in 1936.

Bharat

Right upto the end of the century, the conquering British trade and industry held the upper hand. The small sectarian societies merely scratched the surface of the problem and the Indian proprietary companies were up against stiff opposition. Foreign offices met most of the need for insurance and enjoyed a near monopoly. The '10% extra' was still common and enlightened men like the late Lala Harkishanlal resented the invidious distinction. "Never in the Punjab," he said, "will we allow the Britishers to treat Indians with a difference. When we take up insurance we will do so on equal terms." And so in August 1896 determined to 'beard the lion in his den' the late Lala Harkishanlal, the patriotic 'Napoleon of Indian Finance' as he was then called, launched the Bharat Insurance Co. Ltd. at Lahore with the patronage, co-operation and assistance of Rai Bahadur Lala Pyare Lal, Bhagat Ishwar Dass, Lala Balmokand and Lala Prabhu Dayal. With his pioneering zeal, undaunted courage and unerring business acumen, Lala Harkishanlal worked and won. The late Lala Gyan Chand (born 1867) known the world over for his conspicuous ability and knowledge of insurance matters, helped Bharat to lay firm foundations. Gyan Chand had earlier started the Punjab Mutual Hindu Relief Fund in 1893. Joining the Bharat in 1898, Gyan Chand was promoted as Manager in 1903, held the post till his death in 1906, and was the first Indian to be elected as a member of the International Congress of Actuaries in New York, 1903.

Lala Harkishanlal was, if anything, original and Bharat made insurance history in those early days. The Lala's preference for investments in the shares and debentures of Public Utilities, especially Electric Supply Companies, gave power to many cities in the Punjab and helped to develop them industrially. Bharat is the first company to grant reduced premiums for assurances donated to charities.

After an initially steady progress Bharat had a setback in business with the onset of the economic depression in 1927. Within a few years, Seth Ramkrishna Dalmia stepped in and when the control of the Bharat passed over to him in August 1936 a new era of prosperity dawned.

A Conspicuous Personality

Many outstanding personalities of the age gave their unstinted support to insurance and made its influence felt far and wide. The late Sir Pherozeshah Mehta for example was one of those giant figures in Indian public life who with his uncanny foresight and unerring business judgment gave this new experiment all the support it needed. Most of those who were connected with the foundation of insurance in India have been mentioned, but without minimising the good work of all those great men, there is one figure who needs special mention.

Conspicuous with his prominent ears, broad forehead and small lean face adorned with fully grown moustaches and a neatly trimmed beard, architect David Gostling designed more than buildings. Interesting himself in aeronautics as a hobby, he started designing and constructing an aeroplane in 1880. As a public figure he helped George Summers in promoting Bombay Mutual and Ernest Allum the Empire, served both companies as a Founder Director and was chairman of the former during 1890-1907. His foresight and intellectual achievements are manifest today in the large hydro-electric power schemes for providing Bombay with electricity and on his death one of the lakes in the scheme was named after him.

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Thus, during a thirty-year period the firm foundations of life insurance were well and truly laid in India. Three enlightened Europeans, a middle class Goan society and a patriotic Indian, aided by the courage and faith of countless friends both among Europeans and Indians, were the guiding spirits behind the wonderful experiment. Virtual lack of competition and an almost unlimited field which was daily growing in extent, encouraged it, fostered it and made it expand. Conservative and able management made the solid foundations secure. And advanced scientific principles consolidated the companies.

CHAPTER XV

FRAMEWORK (1900-1912)

" Be fearless, be strong " reverberated through the large assemblies of people in the lowliest village of India to the largest city of the United States and in Europe, Egypt, China and Japan, who listened with rapt attention to the dynamic personality of Swami Vivekananda. Wedded to a life of service and sacrifice, this ' fine figure of a man, robust, simple, non-chalant, and self-confident,' electrified whole nations, taught a new conception of life, infused courage into fearful hearts and revitalised the depressed and frustrated middle classes of India with this eloquent tonic: " what our country now wants are muscles of iron and nerves of steel, gigantic wills which nothing can resist, which can penetrate into the mysteries and the secrets of the universe and will accomplish their purpose in any fashion." For they had cause to become desperate.

Ancient crafts and traditional avocations had long ago vanished from the unfortunate Bengal and foreign rule had drained every ounce of its wealth; diplomacy and superior military strategy had subjugated the brave Mahratha warriors and their traditional regal glory. The bulk of India's people steadily became poorer; the aristocracy remained aloof and unconcerned; the orthodoxy was strong and critical; religious renaissance gathered momentum. The colleges produced more graduates than were absorbed in government services; the government admitted qualified men of superior calibre merely to the lower ranks of subordinate services, leaving frustrated hopes and unfulfilled ambitions to seek retaliation. And Bal Gangadhar Tilak rose in Poona to give them a lead.

Political Consciousness

A political conference held in Bengal in 1883 was followed by another in 1885 and then passed into oblivion. Allan Octavian Hume, son of a radical member of Parliament and himself a retired civilian, said in Bombay: " Every nation secures precisely as good a government as it merits. If you, the picked men, the most highly educated of the nation, cannot, scorning personal ease and selfish objects, make a resolute struggle to secure a large share in the management of your affairs, then we, your friends, are wrong

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and our adversaries right." With Sir William Wedderburn,[1] Robert Knight and a group of leading, progressive Indians, and with the blessings of Viceroy Dufferin, Hume founded the Indian National Congress in 1885. It met year after year at different centres, attracted the older middle class lawyers, doctors and journalists from the cities and a few aristocratic groups from the villages; passed resolutions affirming loyalty to the crown; prayed for the election of 50 per cent members to the Legislative Councils; petitioned for holding Indian Civil Service examinations simultaneously in India and England; and occasionally protested.

Ignoring these demands and the protests, yet largely due to them, Viceroy Dufferin moved Whitehall in 1892 to increase Indian representation on the Central and Provincial Councils and to allow *discussions* on the budget; and, to appease the reactionary elements in England, declared "The changes denote nothing revolutionary; in no sense could this be construed as an approach to English Parliamentary Government and an English constitution." But Tilak retorted: "Swaraj is our Birthright." "Swaraj is our birthright" rang through the hearts of thousands of young, educated Indians, who were politically and economically frustrated and who had imbued the doctrines of Burke and Mill to the full. "The cause of all our ills is foreign rule" they asserted. Lord Curzon, energetic, powerful and purposeful, followed Dufferin, despised the young Bengali intellectuals particularly and taunted them with such 'reforms' as the partition of Bengal. Aggressive leaders rose up; a nation-wide protest denounced British rule, British institutions, and British personnel; a great poet sang "Vande Mataram" which stirred up mass emotions then and national movements later. Revolutionary slogans rent the air; a wave of terrorism swept large parts of Bengal and Maharashtra; people were arrested or deported; moderates like Gopal Krishna Gokhale succeeded largely in curbing violence; and the Congress emerged as a constitutional organisation. The heart of the young people however remained with Tilak.

Progress

In such a setting did Indian insurance receive its first great support from the public. The wave of violent political emotion confined itself largely to the city intellectual middle class and political movement became wedded to cultural revival. Peasants remained unconcerned and poor in the grip of orthodox tradi-

[1] Sir William Wedderburn was himself a retired civilian and an influential M.P., Robert Knight was the owner-editor of the *Statesman*.

tions and feudal domination. When economic boycott affected British goods, the small but growing commercial community prospered; and when the boycott was extended to British institutions, insurance got its full support. Neither countrywide nor deep-rooted, the movement exerted no permanent grip, but while it lasted, gave the much-needed tonic to Indian life offices, emaciated by the recent plague which had considerably strained their resources.[1] The scientifically promoted, and economically managed older offices fully deserved this support, which enabled them to lay firm foundations for future strength and growth; thus:

Table No. 49

Name	*Year*	*Business in force* Rs.	*Funds* Rs.
Oriental	1904	8,88,02,223	2,37,58,377
Indian Life	1902	10,86,440	2,22,748
Bharat	1907	55,98,690	5,50,500
Empire of India	1907	1,28,90,157	16,51,107

Bombay Mutual: From 1871 to 1923 one per cent bonus was declared. In 1895 fifteen per cent of the total premiums paid were refunded.

(Source: Various publications issued by the respective companies.)

Yet they did not receive all the support they deserved.

Lack of Support : Rural India

Increasing pressure on land as a result of increased populations and static productions made the poor peasant desperate. Drawn from the old *Vaishya* caste of Hindus, the village trader and banker met the simple needs of the farmer, his simple luxuries and his frequent demands for loans for marriages and festivals. The rates of interest were high, the amounts of repayment low and the periods infrequent. Poverty grew, so did rural indebtedness. Lands were mortgaged and eventually 'sold'; land-owners

[1] During the three years 1895, 1896 and 1897 when plague was most virulent, the Oriental paid Rs. 30,91,709 in claims compared to Rs. 19,31,439 during 1892, 1893 and 1894, the difference being partly due to the increasing liabilities of the company and also very materially to the widespread sickness.

became tenant-farmers and frequently farm-labourers; and local traders emerged as new landlords. Thus grew up the anomalous sight of the enormously rich zamindars and the alarmingly poor peasants. In any case, Rural India preferred the ancient security of land to the modern security of insurance.

Support : City Middle Classes

But it assisted the development of insurance in another manner. Drawn from the countryside, the city clerks, lawyers, doctors and journalists had their roots still in the villages and had dreams of owning lands there on retirement. Life insurance, and particularly endowment insurance, offered the easiest way of accumulating money to realise those dreams, and presented an attractive form of investment, for fairly large interest earnings and low overhead expenses gave fairly good returns. Provisions against death remained, (and still largely remains) a minor consideration.

Growing social needs created a new social order and changing economic needs made it anomalous. Thus the attractive government service demanded a costly higher education, depleted family fortunes and created fabulous dowries to rebuild those fortunes. This upset the social equilibrium for a number of daughters could usually impoverish a man. But when the deep-rooted culture that respected learning and regal associations came to respect the educated young men in government service the dowries provided generous gifts to his large circle of friends and relations who gathered around him at marriages. The father, beggared by depletion of wealth either through daughters' marriages or sons' education or both, went to live with the sons; the son, burdened by a teen-age marriage and a very large family, lived in daily desperation. Larger families at younger ages coincided with higher dowries and lower incomes. Special schemes like marriage endowments, *upanayanam* endowments and educational endowments, met the special needs of the middle class and earned a large measure of support; the first two are typically Indian and with changing conditions are slowly losing ground. Unfortunately educational policies did at no time reach the popularity they deserve from a society which held sons' education secondary to daughters' marriages.

Insurance as an institution was new. Ideas of group security lingered through years of joint family and fought the onslaught of individual security that insurance offered but although the joint family system itself was fast disintegrating, age-old customs, ingrained traditions and national traits died hard. About this time, it is recorded, fear of premature death tabooed both photography and insurance.

Racial and religious differences influenced the commercial life of the rapidly growing trade centres. Thus the socially-advanced Parsis, whom a rigid caste system had kept away from the Hindus, had more ready accession to British society, more easily adopted western ideas and largely supported British offices and those of the Indian offices with which members of their community had close associations. Despite their increasing stake in trade and industry, the Hindu mercantile class lent insignificant support to insurance except where close business connections demanded it. Individual Muslims like Kamruddin Tyebjee and Abdulla Dharamsi had taken considerable part in the promotion and progress of individual insurance companies, yet Muslims as a whole kept away from English education for a long time, took little interest in the growth of Indian industry and generally avoided insurance, partly due to their feudal modes of thought and partly to Islam's prohibition against interest on money. The turn of the century made a gradual but decisive change in this view. Life insurance thus received a large measure of support at this time, spontaneously from the city middle classes, sporadically from the city commercial circles but none at all from the poor rural India.

Swadeshi

Meantime industry progressed. Jute mills rose from about 30 in 1900 to 60 in 1910 (invested capital Rs. 10 crores). Cotton mills registered over 100 per cent increase in loomss and rose from 175 in 1900 to 250 in 1910 (Bombay Presidency alone producing 75 per cent of the total cloth manufactured). The Bengal Iron & Steel Co. was already operating from 1875. Coal fields expanded in Bengal and Bihar. Leather works tanned the hides and exported them. Sugar fields produced more canes for export. But in all these undertakings foreign capital dominated and foreign initiative held, with the exception of the Bombay and Ahmedabad Textile Mills. Foreign trade registered a 40 per cent increase; Britain had a near monopoly of foreign imports with Manchester textiles, iron and steel predominating and an absolute control over Indian exports. More middlemen made larger profits; the Indian *bepari* sold to the British merchant; and foreign insurance monopolised the general field without a rival. At this stage the swadeshi movement whipped up swadeshi enterprise.

That Indian enterprise could successfully compete with foreign-owned industries was amply demonstrated by the Hindu and Parsi millowners of Western India. The age-old traditions of trade and manufacture for which the enterprising peoples of Gujerat, Kathiawar and Kutch were justly famous had at no time received any serious set-back and changing times had merely changed the methods and materials of business. When therefore the sporadic outbursts of violence was followed by a spontaneous boycott of British goods and national leaders stressed the need for national industries and national financial houses, Western India gave the lead. Small-scale industries grew up on a large scale and successfully displaced foreign consumer goods partially; Indian-owned commercial houses competed vehemently with established foreign firms; and a number of banks rose to serve them. The enterprising Bombay businessmen under the guidance of Sir Manmohandas Ramji founded the Indian Merchants' Chamber in August 1907 to give a lead to Indian business. And the pioneering zeal of Sir Jamshedji Tata with uncanny vision and outstanding business acumen, floated the Tata Iron & Steel Co. Ltd. in 1907 and opened the giant steel works at Jamshedpur four years later, to bring Indian industry into the orbit of world industries.

An Indian Fire Office

And Bombay broke the absolute monopoly of foreign general insurance. In 1907 Sir Manmohandas Ramji, with the support of the Native Piecegoods Merchants and imaginative Indian businessmen founded the Indian Mercantile Insurance Co. Ltd. and made a modest but determined entry into the field of fire insurance; steady progress in subsequent years enabled the Indian Mercantile to open life business twenty-five years later.

United India

In 1906 seventeen Indian life offices wrote nearly Rs. 2 crores of new business against very keen foreign competition; by 1912 fifty-four companies wrote a crore more. On 1 March 1906 a few enthusiastic leaders of Madras decided to start the United India 'to place within the reach of persons of small incomes the manifold advantages of life insurance and to afford them an opportunity of insuring in a company which they could call their own'; in ten years the total assurance reached Rs. 16 lakhs. With rare foresight Chairman Sir M. Muthia Chettiar had the Official Trustee of Madras appointed as Trustee for the Company's funds. A unique feature of its subsequent splendid growth is the opening of Divisional Offices at Delhi and Calcutta to function as miniature Head Offices.

National Indian

In Calcutta national leaders extolled the importance of insurance in extricating India from the foreign economic grip and Sir Rajendra Nath Mookerjee gave a practical shape to the idea. With Martin & Co. as managing agents and a 'galaxy of knights, prominent businessmen, eminent scholars and leading public figures' on the board, Sir Rajendra Nath founded the National Indian in 1906, made remarkable progress in a very short time and laid firm foundations for future prosperity through sound underwriting, rigorous selection and efficient management. The National Insurance Co. was established in the same year.

Hindustan Co-operative

A year later came the great Hindustan Co-operative. With the first dawn of national consciousness, great leaders like Dr. Rabindranath Tagore, Mr. Brojendranath Roy-Chowdhary and Deshbandhu Chittaranjan Das rose to wrest the economic freedom of Bengal's frustrated people from the tight grip of foreign domination through the Hindustan; a devoted and enlightened directorate, scorning personal gains, agreed to "regulate the administration and investments of the company in such a way that the interests of the policyholders would be predominant"; a zealous band of energetic workers took the message of the Hindustan to an ever-widening circle, skillfully, enthusiastically and persistently. To such lofty ideals and solid foundations does the Hindustan owe much of its subsequent admirable progress.

General

While these developments gave a great impetus to life assurance in the larger cities of Bombay, Calcutta and Madras the rest of the country was comparatively unaffected[1] with the notable exception of Ajmer, where with the establishment of the General Assurance Society in 1907 insurance received an enthusiastic response. Sound underwriting and scientific management enabled

[1] The turn of the century saw the expansion of the existing organisations of the old offices. The Bharat opened a few branches in the Punjab soon after its inauguration, the Empire appointed Chief Agents in Calcutta in July 1897 (it operated with chief agencies for a long time before replacing them with branches), the Oriental opened a branch at Madras in 1901, Colombo in 1903 (this was the first time an Indian office extended its operations outside India), Calcutta in 1906, Rangoon in 1907 and at other centres later.

the General to make steady rather than spectacular progress in the earlier years and by 1942 it commenced operating fire and marine business.

Bombay Life

And Bombay did not lag behind. Responding to the national call for nationalising commercial services Sir Lallubhai Samaldas, Mr. C. V. Mehta, Mr. C. D. Suraiya and Mr. F. R. Joshi, four distinguished men of business, with a fine record of outstanding commercial attainments and great influence in the city financial circles, entered the field of insurance, approved a tentative scheme of starting a life office formulated by Mr. K. Subramania Iyer, registered the Swadeshi Life Assurance Co. on 4th March 1908 and wrote the first policy on 1 November of the same year. Five years later a political atmosphere surcharged with suspicion and prejudice prompted the promoters to change the name to Bombay Life from Swadeshi Life. In 1909 business in force stood at Rs. 5½ lakhs, trebled itself in two years, reached nearly a crore by 1925 and today stands at over Rs. 15 crores. With a fine record of economic management, Bombay Life was one of the earliest companies to establish branches outside the shores of India.

Asian Life

Two years later (in 1910) the Asian Life was promoted. Founded by a group of influential businessmen, Asian made a cautious but steady progress and built up extensive connections. Originally constituted for the purpose of transacting life assurance, the Asian now transacts fire and accident business too.

But all was not well. Of the thirty-eight life offices floated in quick succession over a ten year period (1903-12) only the Co-operative Assurance of Lahore (established in 1906 now shifted to Amritsar), the India Equitable of Calcutta (1908), the Arya Insurance Co. (1910) and the Methodist Annuitant of Madras (1911) besides the offices already mentioned remain today; eleven of the sixteen offices started in Bengal, five of the eight in Bombay, four of the six in Madras, and six of the seven in Punjab were liquidated most of them within a year. And the cause was fairly obvious, for the initiative rested mainly with the middle class. Taught and trained merely for professions or subordinate services, the new middle class proved unresourceful managers. Inexperienced in the promotion, organisation or conduct of the business, devoid of natural aptitude and business acumen, they entered, influenced a few leaders of public opinion to join the Board, sold a few shares, wrote a few policies and closed down when their operations were put to the test of actuarial soundness. The process was widespread and menacing. The less ambitious of them founded Provident Societies—small, uneconomic units based on the model of the Friendly Societies of England—and over 500 of them existed at the end of 1911. Though small in scope and business, they nevertheless contained seeds of incalculable harm in the hands of unscrupulous people, and caused widespread alarm by their questionable conduct and unsound management.

Bideshi

Despite the formation of so many life offices and an undercurrent of anti-British sentiment pervading the country, foreign offices established themselves in larger numbers and, in common with those already in operation, received the largest support. With the complete patronage of the entire European population and the consistent support of the Europeanised Indian society, who between them had the largest *per capita* income, they wrote considerably more business than all the Indian companies put together. The Scottish Amicable Life Assurance Society appointed Balmer Lawrie as their agents in Calcutta, flourished for a short period of seven years and ceased operations in the beginning of 1909. The Scottish Union and National Insurance Co. started work in 1905, confined itself to Europeans only but in 1913, when the City of Glasgow was amalgamated with it, admitted both European and Indian lives at uniform rates. This company works in India to this day. The Liverpool Victoria Insurance Corporation operated in India from its inception in the United Kingdom in 1906 and did a fair volume of business until it was absorbed by the Commercial Union in 1913. The Norwich Union commenced working in India in 1908 and is today very popular.

Of the other foreign offices operating at the time nothing much is known, but mention may be made of the English and Scottish Law Life, Law Union and Crown (which was the combined office of Law Union and Crown Life and which later took over the Rock Life in 1909 before finally amalgamating with the London and Lancashire in 1919), Northern Assurance Co., Provident Life, Phoenix, Royal Exchange, Star, Scottish Metropolitan, Alliance, Atlas, China Mutual, London Assurance, National Mutual of England, National Mutual Life Association of Australia and Manufacturers Life of Canada, all of which are known to have established branches in India either at this stage, or earlier. Most of them have now completely withdrawn from India, or have limited their activities to the general field.

GOVERNMENT CONTROL

Foreign Developments

The enormous growth of insurance in the United States during the last twenty years of the nineteenth century created feelings of doubt in public minds regarding the financial condition and management of the larger companies, especially as maladministration, unsound practices, negligence and common abuses were evident in the operation of many offices. In 1905, a legislative enquiry into the conduct of life insurance companies in New York State was instituted under the chairmanship of Senator Armstrong, and as there is a strong parallel between the conditions in America then and those in India forty years later (vide the Cowasjee Jehangir Enquiry Committee, 1945) the matter deserves more than a passing reference.

"Whether the companies were solvent and whether their affairs had been mismanaged and their funds squandered were questions of vital concern, not only to their millions of policyholders, but to all men of affairs, in this country at least, whose interests might be affected by an investigation of such financial matters," writes G. A. Henderson in *History of the Insurance Investigation.* Very exhaustive testimony was taken and the fullest scope was given to the companies to present their case. "The Armstrong Investigation revealed negligence of management of many of the larger companies. It also found a financial alliance with banks which used insurance funds in large amounts for their own purposes. Insurance companies had acted as participants in financial syndicates, thus diverting attention from the business of insurance. Moreover, financial extravagance had become widespread. Commissions and salaries were excessive and large sums were spent in legislative lobbying. Remedial measures (too extreme in some instances) for almost all of these abuses were speedily enacted. Stocks were excluded from investments of insurance funds in the future and those then held were to be disposed of. The remedial legislation of 1906 in New York established a standard code which was widely copied by other states. Other states passed regulatory laws, establishing commission schedules for agents, controlling new business budgets, surplus, policy, dividends, publicity and the like. Standard policies with limited amounts of insurance on individual lives have also been prescribed by the insurance companies."[1] The very strict control which the State Insurance Departments have exercised since then has enabled American offices to expand considerably on scientific lines and write the largest *per capita* insurance in the world.

England

Conditions developed in the United Kingdom at this time, especially in industrial assurance, which called for a revision of the Life Assurance Companies Acts 1870-72 and the Assurance Companies Act of 1909 was passed. Enlarging the scope of Insurance Law to include all classes of insurance, the Act followed the principles of the earlier Acts of 1870-1872 many of the provisions of which were incorporated. The rigid control in America and Canada was absent; regulations insisted on periodical and wide publication of the volume of business, income, expense, investment and all other relevant matters to enable the public to judge their soundness and solvency; and as public opinion was enlightened and strong, little room was left for outright fraud. The deposit of £20,000 was made compulsory for any company operating in the United Kingdom, not so much to meet the liabilities, as to prevent flotation of uneconomic units. Returns submitted to the Board of Trade enabled the government to keep a check upon the working of companies, but the policy of minimum interference was carried to extreme limits when the power of the Board of Trade did not even extend to proper investigation into the conduct of a company and order its liquidation even when it was known to be insolvent. The City Life and National Benefit Assurance Co. took advantage of this defect, transacted a large volume of business long after it was solvent and when it failed, created widespread misery.

Indian Law

When the flotation of mushroom companies in India assumed menacing proportions, constitutional changes had given people

[1] *Principles of Investment* by Kirshman as quoted in *Indian Insurance Year Book*, 1945. This gives the best outline of the Investigation and its recommendations. Some of the other provisions contained in the New York Law of 1906 such as the prohibition of Mutual companies issuing non-participating insurance, and strictures against the Deferred Bonus System have been referred to elsewhere in this book. Dividend in the above quotation means bonus.

more, although ineffective, voice in the conduct of the government. Lord Minto, the Viceroy, demanded and secured considerable powers to suppress terrorism in 1907 and used that power indiscriminately. To encourage the moderate and vociferous elements within the Indian National Congress he expanded his Executive Council by admitting Indians, enlarged the scope and strength of the Central and Provincial Legislative Councils so as to allow discussions and pass resolutions on all matters including the budget, (at the same time retaining official majority in the centre but conceding elected non-official majority in the provinces) and introduced, for the first time, the pernicious principle of separate electorates. " A sop to impossible ambitions," said Lord Minto describing the much advertised Minto-Morley Reforms of 1909. " I do not think it desirable or possible or even conceivable to adopt English political institutions to the nations who inhabit India," echoed Morley in Parliament. Two years earlier, partly due to the donation of an American visitor, a small Department of Agriculture had been started by the Central Government, and was followed soon after by a Department of Commerce and Industry.

And amidst preparations for the Delhi Durbar in 1911, and the opening of the giant steel works at Tatanagar, the Hon. Mr. Clerk, Commerce Member, laid before the Imperial Legislative Council, two bills (Provident Insurance Societies' Act, and the Indian Life Assurance Companies' Act) which laid the foundation for systematic insurance legislation in India for the first time.

First Insurance Act

Prior to this, companies like the Oriental were regulated by the earlier Companies Act of 1866 or by the subsequent Act of 1882, and an Act in 1893 concerned itself with the assignment of fire and marine policies. Insurance companies were therefore under no specific, regulating law, except the provisions of the Companies' Acts or minor provisions in the Stamp Act. Inadequate as they were to control or promote insurance operations in a sound and healthy manner, they created a situation where foreign companies, could work under the rules of the countries of their origin, unhampered by any embarrassing Indian law. Indian insurance grew unchecked, benefitting a large public, but, nevertheless, ruining a small section. Companies, for instance, paid but scant respect to sound growth, scientific principles or financial stability; a few even distributed large dividends to shareholders, out of excess of income over outgo, thus, violating the elementary principles of insurance. Dividing insurance[1] was common and policies on the assessment principle were general.

Based largely on the English Assurance Companies' Act 1909, the Life Assurance Companies' Act 1912 fell far short of popular expectations or practical requirements. In confining itself merely to life insurance, without any reference to the general, the Act unduly favoured the foreign non-life offices and gave them an unlimited scope for unchecked development in a field of business which, till then, was their exclusive preserve and which, with national consciousness and sporadic industrial expansion, was steadily growing. A proposal in the original bill for an initial deposit of one lakh of rupees to be raised to Rs. 2 lakhs by subsequent instalments was whittled down by the Select Committee to Rs. 25,000 initially, followed by one-third of the gross receipt of the life assurance business to reach a total of Rs. 1,00,000 and thereafter one-third of the net profit until the total reached Rs. 2 lakhs. Mr. Subba Rao who demanded corresponding deposits from foreign offices, as was envisaged by the United Kingdom Assurance Companies' Act, was unsuccessful in carrying through his proposition to the consternation of Indian nationals, and was thus unable to prevent a situation which gave an unfair and unequal initial advantage to the British and other foreign companies. Lack of provision for any definite working capital made even the small initial deposit meaningless for, as was only too evident later, enterprising company promoters could scrape together about Rs. 20,000 or less, (the market value of Government securities being about 80% then and 55% later) purchase Government bonds of the face value of Rs. 25,000, deposit them with the Government, register a life office, operate it and with the first premiums, meet the initial operational expenses (including in some proved instances cost of furniture and fittings). The net result was that the flotation of new companies remained unchecked, foreign competition uncontrolled and initial operations unsound.

Returns required to be submitted by the companies under the Act were inadequate and incomplete, and were inoperative

[1] Insurances under the dividing plan did not fix the sum assured, but made it dependent upon the division of a portion of each year's premium income amongst the claims arising in that year. In 1938 which is the last year for which figures are available, 4,182 policies were issued under this plan and 1,21,005 policies were in force. It is a sad reflection on the Government that though they banned assessment insurance in 1912, they left dividing insurance alone, despite the annual strictures that the Government Actuary made against it in successive year books.

against foreign offices. Statistical information which came to be published by the Government Actuary from 1913 onwards were consequently incomplete and gave no indication of the extent or nature of the business transacted by the foreign offices. Not until 1928 did the Government have any power to demand full details of operations.

While the New York law severely restricted investments, the British law provided no controls at all but left the evolution of an investment policy to the good judgment of life offices and to the critical judgment of an enlightened public; the Indian law of 1912 omitted investments completely from its provisions. Mr. Mudholkar who tried to provide for investment of life insurance funds in trustee securities under the Indian Trustees Act of 1882 was voted down. Financial manipulators were thus given a free hand to tamper with the huge funds of insurance companies if they were so inclined, and foreign offices unrestricted scope to 'export' all their surplus funds (for the most part belonging to the policyholders residing in India)—invisible exports which were the despair of enlightened public opinion later.

In adopting the United Kingdom Assurance Companies Act 1909, the Indian Act severely limited the powers of the Government Actuary in investigating the workings of companies even when they were known to have transgressed the margin of solvency. Similarly a separate department of insurance was not created and power was relegated to the Governor-General to exempt specified companies from the operation of the Act at his discretion. The latter provision particularly was irritating to Indian opinion, and, although companies so exempted were few and operated among religious or professional sections of the public, was severely criticised when applied to a few of the foreign companies.

Bristling with opportunities for discrimination against Indian Insurance companies, the Act had a mixed reception, but despite its deficiencies and drawbacks, served Indian insurance in a small way; in some respects it was even good. For example the obnoxious assessment principle was uprooted out of the insurance field; indiscriminate distribution of dividends gave way to actuarially ascertained profits at periodical valuations; submission of annual returns was for the first time made compulsory; a limited check (though largely ineffective) was placed on indiscriminate flotation of companies; and financially unsound companies were forced to go into liquidation.

But in one particular matter Indian offices had a legitimate grievance. Unfettered by any need to submit elaborate returns, and actually favoured, foreign offices had a great advantage over their Indian competitors and could use their higher financial resources and greater organising ability to monopolise Indian business. The absence of accurate and reliable mortality tables of Indian assured lives which prevented extension of insurance to communities and peoples with incomprehensible, and often unsatisfactory, conditions of living enabled Indian companies to prosper, apart, of course, from the mounting nationalist sentiment. This forced limitation of activities was, nevertheless, not a real bar to the expansion of their business (for Indian offices worked under much the same handicap). All the same, this limitation combined with growing national consciousness prevented real foreign domination in the field of life insurance. So far as could be ascertained, foreign companies which received exemption from the operation of the Act included English and Scottish Law Life Assurance Association, London and Lancashire Life and General Assurance Corporation, Scottish Metropolitan Assurance Co., Star Assurance Co., and Sun Life Assurance of London.

CHAPTER XVI

THE STRUCTURE

FIRST PHASE (1913-1920)

Simultaneously with the elimination of those indiscriminately floated and financilly unsound Indian Life offices which so readily sprang up prior to the enactment of the 1912 Act, foreign offices like the London Assurance Corporation and National Mutual withdrew from India, despite the extremely favourable position they enjoyed under the new regulations, and a few, notably the City of Glasgow, Liverpool Victoria, Pelican and Scottish Metropolitan ceased to exist as separate entities when they merged with other existing offices. Four new foreign offices, viz., the Royal London Auxiliary and the Yorkshire (1915) and the Shanghai and Great Eastern (1916) established branches during 1913-1920 but of these only the Yorkshire operates new life business in India now.

Provisions designed to restrict the indiscriminate formation of new companies hardly curbed the enthusiasm of energetic company promoters. Thus seven new offices were started in 1913, one each in 1914 and 1916, three in 1917, one in 1918 and nine in 1919. A global war, series of bank failures, depreciation of the securities, and an acute international outbreak of influenza met the ambitious promoters, but scientific management and commendable foresight enabled many of them to pilot the offices creditably to the forefront of Indian insurance.

The Western India

When the Mahrattas were finally defeated in 1848, Satara in the Deccan Plateau lost much of its regal glory, but Mr. W. G. Chirmule raised its commercial importance through the Satara Swadeshi Commercial Co. founded at the beginning of the century. Shrewd and energetic, Mr. Chirmule acted as Satara's respected Public Prosecutor for a long time, but when L. K. Joshi (New York Insurance Co.'s agent in Satara) and V. V. Joshi of the Oriental proposed the flotation of a new life office at Satara, Mr. Chirmule abandoned law, threw all his energies into the business and accepted its managing directorship. Thus was born the Western India Life Assurance Co. on 13 August 1913.

Deeply alive to the supreme need for protecting the policyholders, the Directors with characteristic foresight, voluntarily limited investments to Government and Trust securities and Railway shares, gave representations to the policyholders on the Board and laid firm foundations for steady growth. Wrote Actuary G. S. Marathe: "the surplus of Rs. 12,000 at the very first valuation in 1917 is a rare occurrence, on account of the heavy preliminary expenses and the first year's expenses on new business which forms a large part of the total business in the commencing stage. The rate of lapses is less than fifteen per cent which shows the good quality of the business secured. The expense rate is very low; investments are made with an eye to safety and stability." This in a nutshell has been the feature of Western India's operations.

Industrial & Prudential

In the same year, almost simultaneously, the Industrial and Prudential rose up in Bombay with a strong and influential directorate and has since expanded considerably.

They bore the full brunt of the catastrophic consequences of the First World War.

War Profits

Uncertain economic conditions immediately followed the outbreak of hostilities but trade and industry swiftly adjusted themselves. Commodities normally exported to belligerent countries were sent to alternative markets; foreign consumer goods were either imported from neutral sources or produced locally. Cheap Japanese cloth replaced costly Manchester textiles which never again reached pre-war monopoly. Indian production of iron and steel expanded rapidly under the impetus of military needs; pig iron steadily rose up as an important export item. Industry flourished. New factories sprang up, more goods were produced, and higher dividends were paid, despite the taxes. War profits were ploughed back into industry, swelled the huge war loans or flew out of India.

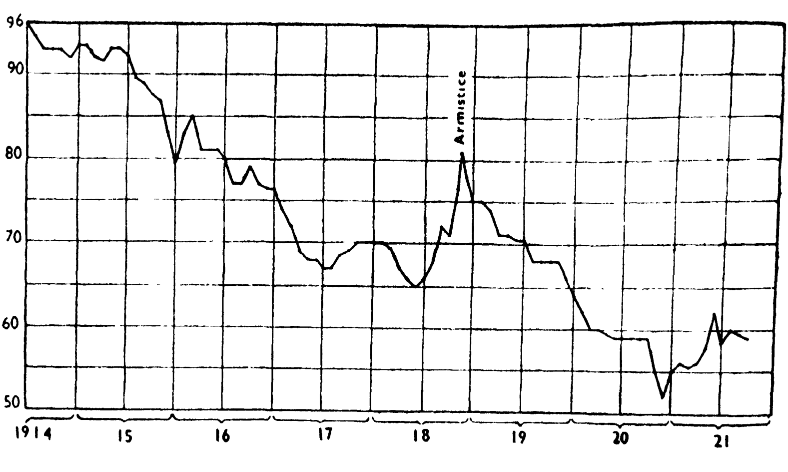
Crisis

To insurance, the indirect consequences of the war were profound. Earlier, in 1906, when renascent nationalism threatened to spread violence, the Government made a swift move. They arrested and sometimes deported violent leaders, banned public agitations, suppressed violent demonstrations, enacted stern measures and the nation receded to placid protests and constitutional demands. Devoid of sustenance or permanent grip the spirit of boycott spent itself soon, and when a few individuals gave swadeshism a little selfish twist, the public came to distrust *swadeshi* institutions.

The Government followed a policy of financing war by raising loans at progressively higher rates of interest and comparatively lower taxes. Industrial and business profits, not actually used for immediate business needs, were invested in war loans; national leaders organised nation-wide campaigns and collected them. The war thus increased public debt to burden the future generation, but those who profited directly from it bore little of it. In any case, war profits left insurance severely alone.

And insurance received a set-back in another direction, for Government securities began to act queerly. The 3½% Government Paper proved the most intractable and unstable of investments for life offices. It stood at Rs. 96 in July 1914 when war broke out, tumbled down to below Rs. 80 in July 1915, below Rs. 75 in July 1916, Rs. 68 in July 1917 and after various convulsive movements reached Rs. 68 in October 1918. In November came Armistice which pushed it up temporarily to Rs. 82; and then followed a steep descent. Reaching Rs. 75 in January 1919, Rs. 68 in July and Rs. 60 in next January, the paper touched

Chart No. 11. Price fluctuations of 3½% Government Paper for the years 1914-1921.



its lowest level of Rs. 52 in June 1920. World economists stood aghast; money markets went out of gear; credit collapsed; Indian industries were pushed back to the 1913 level; and in short, the aftermath of peace was worse than the upheaval of war.

Many Indian banking institutions received a violent jolt. Indiscriminately floated in the first flush of renascent nationalism and (in many cases) fresh to western methods of banking, a large number of banks were unable to stand up to the catastrophic strain; 55 of them closed down during 1913-1914, 11 in 1915, 13 in 1916 and 82 more before 1924.[1] Indeed the period 1913-24 proved to be the most disastrous to Indian banking.

Insurance reacted violently. The unprecedented bank failures had their repercussions; the unpredictable Government securities cast a gloom; and occurring as they did in the wake of large-scale company failures they made the public lose all faith in life insurance and Indian insurers. 44 offices wrote Rs. 320 lakhs of new business in 1914; 42 offices Rs. 224 lakhs in 1915 and 44 Rs. 175 lakhs in the next year. Never before had insurance suffered such a severe set-back; and in addition while business in force rose from Rs. 22.4 crores in 1914 to Rs. 22.8 crores in 1915, it fell down to Rs. 22.1 crores in 1916, registering thus a loss in the total business in force unreplaced by new business—a phenomenon never to be repeated. In 1917 both new business and business in force rose gradually and recaptured much of the lost ground.

Influenza

Drawn from rural India where insurance had made no leeway, the Indian martial classes constituting the Empire's biggest 'volunteer' army contributed but little to the life offices' experience of mortality; but the world-wide outbreak of influenza in 1918 took heavy toll. Conservative estimates placed total world deaths around 30,000,000 and Indian (despite absence of accurate figures) at over 7 million in 1918 and a total of 8½ million.[2] or 28 in 1000 and all classes of people especially those in the cities, were severely affected. The financial implications were considerable and in the case of the Oriental "The valuation report for the triennial period 1916-18 showed an increase in

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[1] See also pages 341-342, *Indian Economics*, Jethar and Beri, Oxford University Press.

[2] This figure is open to question. Messrs. Wadia and Merchant quote 7,089,695 as actual deaths in 1918 and 1,330,000 in 1919. (*Our Economic Problem*, p. 60) and say "Messrs. Russell and Raja have estimated the mortality at 14,000,000."

claims of nearly Rs. 23 lakhs over the claims of the previous triennium."[1] Death claims paid by all the companies stood at:

Year	Amount in lakhs of rupees	% to total income.
1917	34.59	24.0
1918	**54.98**	**35.7**
1919	**51.25**	**30.3**
1920	47.26	25.0

Nominal war risk extras applicable in normal times were considerably enhanced at the outbreak of hostilities both on existing and new policies. Patriotic motives induced many British offices to waive extra premiums for those who joined up, and the practice was followed by a few Indian offices.

New Companies

When peace came, new offices sprang up. Perhaps it was a bold venture for the Tatas to enter the field of insurance at the time they did for the country was still in the throes of war-time economic malaise. It was true their textile mills at Bombay and Nagpur had made considerable progress; their new steel plant at Tatanagar had rapidly developed into one of the world's biggest units; and war had given it considerable impetus; the power companies at Bombay had largely increased their output; but insurance stood on a different footing. Despite the progress of many Indian life offices, foreign companies still held the lead and the public showed but little belief in insurance and less confidence in Indian companies. General business was virtually a monopoly of the foreign companies and in 1919 the only positively encouraging factor for Indian interests to enter the general field was the very slow industrialisation of the country, directly assisted by the war. But Tatas went ahead with characteristic zeal and energy and started the New India Assurance Co. in 1919 with almost prophetic insight.

The New India was an instant success. Realising with rare judgment that sufficient capital was the *sine qua non* of firm foundation, New India had an almost unheard of authorised capital of Rs. 20 crores of which nearly Rs. 11.87 crores was subscribed and Rs. 1.19 crores paid up, the highest capital of any insurance company in India.[2] Entering the very competitive field of general insurance, New India made remarkable progress from the start under the able guidance of the late Sir Dorab Tata

[1] *Oriental Jubilee Brochure* (1874-1924).

[2] Subsequent reductions of capital in 1924 and 1927 brought it down to Rs. 6 crores authorised and Rs. 71.2 lakhs paid-up (in June 1950).

(Chairman, 1919-29) and an influential Board of Directors, with Mr. Duff, General Manager; the success was so great that New India's business figures provided the standard to measure the progress of general insurance business in India. That lead is retained today. On the retirement of Mr. Duff in 1938, Mr. Millard succeeded him and on his retirement in 1946 Mr. B. K. Shah assumed charge.

New India promoted life business ten years later. Extensive organisation, enlightened management and sound underwriting have characterised New India's life operations, and given it remarkable success. Successive years have produced an increasing volume of new business which passed the Rs. 11 crore mark in 1949. A noteworthy feature noticeable in recent years is the distribution of dividends almost wholly from the business profits of the general departments.

In the same year was established the Jupiter. Founded by the late Mr. Laljee Naranjee and Mr. Manu Subedar, with Messrs. Laljee Naranjee & Co. as Managing Agents, the Jupiter had a galaxy of astute businessmen on the Board headed by Mr. N. N. Wadia (Chairman), achieved remarkable success in the general field in a very short time and built up extensive connections. Life business was started in 1928.

Of the other companies which were formed at the time mention may be made of the Vulcan and British India General which made a determined entry into the general field and attained conspicuous success, and the Universal Fire and General. The British India has since commenced Life Business after taking over the Zenith.

In 1919 the Crescent Insurance Co. Ltd. made a modest beginning. Founded by the late Mr. Ramchandra M. Bhatt the Crescent worked in the belief that sound security and enlightened service stood for steady progress. In 1949 the Crescent expanded its organisation, raised its paid-up capital to Rs. 11.8 lakhs; acquired new buildings in Bombay and Madras and wrote new business of over Rs. 42 lakhs.

The Mahatma

Meantime the political atmosphere became surcharged. The Minto-Morley reforms and separate electorates gave the economically and educationally backward Muslims a temporary sense of security and elation. A Muslim middle class gradually took root and took to insurance with but little hesitation. With the outbreak of hostilities in 1914 most sections of Indian opinion hastened to promise full support to Britain 'in the fight for democracy and civilization', mobilised men and material to win the war and helped India attain the status of a world power, internationally respected and nominally represented at war conferences. Politics ebbed. Even the moderates of the Gokhale school of thought realised the futility of the constitution and began to suspect British intentions. Open British disavowal of Dominion Status as India's ultimate goal only strengthened the hands of the extremists but police regulations and wartime restrictions imposed an outward calm.

Then entered Mahatma Gandhi. Fresh from his successes in South Africa, the Mahatma emerged as the personification of a decade of religious revivalism and of political agitation. Essentially Indian, with the simplicity and humanity of an Indian peasant and with the infinite love and profound sincerity of a saint, his impact on Indian life sent an immediate undercurrent of powerful forces into the hearts and souls of countless millions. Action, based on truth and non-violence was the essence of Gandhiji's philosophy—action in challenging and resisting foreign rule and action in fighting internal social evils and poverty. " I shall work for an India in which the poorest shall feel it is their country, in whose making they have an effective voice; an India in which there shall be no high class and low class" he proclaimed in his sweet, gentle, persuasive way. Shedding fear and age-old lethargy the teeming millions now rose in a mass, rolled into the Congress organisation, swarmed its annual sessions and made it the strongest and largest political party in the world. People changed the whole structure of their lives, took to *charka* and *khadi,* defied Rowlatt Acts, faced bullets at Jhallianwalla Baug and challenged British power and rule. In such a setting did the Parliament usher in a new constitution, announcing at the same time "the policy of the Government is that of the increasing association of Indians in every branch of the administration and the institution of gradual development of self-governing institutions with a view to progressive realisation of responsible government in India as an integral part of the British Empire." Ten years ago, the constitution would have been welcomed; in 1919 the masses, with one voice, cried under Gandhiji's energetic leadership "Swaraj".

SECOND PHASE (1920-30)

Testing the efficacy of spiritual force against the full might of the British Government, Gandhiji turned national agitation into a mass revolution and released the inner springs of the nation. This unified warring elements; the boycott of British goods and British institutions was complete and widespread; the Government was almost brought to its knees—*almost* for the Chauri-Chaura tragedy, occurring at the height of success, compelled Gandhiji to withdraw. With him the end did not justify the means.

In 1924 the moderates staged a gentle break. Powerful leaders like Motilal Nehru, Lajpat Rai, C. R. Das and Vithalbhai Patel contested and entered the Councils and Assemblies, carried the national fight into the lion's own den, and forced the Viceroy and Governors to 'veto' the united voice of the nation on all national affairs. They sustained debates, carried motions, defeated the Government on every conceivable occasion, gave protection to the rising Indian industries, drew public attention to the heavy drain on the country's wealth and gave concrete shape to nationalism. Elsewhere active Congressmen brought constructive thoughts to bear on the reconstruction of India's shattered economic life.

The Lakshmi

And Pandit Santanam rose in Lahore to give them a lead. Called to the Bar in 1910 from the Inner Temple, Panditji, who later came to be known as the father of modern insurance, left a lucrative practice in November 1920, entered the thick of the Congress fight in 1921 and started the Lakshmi in May 1924. In this he was ably supported by those two stalwarts of Indian nationalism Lala Lajpat Rai and Pandit Motilal Nehru. "Insurance companies fulfil a highly useful economic function in modern society", said Lala Lajpat Rai "though they do not produce wealth they are one of the chief factors in conserving the surplus wealth, making it available in emergencies, and above all in cultivating habits of thrift and economy without which no community can be prosperous." Further "insurance companies collect a portion of the shattered surplus wealth and make it available for business and industrial expansion." [1]

Lakshmi was an instant success. Registered on 28 March 1924 with overwhelming public support, Lakshmi issued its first policy on 10 May, wrote 454 policies for Rs. 9¼ lakhs in six months, over a thousand for nearly Rs. 25 lakhs in the first year and marched on to the front line of Indian insurance in an incredibly short time, to be labelled 'the Infant Prodigy'. Its

[1] This and the other quotations of Lala Lajpat Rai are from the *Rise and Growth of the Lakshmi* issued in 1939.

outstanding position in later years is not a little due to a sound all-India organisation, enlightened leadership and efficient service. Wrote the Government Actuary in 1927 "it holds the highest position in the table (of ratio of expenses)." To such firm foundations does the Lakshmi owe much of its ability to overcome the effects of partition in a very short time.

Check to Foreign Competition

Lakshmi achieved more than mere success in promoting insurance, for its energetic pilots (with Pandit Santanam and Lala Lajpat Rai at the head), with a zeal reminiscent of the Crusaders rose to give a lead in extricating Indian insurance from foreign domination. From political platforms and legislative committees these masterful savants of Indian nationalism raised their eloquent voices: "it is the duty of every Indian to support only Indian insurance." The cry echoed from the four corners of the country. Aggressive leaders raised the slogan with patriotic fervour: "the keynote of all our Swaraj is in placing all our insurance business with our Indian companies" spoke the Mahatma; "I hope Indians will realise the importance of patronising only Indian insurance institutions" added Pandit Jawaharlal Nehru. The cause of Indian insurance came to be regarded as a national cause.

Great Awakening

And not only against the intense foreign competition. "It enables the small investor, even a working man, to save from his income and make a provision for his wife and children" said Lajpat Rai. "In India the disruption of the Joint Family system often leaves our widows and orphans entirely unprovider for . . . Insurance supplies the need." With forceful arguments such as these national leaders encouraged thrift and saving, carried insurance to the masses, created unparalleled enthusiasm and forced the companies to offer better insurance service. The structure of Indian insurance began to be erected.

New Flotations

In 1924 the Prudential of London extended its activities to India, built up extensive connections in a short time, continues to write a large volume of business annually and became the last British life office to commence operations in India. The China Underwriters also entered India in the same year.

Life offices began to spring up in larger numbers all over the country. During the ten years from 1920 thirty-nine offices were promoted, many of them with the active support of trusted Congress leaders, of which twenty-one have since gone out of existence either through mergers or liquidations. The Bengal Insurance & Real Property, Nagpur Pioneer, Calcutta, Andhra, Indian Mutual, Peoples, Tropical, Indian Life Benefit, Star of India, Commonwealth and the Indian Globe were some of the companies which were formd at the time and which have made substantial progress subsequently.

Life Offices Association

Progress was made in another direction too. Realising the efficacy of a united front to solve the problems that beset the Indian companies, Pandit Santanam conceived the idea of promoting a national association of Indian insurance companies and received an enthusiastic response from Mr. Edwin Jones of the Oriental. The idea crystallised itself at a private meeting of Panditji and Mr. Jones at Lahore in 1926 and took a practical shape in the next two years. A draft constitution of the proposed association was circulated among the companies; bye-laws were framed. Panditji, with his wonderful organising ability and characteristic enthusiasm, did a considerable amount of spade work in an incredibly short time, so that when on 2nd and 3rd April 1928 representatives of the leading Indian companies met at the offices of the Oriental there was complete agreement among them to make the association a success. The seeds for the healthy growth of life assurance in India were sown; the Indian Life Assurance Offices' Association was born. The first general meeting at 4 P.M. on 3rd April 1928 elected Mr. Edwin Jones as the first president, Mr. K. C. Vidyarthi of the Bharat as the Vice-President, Pandit Santanam, Secretary, and Messrs. E. F. Allum (Empire), B. Hormusjee (Zenith), W. Rae (National), P. C. Ray (Hindu Mutual), K. C. Desai (Industrial & Prudential) and S. B. Cardmaster (New India) as members. The birth of the Association was a milestone in the progress of Indian insurance for much of its later achievement is not a little due to the conspicuous service the Association has rendered to the cause of insurance.

Economic Malaise

A limited outside war-time demand had enabled the enterprising Indian businessman to build up a sizeable export trade in finished and semi-finished goods; prevailing world-shortages sustained this trade for two more years, but when the gigantic plants in Britain, Japan and America changed over to peace-time production, Indian exports settled down to jute, cotton, seeds, grains, tea, hides, ores and pig iron. Inflationary war profits had prompted enthusiastic industrialists to promote large-scale factories with indigenous capital; but with the collapse of commercial credit soon after the armistice their plans went by the board before production could commence. Sustained by an appreciated rupee, foreign consumer goods were dumped into Indian bazaars but after an initial boom (despite the boycott), the import of British goods gradually slackened. Against 64.1 % of the total imports in 1913, Britain's share fell to 47.8% in 1926-27, 44.7% two years later, 42.8% in the next and then to 37.2%.

The trends of international affairs, (particularly the collapse of democratic Germany), industrial strikes and troubled domestic politics combined to reduce British trade generally and political consciousness in India affected it still further. But the initial boom in imports and active official indifference lost any opportunity India had to turn war profits to industrial expansion. Continuous monsoon failures affected the already difficult export trade. Disturbed foreign markets made it worse. Values dropped, war profits vanished and economic depression descended on India much too quickly. But with country-wide national awakening internal trade received but little setback and gradually expanded. Slowly at first and then on a large scale the merchant took to insurance and invested his capital in insurance shares. Declining security values and the steady security of insurance business overcame much of his earlier resistance, and when the structure of insurance came to take shape, individual businessmen came into the picture as a matter of course.

National Consciousness

Gandhiji shook the middle classes out of their lethargy. Sharing the Mahatma's views on social, economic, political and ethical problems, they felt new emotions surging in their hearts. Many of them became his ardent disciples but millions could not, for taught to look upon Government service as their ultimate goal, the daily bread was their real problem. Competition for available jobs raised the admissible standards for service but lowered scales of pay. Continued economic depression produced more unemployment and even the governments were constrained to retrench. But Gandhiji gave a new turn to their ideas, a new shape to their thoughts and a new meaning to their life.

Acquitting themselves well, those who got jobs began to shine in higher government posts, occupy executive positions in commercial houses, lead the professions in law, medicine, engineering and journalism and learn the urge to save. Reluctant to follow Gandhiji openly this upper middle class nevertheless shared his economic views; checked their love for gold and diamonds; even abandoned silks and finery. Largely in Bombay, the Punjab, United Provinces, Gujerat and Central Provinces, but in a smaller way in Madras and the Punjab, ladies scorned jewellery, snatched off costly ornaments from their persons and helped him swell the national fund. An increasingly larger number of those who earned more conserved their savings through insurance, went back to their villages in old age, bought lands and took to politics or village uplift.

Act XX of 1928

Meantime the zealous guardians of Indian nationalism in the legislatures studied Indian problems from every angle. Every branch of administration and every facet of policy came under their withering fire. No man dared to advance a questionable policy or introduce an anti-national act without facing censure. Their analytical approach to national and international affairs focussed attention on the 'invisible exports' of the insurance companies. "What are the actual figures" queried an irate member. "In the present state of the law no data is available for arriving at an exact figure, but all the business people are agreed that it is a huge sum" informed Lala Lajpat Rai. "Let us change the law and get the figures" they agreed.

This cry for the immediate need of amending the insurance law so as to disclose details of the business carried on by non-Indian companies became persistent and strong. Public bodies took it up; commercial associations passed resolutions demanding immediate action; national leaders made it an important issue in their campaign for independence and meetings were held all over the country. At last Government moved.

In 1925 they had introduced a comprehensive bill in the Assembly embracing all branches of insurance and circulated it for public opinion. Complete data was collected enough to enact the measure but the Government deferred further consideration to await the outcome of a detailed investigation which a committee under Mr. A. C. Clauson was conducting in England under the auspices of the British Parliament to make the 1909 Act up-to-date. That Committee met, collected much data, prepared a comprehensive report, made several recommendations and appended a draft bill. But the British Parliament postponed further consideration and the Government of India followed suit.

But the authorities felt the need to be ready with a bill immediately after Parliament had considered the Clauson Committee Report; and so passed a stop-gap legislation in 1928 (Act XX of 1928) which enabled them to collect full statistical information regarding life and general insurance business of foreign and Indian companies. From then on figures of business done in India by foreign companies and outside India by Indian companies began to appear in the Year Books.

The Act also contained a small but important clause dealing with the distribution of surplus assets on the liquidation of a company. The 1912 Act was defective in this respect for under it the shareholders of a prosperous limited company, could wind up a flourishing business, provide the minimum legal liabilities of the policyholders and appropriate the balance of the assets. This was hardly just, and the new Act stipulated that the surplus of assets over liabilities should be distributed among the shareholders and policyholders in the same proportion as the profits were allocated between them during the ten years immediately preceding liquidation. In the event of no such allocation, or if the arrangement was inequitable by reason of special circumstances, the Court was given discretionary powers to provide for just distribution of the surplus.

When fuller figures of foreign companies became available for the first time, there was a huge shock. People had anticipated a considerable volume of business in the books of foreign companies and knew of their strong financial position and large-scale organisation, but were unprepared for the very slight advantage that alone awaited the Indian companies after sixty years of vigorous development and intensive nationalist propaganda. In 1928, for instance, the first year for which all the figures were made available foreign offices had a total business in force of Rs. 52.595 crores on 1,51,925 policies, giving them an average of Rs. 3,150 per policy, as against the Indian companies with a total business of Rs. 71.11 crores on 4,12,446 policies for an average of Rs. 1,696 per policy, the ratio of total business being 1 : 1.35 and amount per policy 1 : 0.54. There was, however a slightly more favourable position with regard to new business, as foreign companies had issued only 30,377 policies for Rs. 9.56 crores as against 92,724 policies for Rs. 15.41 crores written by Indian companies, the relative ratio being 1 : 1.61. New business of foreign companies reached Rs. 12.22 crores in 1929, an increase of 27.9% over the previous year, and this figure of Rs. 12.22 crores remained the highest reached by them in India for a number of years, as not until 1945, when post-war inflation recorded a sharp increase, was this figure surpassed.

* * * *

Thus the war severely tested the mettle of Indian Insurance, and nationalism built up its structure.

CHAPTER XVII

THE EDIFICE (1930-39)

Dramatic events followed in quick succession, and first came the Nehru Report in 1928. Prepared under the aegis of the Indian National Congress, it had the support of the enlightened leaders of different political thought, expressed clear and positive views on the immediate grant of Dominion Status, demanded the abolition of separate electorates and formulated a scheme for the future of Indian States. A seven-man Enquiry Commission under Lord Simon came out to India in the same year, faced an intensive national boycott, carried out an investigation in the face of severe opposition and reported (in 1930) on a future constitution for India as conceived by Britain. The Congress in the meantime had accepted the Nehru Report; placed a one-year time-limit for its acceptance by the British; and, in the absence of any response, demanded immediate independence. On 31 December 1929 it called upon the Mahatma to lead the national fight for freedom. Millions of freedom-hungry people took the oath of complete independence on 26th January next. The historic march to Dandi was started on 7th March and the trumpets of freedom's battle reverberated throughout the land.

Freedom's Battle

Tens of thousands of freedom-hungry people defied the authorities openly, stood immobile before a charge of the police and military, refused to pay taxes, made bonfires of British goods, shunned British institutions and swelled the inadequate prisons. Insurance contributed a very large quota of men. Many Congressmen whom patriotic feelings had urged to strive for national economic freedom through insurance, now rose to answer the call of the fight for political freedom. They broke the laws, courted the prisons and carried the battle to the countryside. New business suffered in consequence and receded to just over Rs. 15½ crores in 1930 from Rs. 17¼ crores in the previous year. The Gandhi-Irwin Pact followed soon after, released them from the prisons and enabled them to recover much of the lost ground in 1931 when new business rose to over Rs. 17 crores. When the fight was resumed in 1932, with Gandhiji and most of the known leaders in jail, the largely localised movement attracted but few insurancemen and lost but little business. Thereafter insurance forged ahead without interruption.

Depression in America

But not for the foreign companies. Facing the full might of the national fight for Indian insurance, they now had to bear a devastating economic depression which gave them no respite. The spectacular crash of values in Wall Street in October 1929 had its repercussions in the financial world. Security values tumbled in world markets, commodity prices reached their lowest ebb, gigantic industrial plants were forced to close down and businessmen lost heavily, lost their confidence and occasionally committed suicide.

Depression hit America with all its devastating fury. Life offices were slow to feel its full effects, for with investments limited to well-secured preferred stocks Wall Street collapse affected their funds but slightly. In the first year of depression (1930) there was even a 5 billion dollar increase [1] in total business in force and 1½ billion dollars in assets although new business went down by $½ billion. The next two years saw a sharp decrease in new business, great increase in terminations and lapses and for the first time in a generation, the total business in force went down from $108.9 billion in 1931 to $103.2 billion (1932) and to $98 billion (1933); then it gradually increased. By 1932 surplus earnings were substantially reduced; rates of interest fell; mortality from suicides rose to 30 per cent above normal (most of such excess mortality being on policies for larger amounts); disability claims increased and forced companies to abandon, or considerably modify, benefits; bonuses declined and premium rates of non-participating policies rose.

Life offices felt the maximum intensity of the depression in 1933. President Roosevelt took charge on 4th March of that year and immediately closed all the banks for a few days. Several banks could not reopen after the holidays, savings banks limited free withdrawals and people felt that money was safe only in their hands and in cash. Tremendous demands for loans and surrenders almost created a serious run on life offices and threatened to force them to sell their securities on such a scale as to affect their solvency. On 9th March the Superintendent of Insurance prohibited loans and limited payment of cash surrenders

[1] Figures from *Life Insurance Year Books*, the Spectator Company, and *Life Insurance*, by J. B. Maclean.

to $100 in cases of extreme need. Several States followed New York, but others did not and confusion lasted till the end of April when a uniform and liberalised set of rules permitted unrestricted withdrawals for food, rent, mortgage payments, medical expenses, funerals, payrolls and insurance premiums. In a few months panic subsided, restrictions were removed and insurance settled down to its normal course. Meantime policy loans reached an all-time record of 17.9% of the total assets and in a few individual cases as high as 20%. Defaults of mortgage interest payments increased considerably, stepped up foreclosures and led to new regulations. Twenty companies were placed in the hands of receivers.

United Kingdom

Conditions in the United Kingdom were equally bad but not so confusing. 1930 witnessed a considerable reduction in premium income which receded still further in 1931; surrenders recorded a figure of over £18 million in 1930, but showed a sharp decline in 1931; in 1932 premium income increased to over the 1931 figure, but the reduction in surrenders was small. By 1933 business reverted to normal:

Table No. 50.

(millions of £)

Year	Premium Income	Surrenders	Percentage
1928	68.2	5.6	8.27
1929	69.8	6.8	9.70
1930	66.8	18.4	27.55
1931	65.3	12.7	19.38
1932	67.9	12.1	17.83
1933	71.4	9.6	13.49
1934	71.5	8.4	11.71
1935	74.3	8.1	10.91

India

In India, at the beginning of the decade the small minority of industrial and business people had little stake in insurance; by 1932 Indian capital was seeking new avenues of investment including insurance, and Indian life offices got good support. They were thus able to steer clear of the economic depression without much strain, for panic as such was absent and the demands for surrender values and loans were within bounds:

Table No. 51.

(in lakhs of rupees)

Year	Premium Income	Surrenders	Percentage of (3) to (2)	Percentage of loans to total assets
(1)	(2)	(3)	(4)	(5)
1928	334.8	11.6	3.5	7.3
1929	389.7	12.7	4.5	7.7
1930	430.5	14.4	3.4	8.4
1931	467.5	21.1	4.5	9.3
1932	518.2	24.0	4.5	9.8
1933	576.9	23.8	4.1	9.5
1934	658.3	28.1	4.3	9.3
1935	745.1	33.8	4.5	9.2

Source: *Insurance Year Books.*

Foreign Trade [1]

From a record figure of over Rs. 355 croress in 1924.25, Indian exports appreciably fell in the next two years, first due to reduced shipments of food grains and tea, and then to heavy fall in the world prices of cotton and jute. The fall was slightly made up in the next two years, but the balance of trade declined to Rs. 50 and Rs. 52 crores respectively. Then came depression. Imports and exports fell by 5 and 6 per cent in 1929-30; and by 32 and 29 per cent in 1930-31. The next year showed a further decline in foreign trade. 1932-33 registered a slight improvement in imports but a 15 per cent decline in exports. 1933-34 saw a weakening of the demand for foreign textiles with corresponding decline in the import trade, but exports increased by 10 per cent. By this time, the world had partially recovered from the economic catastrophe, and the depression saw signs of wearing off.

Meantime the British Government went off the gold standard in 1931 and was followed by India soon after. The unanimous demand of the elected members of the Central Legislature to devalue the rupee in terms of sterling fell on deaf ears. Gold prices rose in world markets and hoarded gold began to be disgorged into the Indian markets for export. In 1931-32 gold exports exceeded Rs. 60 crores, in 1932-33 Rs. 66 crores,

[1] All figures and details in the first two paras under this heading from the *Handbook of Commercial Information* (1937), Government of India.

in 1933-34 Rs. 58 crores and in 1934-35 Rs. 53 crores. A favourable balance of trade was thus maintained at the cost of the country's gold reserves.

But the catastrophic fall in farm and commodity prices remained unchecked, and the purchasing power of the Indian consumer steadily declined. The traditionally poor peasant became distressingly poorer, the Indian economic structure, founded mainly upon an agrarian economy, collapsed completely and political unrest coalesced with economic unrest. The Congress constructive programme, with its emphasis on the entire boycott of foreign goods, now tried to reconstruct the Indian economic structure by increasing insistence on self-sufficiency. Foreign consumer goods were gradually replaced by Indian manufactures, the textile industry received a great impetus, (handlooms particularly), and, aided by a protective tariff system and encouraged by national consciousness, Indian industries like sugar, paper, matches, paint and cement gradually took root, despite the depressing economic position.

But the declining purchasing power of the Indian people hit foreign commercial houses really hard. A lower price level, a steadily decreasing turnover and an increasing antipathy of a politically conscious people met the strenuous efforts of the astute foreign trader and forced him to sell his goods at a considerably less profit and sometimes loss. Individual businessmen earned less in consequence, and could save little; individual foreign life offices experienced a recession: (see Table No. 52 opposite).

Foreign Companies

Nevertheless three life offices from three different foreign countries established branches in India. First came the Allianz und Stuttgarter Life Insurance Bank in 1929 from Germany. Established in 1889 it was the largest insurance company in Europe before its entry into India, built up extensive connections in a very short time and became one of the largest life offices here when war broke out and brought its meritorious career to an abrupt close. The business was thereafter operated as a closed fund by Ferguson & Co. under the direction of the Central Government.

Established at Toronto in 1900 the Crown Life of Canada entered India in 1930 and now writes nearly a crore of new business annually. The Winterthur Swiss Life Assurance Co. started its Indian operations in 1932 and became the last of the foreign offices to enter India.

Table No. 52.

NEW BUSINESS. (Crores of rupees and billions of dollars)

Year	Indian companies In India	Indian companies Outside India	Foreign companies in India	American companies in America
	Rs.	Rs.	Rs.	$
1929	17.29	.89	12.22	18.0
1930	15.68	.81	11.75	17.6
1931	17.09	.66	9.59	15.8
1932	18.94	.71	8.75	12.8
1933	24.08	.74	8.89	12.2
1934	27.97	.94	10.14	12.5
1935	31.57	1.24	11.62	12.5
1936	35.98	1.81	10.74	12.7
1937	39.04	2.69 [1]	9.65	13.0
1938	43.29	3.38	8.41	11.6

Unfair competition

But foreign insurance had cause to be disturbed over Indian developments. The urge to direct the insurance on Indian lives to Indian companies was no passing sentiment. Founded on pure nationalism it was sustained by increasing public enthusiasm and gathered momentum with the large-scale flotation of Indian offices. The systematic 'pressure' from influential quarters for legislative protection of Indian insurance carried nationalism a step further. (Here it is well to recall the magnificent efforts of the Federation of Indian Chambers of Commerce and Industry, the Indian Merchants Chamber, the Indian Life Assurance Offices' Association and the Indian Insurance Companies Association to get protection to Indian Insurance). Business conditions hardly offered opportunities for establishing those 'connections' on which much of the business of foreign companies normally depended. Competition was severe and became unfair in several directions.[2]

In the first place better conditions of service and higher scales of commission were held out by foreign offices to influential field-workers of proved ability attached to established Indian offices in a systematic attempt to cut their moorings. Secondly benefits,

[1] The sudden spurt is due to the partition of Burma which necessitated treating business in Burma as foreign business.

[2] Vide evidence tendered before the Advisory Committee appointed by the Government in connection with the Insurance Act 1938.

temptingly attractive but hardly legitimate, were offered to policy-holders to influence their business, for example offers of guaranteed maturity bonuses which were withdrawn before maturity, lower rates of premiums based on non-Indian tables of mortality, attractive policy conditions with strings attached to them. Lastly about this time started the pernicious system of rebating which, in its turn, created an artificially swollen turnover and an increased lapse ratio. And severe competition from foreign companies was not the only trouble Indian companies had.[1]

Cause for Alarm

A retrospective analysis of the conditions in the decade gives little room for congratulations. In the first place the ten-year period registered the birth of a very large number of new offices, with, unfortunately correspondingly heavy deaths: (see Table No. 53).

Of the sixty-one companies which were liquidated, seven went out before one year of establishment, another seven before two years, eight before three and all of them (with perhaps four or five exceptions) before a valuation could be performed. The amount of insurance on their books at the time of liquidation was estimated at about a crore. Said Mr. Mukherjee, Government Actuary as early as 1933 "it will be seen that with the

[1] It is pertinent to recall at this stage an unfortunate condition which existed at the time, though it affected life assurance but little. There was a strong move on the part of exchange banks to withhold recognition of insurance effected with Indian Insurance Companies. Said the majority report of the Indian Central Banking Enquiry Committee (1931): "It has been stated that these (exchange) banks are literally forcing Indian exporters to insure their goods with foreign insurance companies. A concrete case was quoted where one of the leading firms in Bombay which used to insure its exports with an Indian insurance company was told by one exchange bank that a limit of Rs. 4 lakhs would be placed as a maximum amount which could be insured with that company. It was added that there were several such instances where Indian firms were not permitted to insure their goods with Indian companies. As a result, . . . every year India is making payments abroad in the form of insurance premium to the extent of nearly Rs. 2 to Rs. 3 crores which should properly go into the pockets of Indian insurance companies." The Minute of Dissent appended by all Indian members of the Committee said: "The Committee were surprised at the manner in which Exchange Banks have been resisting the insurance of goods both for internal and foreign trade advances, with the Indian Insurance Companies." Both Mr. Nalini Ranjan Sirkar and Mr. Manu Subedar appended separate Minutes of Dissent strongly advocating legislative provisions to protect Indian insurance companies. The late Sir Phiroze Sethna asked a question in the Council of State if the Government knew that a circular was issued by the Government of Bombay in the direction of showing how dangerous it was to insure with Indian insurance companies which 'the Government of India could not deny.'

Table No. 53.

New Flotations during 1929-1939

Year	No floated	No. still in operation (1949)	No. merged	No. liquidated
1929	12	4	6	2
1930	13	6	2	5
1931	20	8	4	8
1932	16	7	5	4
1933	29	11	4	14
1934	26	11	7	8
1935	24	10	6	8
1936	18	12	1	5
1937	12	6	1	5
1938	2	—	—	2
	172	75	36	61

(Source: *Insurance Year Books.*)

exception of the few oldest companies which have been transacting business for over 25 years a large number of companies of over 10 years standing have not yet been able to pay any dividend to their shareholders. The advent of a large number of new companies has resulted in intensifying the struggle for existence and forcing up expenses to uneconomic levels. This certainly, cannot be regarded as a healthy development." Flotations were indiscriminate, and were actively assisted by the liberal statutory regulations and the low value of Government Securities at the worst period of the depression.

These decreased values of securities at once created a problem and suggested a solution. 4% Government Paper was quoted at about Rs. 60 in 1932 but rose sharply until it reached Rs. 107 by 1938, and the other Stock Exchange securities fluctuated in sympathy. New investments at the beginning of the decade thus brought in higher yields and the average net yield was above 5% till 1935; then it gradually began to fall. This enabled a few companies to show artificially swollen funds and to declare higher bonuses without adequate provision for depreciation of security values.

Indeed bonus mania was the bane of life assurance at that period. Started by a few foreign offices who could afford to pay higher bonuses because of their huge funds and international operations, higher bonus declarations reached highly competitive levels, undermining the financial strength of many offices. For example with barely a lakh of rupees life fund and about Rs. 20,000 surplus one of the new offices declared a triennial bonus of 3.6% at the very first valuation and came to temporary grief within five years. 'In one instance the manager of a company asked the actuary whether it would be prudent to distribute the surplus resulting from a valuation made on such a weak basis as 4½% but was informed that in the interests of competition he should distribute the surplus as otherwise he would secure no new business'.[1] In a few years the company was forced to close down.

Other tempting offers held out to recalcitrant prospects included generous cash rebates of premium, comfortable pleasure trips to the hills and magnificent gifts in kind. Expenses consequently rose and agents' commission reached giddy heights. The Government Actuary condemned the tendency in unmistakable terms; experienced insurancemen and actuaries were perturbed by the high rates of rebates and lapses.

Competition pushed premium rates to ridiculously inadequate levels, introduced such novel schemes as 'three-in-one-policy' (which promised double the sum insured for accidental deaths and treble for deaths from specified causes without increase of premium) and conferred 'six-fold' benefits and ten-fold advantages. Dividing insurance, which had become limited to a few companies with the introduction of the 1912 Act, reappeared in full force; non-medical schemes were indiscriminately applied, selection became a farce and unscrupulous individuals in isolated places made regular collections from credulous persons in the name of insurance and disappeared.

Bright Spot

But all these left the older and established offices controlling over 85% of the business entirely unaffected. The support they received from the thoroughly enlightened public was good; conditions of business were not altogether bad, despite the distressing economic life; most of them were able to offer attractive bonuses after providing for ample reserves. Businessmen in larger numbers took active part in the promotion and progress of companies. Seth Dalmia for example took charge of the Bharat and reorganised it in a short time. The New Asiatic and the Ruby General were promoted under the auspices of the House of Birlas and

[1] *Indian Insurance Year Book*, 1943. See also last para, page 162, Chapter IX.

expanded considerably.

An important event was the entry of co-operative movement into the field of insurance and the Bombay Co-operative Insurance Co. made a cautious but significant beginning.[1] It has since grown up magnificently. The Central Bank of India started the Depositors' Benefit Insurance Co. in 1932 and made history by introducing savings bank insurance to the benefit of its depositors. In 1930 the Presidency Life was started in Bombay and the United Karnatak in Dharwar. An influential Board of astute businessmen headed by Mr. Amritlal Kalidas started the Neptune in 1931. Attractive schemes made it immediately popular; low premiums sustained its growth and a sound investment policy strengthened its position. The Neptune now transacts fire and accident business in addition to life. The Great Social was started in 1933 and made steady progress. In the same year was started the Long-Life in Poona by a band of enthusiastic workers. An influential board of leading businessmen floated the Warden at Ahmedabad in 1933 and achieved remarkable progress. Its head office has since been shifted to Bombay. In the next year the Sentinel was started in Bombay with a very strong directorate; although its progress was never spectacular, it writes sound business every year and now transacts fire, marine and accident business too. In 1935 was started the Kaiser-I-Hind with an influential directorate. The Indian Progressive and Trust of India (1935), the Goodwill, Sahyadri, and New Swastik (1936) and the Vikram and Bombay Alliance (1937) were the other companies founded in Bombay during the period.

A team of zealous selfless workers started the Metropolitan at Calcutta in 1930 and, in an earnest desire to offer real insurance service, began to break records for new business from the very first year. Since then Metropolitan has established a net-work of branches all over India with energetic field-workers and despite the disquieting conditions that the country witnessed, has written increasingly higher business every year. In 1947 new business stood at over Rs. 4 crores, in 1948 over 5 and in 1949 over 6½.

Founded by leading personalities of Bengal under the leadership of the late Acharya Sir Prafulla Chandra Ray in 1933, the progress of the Aryasthan has been consistently steady under the energetic control of Mr. S. C. Roy. The Dominion

[1] *Vide* page 32, Chapter III.

(1930), the Bhagyalakshmi, Eastern National, Radical and Prabartak in 1931, the Eastern Federal Union (which first started as a general insurance company with a very influential directorate and active support from the Sassoons) in 1932, the Indian Economic in 1934, the Mahabir in 1935, the Insurance of India, the National Mercantile, Bangalakshmi and the Palladium in 1936 were some of the other companies started in Bengal during the period.

The South Indian Co-operative was started in Madras in 1932 to operate co-operative insurance, in that province and has since made steady progress. In 1935 was started the Midland, Indian Circar, and the Canara Mutual. In 1937 the Vanguard was started at Madras by Mr. H. D. Rajah. Of the other companies floated during the decade mention may be made of the Swadeshi Bhima, Federal, Servants of India, Saraswati, the Behar United, New Insurance, Free India, Indian Insurance, Jwala, Adarsha Bhima, Hindustan Mutual, Bhaskar, Tilak and Policyholders.

Despite growing unemployment and lower scales of pay the steady income groups among city middle classes gave increasing support, but economic distress forced down the amount of insurance per policy to lower levels. Policies for smaller amounts were very widely issued and insurance expanded in consequence to districts hitherto unexplored. Nevertheless neither the intense nationalism nor the consistent expansion could help Indian insurance against persistent foreign competition; national agitation therefore became insistent on the need for legislative protection.

Government Intervenes

And Govrnment could refrain no longer. Early in 1935 Mr. Sushil K. Sen was appointed special officer to investigate and report on insurance law reform. An outstanding legal figure in Calcutta, Mr. Sen applied his immense knowledge of commercial law to prepare the ground for a new insurance law and used the great mass of literature at his disposal to submit an admirable report in November. In a refreshingly analytical approach the report reflected British traditions and ideals, advocated minimum statutory interference with maximum publicity and suggested a few modifications. The energetic Law Member Sir Narendra Nath Sircar immediately summoned an Advisory Committee of 'a heterogeneous group of divergent' British and Indian interests to advise him, held consultations, invited suggestions, covered an incredibly wide field in twelve months and submitted a draft bill on 27 January 1937 for the consideration of the legislators. Commercial organisations submitted memoranda, the influential Life Offices' and the powerful Insurance Companies' Associations made concrete and constructive suggestions, a Lloyd's representative flew over to watch the proceedings, the chief agents of Indian and foreign offices did much lobbying and managing agents hastily held consultations. A select committee of prominent legislators pondered long and thoroughly over the proposals, imbued with mixed feelings of responsibility and awe and obsessed with genuine interest in the rights of policyholders. Over a thousand amendments were moved—some of them wild and fantastic; a few impractical and meaningless—and some of them got through. Many of the anomalies were removed by the Council of State and the rest were carried over to the future. Bristling with drafting mistakes, contradictions, controversial provisions and impractical clauses, the Insurance Act 1938 was passed on 17 February 1938, received Viceregal assent on 26th February and became the most controversial law in the Statute Book. Said Pandit Santanam: "this is all due to the fact that the Government and the Opposition did not consult insurancemen as much as they should have done, nor did they take advantage of the voluminous labour they had put in and the many suggestions they had put forward." [1]

Cause for Controversy

Here it is pertinent to digress a little. Enlightened nationalism sought removal of the obvious advantages that the 1912 Act gave to foreign insurance and at the same time insisted upon the right of national interests for protection. In doing so Indian insurance was deeply aware of the growing menace of the unsavoury practices of many of the newly floated companies but felt foreign competition much more deeply. In framing the new Insurance Act, the outstanding personalities of Sir Narendra Nath and Sushil Sen emphasised the legal much more than the insurance problems; public opinion, reflected by the elected Congress majority, was perturbed by the 'mushroom' growth of Indian insurance as much as foreign competition; but whilst their strenuous efforts to protect national rights were thwarted by the Government, many clauses were included to provide complete protection to the policyholders. To the difficulties that beset the legislators were added the confusion consequent upon the attempts of vested interests to perpetuate their

[1] Presidential speech, Indian Life Offices' Association, March 1938.

stake. A fundamentally defective approach was the inclusion of all classes of insurance within the orbit of one consolidated act — a defect which was not removed by the Insurance (Amendment) Act, 1950.

Departing at once from the principle of minimum control which is the basis of the United Kingdom Insurance Laws and maximum control provided by the Canadian and American laws, the Insurance Act 1938 embraced the whole field of insurance and was the first comprehensive measure to control the business and direct its growth on sound lines.

Scope

The Act applied to all classes of insurance and to all companies irrespective of the country of incorporation. Separate subsections dealt with Provident Companies, Mutual Offices and Co-operative Societies. Replacing all earlier acts, it introduced total prohibition of the assessment principle and dividing insurance.

Company Formation

Deposits prescribed under Section 7 were:

1.	Life assurance business only ..	Rs. 2,00,000
2.	(a) Fire, (b) Marine (c) Accident and Miscellaneous insurance, including Workmen's compensation and motor insurance, for each class	Rs. 1,50,000
3.	All classes	Rs. 4,50,000
4.	All classes excluding life	Rs. 3,50,000

Power was given to the authorities to refuse registration of companies if in addition to the statutory deposits and preliminary expenses a minimum capital of Rs. 50,000 was not collected. Deposit in respect of life business was prohibited from being made available to meet any liabilities of the insurer other than those under its life contracts. Deposits were allowed to be made in cash or 'approved securities' including securities of the British, Central, or Provincial Governments, Municipalities or Port Trusts, in annual instalments over a period of years, the number of instalments being 1, 2, 4, 7 or 10 years depending upon the class of business written, country of origin and date of incorporation. The Government consistently maintained that the deposits were primarily intended to prevent insurers with inadequate resources or speculative motives from commencing business and not to provide security for policyholders; attempts to impose scales of deposits from non-Indian companies in excess of those from the Indian failed. Government were not responsive to proposals to return deposits to insurers of adequate financial standing nor to proposals that subsidiary concerns whose contracts were guaranteed by the parent company should be exempt from making deposits.

Managing Agency system was totally abolished and existing managing agents were required to vacate their offices on the expiry of three years from the commencement of the Act, without any compensation for the termination. Their expenses, including commission and salaries were limited to Rs. 2,000 per month during the three years.

Superintendent of Insurance

The Act renamed the Government Actuary as the Superintendent of Insurance, set up a department under him and gave him executive powers. All companies were required to submit certified copies of annual balance sheets, revenue accounts and classified summaries of assets before the end of September every year and valuation reports (at least quinquennially) in special forms. Foreign companies, including the British, were required to submit details of their Indian business, funds employed and profits earned. In case the Superintendent of Insurance felt that the returns submitted to him were inaccurate or defective, he could (1) call for certified copies of further information, (2) order re-examination of account books, registers or other documents (3) examine any executive on oath or (4) refuse to accept any return he considered inaccurate in which case the insurer would be deemed to have contravened the law. A fresh investigation or valuation at the company's expense could be ordered if the Superintendent thought that faulty bases were adopted for any valuation. Aggrieved companies could move a court of law within four months to set aside the Superintendent's order and ask him to accept the returns. The Act gave the Superintendent general powers of inspection in case an insurer was unable to meet his obligations or did not comply with any of the provisions of the Act. Such an inspection could also be ordered on receipt of a requisition from one-tenth of the shareholders of a company holding not less than one-tenth of the share capital or from fifty policyholders who had life policies in force for not less than three years and to the value of over Rs. 50,000. Liquidation proceedings could be instituted by no one other than the Superintendent of Insurance without the previous sanction of the provincial Advocate-General.

Investments

By far the most controversial of the provisions related to investments. The various proposals made by the elected members in the legislatures ranged from such impracticable measures like investments of all assets in Government securities to the complete absence of any control. Finally the Act imposed no restrictions on the investments in respect of insurance business other than life and this applied equally to Indian and non-Indian companies alike. Indian and United Kingdom companies were required to invest:

(a) 25% in Government of India Rupee Securities [1]

(b) not less than 30% in Indian Government Rupee or Sterling Securities, Indian Provincial, Municipal or Port Trust Securities, or securities of, or guaranteed as to principal and interest by United Kingdom.

All other companies were required to invest

(a) 33.1/3% in Government of India Rupee Securities

(b) 66.2/3% as in (b) above.

Investment regulation was restricted to the amount of the net liabilities after deducting (1) deposits with the Government in respect of life business and (2) loans on life policies.

Existing companies were given four years to conform to the new regulations. Loans or temporary advances to directors, managers, managing agents, actuaries, auditors or other officers were prohibited and existing loans were ordered to be repaid within a year but advances to banks and subsidiary companies were exempted. Statutory rules compelled the maintenance of certain books including (1) register of policies issued (2) register of claims (3) register of funds and investments and (4) ledger and cash books showing income and expenditure under several headings.

Intense nationalist feelings prompted members to suggest extension of the investment provisions applicable to foreign companies to United Kingdom companies too, but the Law Member took his stand on section 113 of the Government of India Act, 1935 to influence a negative vote as by that section all United Kingdom commercial undertakings were protected against discrimination.

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[1] The term 'Rupee' Securities was mentioned to distinguish them from Indian 'Sterling' Securities.

Retaliatory Action

Nevertheless legislators were able to include a section providing for retaliatory action (including refusal to permit business in India) against any foreign company, if the country of its origin imposed any special requirement on an Indian company operating in that country. In the bill as first drafted the power to retaliate was permissive but the intensely nationalist feeling of the legislators was demonstrated by the Assembly in insisting upon making the provision mandatory. It applied to the United Kingdom as well as to other foreign countries, as section 113 permitted reciprocal action if the United Kingdom were to pass legislation which discriminated in any way against Indian companies wishing to operate there. It was made abundantly clear by the Law Member during the course of the debate that the power of retaliation was limited to the insurance business alone.

But the legislators were unable to introduce another measure which was widely advocated. The Select Committee had recommended a provision for the compulsory placing of 10 per cent reinsurance with Indian companies out of the general business written by foreign companies, but the Law Member invoked section 113 of the India Act, 1935 and threatened to withdraw the bill *in toto* if the proposal was passed into law.

Standardisation of policy conditions: Prior to the passing of the Act, policy conditions varied with companies and were governed by practical considerations. A certain measure of standardisation was achieved by giving policyholders definite rights to safeguard their interests, so far as it was considered practicable, leaving the rest to good faith and sound insurance practices. The Act required all companies to file standard policy forms and tables of premia approved by an actuary. It enacted that no policy could be called in question after two years of its issue or after two years from the coming into force of the Act in the case of existing policies, on the ground of inaccurate or false statements or suppression of facts in the personal, medical, or friends' reports or by anyone in any document leading to the issue of the policy, unless the company could prove that it was on a material matter and fraudulently made or intentionally suppressed with the full knowledge that it was false, or that it was material to have disclosed it. Any specific reference to declaration of age was omitted from the provision as originally enacted which, for a time, created serious complications but in 1941 an amendment was passed reading: "Nothing in this section shall prevent the insurer from calling for proof of age at any time it is entitled to do so and no policy shall be deemed to be called in question merely because the terms of the policy are adjusted on subsequent proof that the age of the life insured was incorrectly stated in the proposal."

Lapsed policies were covered by another provision. Unless the options available were indicated on a policy, an insurer was required to advise the policyholder of these options within three months of the lapse. Surrender value was guaranteed after three years; and after that period, a policy became automatically paid-up for a proportionate amount (if no other non-forfeiture provision was applied) provided such paid-up value was not less than a hundred rupees.

The policyholder was given absolute right, during his life time, to nominate a beneficiary, and change the nomination at will. Both conditional and absolute assignments were legalised. Under previous laws the prior consent of an assignee was required before any benefit could pass on to the policyholder after a policy was conditionally assigned but by legalising conditional assignment and regulating the order of priority both insurers and policyholders were protected.

Legal discharge of claims by depositing the sum payable in a court of law in cases of dispute or of insufficient proofs of title removed a major difficulty that insurers had. This was made optional and was required to be made after six months and before nine months of the date of maturity or notice of claim. Costs incurred by the court arising out of this mode of discharge were made a liability of the company.

The Act made the election of not less than one-fourth of the total number of directors (of life or composite companies transacting life business) from among life policyholders obligatory, and this gave them a voice in their control and management.

AGENTS: The Act emphasised the professional status of agents, licensed them, prescribed conditions for the issue of licenses and limited their remuneration to 40 per cent of the first year's premium and 5 per cent of renewals. Younger companies were allowed an extra 15 per cent on first year's premiums and one per cent on renewals upto ten years of their career. Rebate of commission was made a penal offence.

Reactions

The bill had a mixed reception. Insurancemen welcomed the provisions relating to deposits and submission of returns, which removed the invidious distinction between Indian and foreign companies. Statutory limitation of investments was generally resented by the trade but was thought inadequate by some sections of the public. Limitation of commission met with strong criticism from those who used to be lavish before, but hardly affected most of the large companies. Absence of restrictions on the commissions payable to chief agents enabled many companies to circumvent the Act and pay higher remunerations indirectly.

Imperfect as the Act was, as subsequent events only too clearly showed, it marked the culmination of two decades of strenuous national agitation and secured a measure of uniform Government control over insurance. Many of the British life offices ceased their activities in India immediately; Indian offices altered policy terms, conditions of insurance, prospectuses and office organisations to conform to the new Act; weaker elements merged with stronger offices; insolvent or speculative concerns were placed under receivers; and Indian insurance rose up as a magnificent edifice.

CHAPTER XVIII

LAST DECADE

i. 1940-1943

Confusion and Contradiction

The Insurance Act 1938 wrote a fresh chapter into the history of Indian Insurance in an atmosphere of outward calmness, but internal reactions were profound. An enlightened public opinion, which fifteen years of vigorous propaganda had fostered, was shocked by the dark spots in the business which the discussions on the bill had uncovered, and began to spotlight insurance from a radically different angle. Prejudices rose in the public mind, the activities of even the well-established offices were criticised and insurance emerged as a much-suspected service. Engrossed in the controversies and contradictions that the Act abounded in, leaders in the business could pay but little attention to fight public prejudice.

" Years of vacillation and endless controversy produced an amateurish bill which even before it could be enforced, had to be altered by a separate amending bill in 1939, so glaring were the drafting mistakes," wrote a prominent executive, summarising the reactions of the trade in eloquent terms, "it directs insurance into difficult and dangerous channels." It was felt that the bill created a mechanism of control that took the initiative away from the offices, and that weak links in the mechanism nullified the good that the concessions gave to the smaller and younger offices. Confusion arose over differences in interpretation; inadequate protection frustrated Indian interests; investment control added to their bitterness; and resentment was writ large in the trade. "Mere limitation of commission to agents without any provision to limit the commission to chief agents and employers of agents would nullify whatever good could come out of it." These words of Pandit Santanam were almost prophetic for the anomalies in the provisions gave loopholes which later led to unhealthy trends.

Enforcement

Nevertheless the Insurance Act 1938 was a landmark. For the first time in the history of insurance, the whole business was consolidated under a unified system of control and its structure strengthened by statutory regulations. Weaker elements were weeded out; indiscriminate promotion was checked and speculative insurance was eliminated. The best proof of the soundness of the law was provided by the effective check to the large-scale liquidations which had marred the name of insurance in the thirties.

An atmosphere of suspense and anxiety met the new Superintendent of Insurance Mr. J. H. Thomas who took charge in June 1938, organised a Government Department of Insurance and framed new rules for the enforcement of the Act. Over thirty weaker offices were almost immediately amalgamated with existing stronger companies; nearly twenty, with a total business in force of about Rs. 2 crores, were placed in the hands of receivers. Forty-three of the fifty that thus ceased to exist had been started after 1928 but the actual loss to the public was negligible. The Alliance, Liverpool London, Northern Assurance, Royal Exchange, Royal London, Stardard, National Mutual, Burma National, Manufacturers (Canada), the Commercial Union and the Great Eastern ceased to write new life business in India in view of the stricter provisions of the Act.

Drafting mistakes in the Act were much too apparent. Almost the first act of Mr. Thomas was to pilot the first of the many amendments to which the Act was subjected. That happened early in 1939 and removed a few of the drafting mistakes. The Act came into force on 1 July 1939 and two months later came Hitler to disturb the peace.

The War

The immediate repercussions of the war were political. Engrossed as it was with the fight for freedom, the Indian National Congress had paid but little attention to foreign developments; yet, foreign affairs formed an integral part of its policy ever since the *khilafat* days. Elimination of political and economic imperialism was the basis of this foreign policy; that in no event would India join a war without the consent of her people was its fundamental creed.

When Indian troops were despatched to the Middle East in the middle of 1939 without the knowledge of Indian leaders, the Congress asked its members to boycott the autumn session of the Central Assembly. When therefore with no reference to Indian opinion, the Viceroy declared that India was at war, nationalism registered its strongest protest. On 14 September 1939 the Working Committee declared its unequivocal condemnation of Nazi aggression, invited the British Government to treat India as a free nation and to declare her war aims and offered full co-operation if a popular central apparatus could be evolved for the war period to organise the war effort on an efficient and popular basis. "If the war is to defend the *status quo* imperialist possessions, colonies, vested interests and privileges, India can have nothing to do with it. A free democratic India will gladly associate itself with other free nations." The offer was declined and popular ministries resigned in consequence in eight of the eleven provinces.

Further Amendments

Thus by the end of 1939 uneasy political conditions aggravated the uncertainties of a global war; stringent statutory control threw the whole insurance machinery out of gear. But when things looked really gloomy for insurance, there was a change for the better, for six months of administration had shown the inherent defects of the Act in bolder relief and the second of the numerous amendments was passed in April 1940. With that, Commerce Member Sir Ramaswamy Mudaliar took charge of insurance in his capable hands and brought about a change in the attitude of the Government.

The co-operation which the Superintendent of Insurance had sought from the trade was carried a step further by the new Commerce Member. Realising the need for a comprehensive reform of the Act Sir Arcot, with characteristic realism, invited suggestions from the various associations and the Superintendent of Insurance in July 1940, analysed their suggestions, formulated definite proposals, and resubmitted those proposals for comments and counter-suggestions. Thereupon he speedily convened a conference of representative insurancemen at Simla on 29 August 1940, under his chairmanship, discussed the proposals in detail, presented a comprehensive bill to the Assembly on 6 February 1941 and ensured its safe passage in a very short time. "I hope the chapter of amending bills to the Insurance Act is for the time being at an end" declared Sir Arcot. And for the first time since 1938 insurance had sufficient cause for optimism.

The different stages of the amending bill gave tangible proof of Government's response to the reasonable demands of Indian insurance. For example when a representative deputation of insurers pointed out how the original provision for a table of surrender values to be endorsed on every policy would cause unnecessary inconvenience, the Commerce Member readily assured them that it would be sufficient for them to indicate the minimum guaranteed surrender values on the policies. But the Government was adamant in refusing to amend section 27 of the Act, to the offices' own good, as it turned out later. And so by 1941 the psychological change in the Government approach enabled insurers to solve the more pressing problems that arose out of the war with increasing confidence and optimism.

Panic Psychology

The course of world events demanded vigorous action. The short shrift that Hitler gave to the gallant Poles boded harder tasks for the Allies. The rapid series of victories on the Continent intensified the war of nerves. The Battle of Britain carried war to every British home. Dunkirk and the capitulation of France in May 1940 added a chapter of heroism, daring and strategy to contemporary history in gruesome letters of blood and tears. The world was profoundly shocked. A huge voluntary army rose in America and Roosevelt pledged the solid American support to the Allies' cause. But Dunkirk left people beyond the actual theatres of war gripped in a psychology of fear. In India the political consequences of a possible Nazi victory added weight to this fear, for much as nationalism had deplored British imperialism, it despised fascism the more.

And insurance suffered in consequence. Trade and industry ebbed. The huge machinery of war supplies which later changed Indian economic life was slow in coming. Prices were lower than pre-war levels; normal trade stood still; businessmen sold away and hoarded gold and silver. The prices of precious metals rose in consequence and, at that stage, rupee and other smaller silver coins were hoarded. They too went underground, interfered with the normal demand for currency and forced the Government to reintroduce paper currency of small denominations withdrawn after the first world war. The city middle classes withdrew their savings and sought safety in keeping their wealth in their hands in kind. Panicky conditions invaded the stock markets for investments were thought risky and the future vague.

Life offices bore their share of the panic too. Policies were surrendered in large numbers and loans were taken to the limit as popular enthusiasm became drowned in uncertainty and panic psychology invaded all phases of public life. Lapses were much more than surrenders and policy loans. Thus Indian insurance was left to fight internal panic in an effort to consolidate the gains they had made in the last decade and the responsive attitude of the Government did much to give them confidence.

Test Case

But yet, despite the psychological change, the conflict between the department of insurance and the companies was intense. And section 27 provided a crucial test. The original rules for the administration of the Act directed life offices to invest 55% of a 'sum arrived at after deducting policy loans and statutory deposits from the mean liability on account of matured and maturing policies in the proportion of 25% and 30% in Government of India Securities and Government or approved securities respectively.' This was far more than what was thought legitimate for, although the clause was ambiguous, Sir N. N. Sircar's explanation to the Assembly had given an impression that the loans and statutory deposits could be deducted out of the 55% of the total mean liability and the balance invested in Government and approved securities in the proportion prescribed. The ambiguous section 27(1) read as follows:

> "Every insurer incorporated or domiciled in British India shall, subject to the provisions of sub-section (3) at all times invest and hold invested assets equivalent to not less than fifty-five per cent of the sum of the amount of his liabilities to holders of life insurance policies in India on account of matured claims and the amount required to meet the liability on policies of life insurance maturing for payment in India, less the amount of any deposit made under section 7 (or section 98) by the insurer in respect of his life insurance business and less any amount due to the insurer for loans granted by him on policies of life insurance (maturing for payment in India and within their surrender values) in the manner following, namely, twenty-five per cent of the said sum in Government Securities and a further sum equal to not less than thirty per cent of the said sum in Government Securities or other approved securities or securities of or guaranteed as to principal and interest by the government of the United Kingdom."

The department of insurance, while contesting the companies' interpretation, allowed relaxation of the rules, pending final decision. Eminent lawyers like the late Sir Tej Bahadur Sapru and Mr. Shri Prakasha gave their opinion against the department of insurance; Bombay lawyers concurred. The Assembly raised the question in April 1941 during the debates on the Select Committee's report on the Amending Bill and the Commerce Member, admitting that the Superintendent of Insurance followed the Government's legal advisors, declared "if any insurance company is dissatisfied with the said interpretation, I would welcome the matter being taken to a court of law in the form of a test case. If the Government's interpretation was held wrong and the companies' right, the section would not be amended to conform to its interpretation but I will accept the contention and allow deductions of the policy loans and statutory deposits out of the 55% of the mean liabilities." This offer was fair and satisfactory.

Sir Arcot repeated the assurance later and offered to reimburse the taxed cost of the case upto a maximum of Rs. 2,000 and to bear their own costs. Arrangements were then made with the Navabharat Insurance Co. to file a test case in the Bombay High Court soon after the Summer Recess of 1941 and a Special Bench of the High Court consisting of Chief Justice Sir John Beaumont and Justice Kania decided the case on 30 September 1942, upheld the interpretation of the Superintendent of Insurance and opined "under section 27(1) of the Insurance Act an insurer incorporated or domiciled in British India should invest in securities therein mentioned assets equivalent to not less than fifty-five per cent of a 'sum' arrived at by taking the liabilities on the matured claims, plus the liabilities on claims maturing, less any deposits made under section 7 and less the amount of loans. In arriving at the 'sum' all the four amounts mentioned thereafter should first be worked out as mentioned therein." The Government thus scored a decisive victory.

Small Insurers

Simultaneously insurers of recent origin set a difficult problem for despite the elimination of weaker elements the financial resources of many of the smaller offices could hardly stand a strict scrutiny and the prevailing uncertain economic conditions added to their distress. The Insurance Deposits (Temporary Reduction) Act was therefore passed in March 1941 to assist small proprietary offices of recent origin; subject to certain safeguards against abuse, the Act halved their deposit requirements for the duration of the war.

Insurance Advisory Committee

Immediately thereafter Sir Arcot with characteristic enthusiasm instituted an Insurance Advisory Committee in June 1941 to secure the active co-operation of the offices in ensuring a smooth working of the Act. With the Commerce Member as Chairman, the Superintendent of Insurance as Vice-Chairman and representatives of Insurance Associations (like the Indian Life Assurance Offices' Association, the Indian Insurance Companies' Association, the Federation of Indian Insurance Companies, the Association of Life Offices in India, the Calcutta Insurance Association, the Provident Insurance Companies' Associations in Bombay and Bengal) as members, the Committee had powers to co-opt one or more members for any particular meeting and had as its primary function tendering advice to Government on matters pertaining to the administration of the Act. Sir Arcot presided over its first meeting on 15 November 1941 and, at its conclusion, suggested firstly, an embargo on bonuses during the war and one year thereafter and secondly, increase of premium rates to meet lower interest rates.

Bonuses and Premiums

The prevailing low rate of interest and the possibility—almost certainty—of its receding further had already set a problem. Life offices felt the need for limiting bonuses and as early as 1940 a leading office had declared a lower rate. Voluntary limitation, it was feared, would create unfair competition. Total embargo on private initiative was considered inequitable and statutory prohibition ideal if it was permissive and not mandatory. Deteriorating business conditions, however, provided a solution automatically for very low, and in some cases entire absence of, surpluses after 1941 prevented many offices from declaring any bonus.

But while the question of bonus gave room for divergent views, there were no two opinions on the need for revising premium rates. The uncertain course of interest rates however forced many companies to revise them more than once. Over fifty per cent of the companies controlling over 90 per cent of the business introduced higher rates of premium at various stages.

Expense Control

Mr. Thomas reverted to his permanent office in the Government Actuary's Department, London, on 23 June 1943 and, within a few months, was succeeded by Mr. L. S. Vaidyanathan, M.A., F.I.A. The critical times that Indian insurance faced then required the abilities of a person of Mr. Vaidyanathan's vigorous personality and with his profound scholarship and mature wisdom he set about his task of guiding it in a masterly manner.

And things moved in quick succession. An amendment to the Act in March 1944 to regulate the election of Policyholders' directors was followed by a series of discussions between representative insurancemen and the Superintendent, and then by meetings of the Insurance Advisory Committee. A further amendment introduced in November 1944 related among other things to fixing minimum limits for assurances and annuities of life offices and maximum limits of Provident Societies, restriction of commissions payable to employer of agents, power of revaluation to the Government and modification in the forms of certain returns. The Select Committee on the bill recommended important modifications, including limitation of expenses, and a conference of actuaries and senior insurancemen meeting in Bombay (March 1945) submitted alternative proposals, but as this raised a controversy, the Government decided to elicit more opinion before proceeding further.

Political Developments

Meanwhile the political stalemate continued. Selected congressmen offered individual satyagraha in September 1940 to break monotonous inaction. The German attack on Soviet Russia in June 1941 stirred public sentiment; Pearl Harbour profoundly shocked the nation. The gradual approach of hostilities gave a new perspective to Congress politics, and an intense urge for an active part in the fight for democracy. The rapid fall of the Colonial Empire intensified the tension, but India's political dependence prevented positive action. By the beginning of 1942 refugees began to arrive from Burma and Malaya with nothing but the clothes they wore. This and the imminent danger of aerial attacks led to a sudden exodus of women and children from the larger coastal towns to the interior villages.

Then came Sir Stafford Cripps. Tension gave way to fervent hopes for a week, and then open rebellion loomed large on the horizon. The Japanese bombing of Vizagapatam and Cocanada in May crystallised inner emotions into a grim determination towards positive action. The soul-stirring words of Gandhiji gave a lead to the nation. Late on 8 August 1942 the Congress, meeting in Bombay, presented a cogent reason for the immediate recognition of India's freedom and called upon the British to Quit India; a few hours later national leaders were marched away to prison.

Public reaction was spontaneous and profound. Suppressed emotions were unleashed. Unarmed crowds braved bullets and machine guns, burned police stations, attacked railways, cut telegraph wires, destroyed post offices and set up parallel governments. Factory workers struck work spontaneously. Government lost control over large areas. Lacking leadership, the uprising petered out soon, but not before the intensity of popular feelings against foreign rule was fully demonstrated.

WAR RISK

War risk was a matter of concern as early as 1937. Extra premiums[1] of Rs. 50 for combatants and Rs. 30 for non-combatants were in operation during the Sino-Japanese War which broke out in October 1937. In September 1939 European hostilities influenced Indian offices to introduce extra premiums: (*a*) on existing policies: Rs. 50 for combatants and Rs. 25 for non-combatants; employees of the mercantile marine impressed by the Government for war purposes were treated as combatants if the vessels were converted into cruisers or battleships and non-combatants if used for transporting merchandise, and those in a similar capacity without war liability were exempted from any extras. Air force personnel were charged Rs. 80 extra. (*b*) New policies: no proposals were accepted from combatants; non-combatants in war theatres were charged Rs. 50 extra.

This led to difficulties for new policyholders joined up as combatants immediately after policies were issued. It was therefore decided to accept proposals from combatants on condition that death from causes directly or indirectly attributable to war (whether war was declared or not) limited the amount payable to (*a*) return of all premiums paid exclusive of extra premiums, less payments already made by way of bonus, loan, surrender value or otherwise, or (*b*) surrender value, whichever was greater, but not exceeding the sum assured and attaching bonuses. No modification was made in the case of non-combatants or air force personnel.

Japanese advance in the winter of 1941-42 complicated the position of the policyholders in Malaya and Burma and aerial attacks on Vizagapatam and Cocanada increased the risk in coastal towns. At this stage the President of the Indian Life Offices' Association issued this statement:

> The feeling of the members of my Association is that member companies will make payment of claims arising by deaths due to air raids or enemy action to civilians in India. The committee of my Association have already advised member companies that no extra premium need be charged to policyholders who have joined the

[1] All extra premiums in this section are for Rs. 1,000 sum assured per annum.

A.R.P. Service.

In case of policyholders in Malaya and other enemy occupied countries who are insured with life insurance companies in India the policy of Indian Life Insurance Companies is bound to be very sympathetic. If their policies lapsed during the war through non-payment of premium by application of war measures, I have reason to believe that after the cessation of war members of my Association would permit the restoration or revival of the policies by accepting payment of premiums with interest at the usual rate. Where deaths have occurred during the war the feeling of the members of my Association is that they would also make payment of claims to legal representatives of policyholders in enemy occupied countries after the cessation of war, subject to deduction of the overdue premiums with interest.

Further increases in extra premiums were made in July 1942 both for combatants and non-combatants and an extra Rs. 10 was charged on new policies issued to residents of areas actually attacked by the enemy. Evacuee policyholders were treated sympathetically by all companies. Towards the end of the war combatants in officers' cadre were insured with suitable extra premiums and in August 1945 all extras were rescinded.

Insurance was resumed in Burma and Malaya from the beginning of 1946, and policies in those countries in force on 1 February 1942 were allowed to be revived on payment of arrears of premium with 3½ per cent interest upto 30 April 1946 without proof of continued good health; claims were paid in full after deducting unpaid premiums.

ii. 1943-1945

Mainly due to the elimination of financially weaker offices and partly to uncertain internal conditions, new business receded from Rs. 42½ crores in 1939 to less than Rs. 32½ crores in 1940; but what came in was sounder business, written by stronger companies. Nevertheless business in force increased at a normal rate. Widespread panic did not actually reduce business in 1941 but largely arrested its expansion. Political tension affected business activities in the next year and the August revolution upset trade; yet 1942 witnessed a nominal increase of over Rs. 2 crores in new business.

By 1943 however the country had experienced a sudden but thorough change in her economic life manifest more particularly in five different directions.

i. Industrial Activity

The Ottawa Agreement of 1932 had strengthened the Imperial

Preference mooted in 1927 and introduced a tariff system that aided British industry to sell its products in India in return for Indian raw materials and semi-manufactures; yet many industries like cotton textiles, iron and steel, cement, jute, paper and sugar had developed with protective tariffs but without co-ordination or consistency. War hardly affected Government's industrial policy but large orders were placed for sandbags, clothing, small ammunition, foodstuffs, tents and blankets. The course of war compelled the Allies to develop India as a vast industrial arsenal. 25% more pig iron was produced and over 60% more steel; a four-crore programme expanded Kirkee armament works and by the end of 1941, 250 trade and 23 railway workshops produced 700 different munition items. 54 firms manufactured machine tools; many more produced 280 engineering tools; drugs, leather, hardware, glassware, cutlery, and optical goods began to expand production to fill the gap left by the absence of imports. Heavy chemical industry made a cautious start in 1941; the Hindustan Aircraft Factory assembled planes at Bangalore in the same year and Indian exports of manufactured goods rose from Rs. 48 crores in 1938-39 to over Rs. 81 crores in 1940-41. Upto October 1942 war contracts totalled Rs. 428 crores.

Table No. 54.

Index of Industrial Activity.

(Base 1939 = 100)

1939-40	110.3
1940-41	114.2
1941-42	123.2
1942-43	125.5
1943-44	126.8
1944-45	121.7

(Source: *Eastern Economist.*)

The Eastern Group Conference (1941) though held in India included no Indians. The Grady Commission followed in March 1942 but its report was never published. A proposal for an Indian automobile factory was turned down in December 1940 although the army needed automobiles; an offer to set up an aircrafts factory without Government subsidy was discounted because of Government refusal to buy planes; proposals for shipbuilding were refused help by the Board of Trade. While the Secretary of State told the House of Commons on 20 November 1940 that 'India will soon be self-sufficient in respect of something like 90% of her military supplies', self-sufficiency extended merely to clothing, small ammunition, tents and blankets. Despite the tremendous opportunity, no attempt was made to promote basic industries, and industry as a whole registered but slight expansion.

ii. Controls, Famine

The capitulation of Burma early in 1942, cut off the rice imports on which depended much of India's food sufficiency. This coincided with concentration of troops in India. Sometime in May 1942 scarcity began to manifest itself; much official bungling followed. Rationing was introduced in Bombay in May 1943 and was followed in other cities. But in many parts of India, particularly Bengal, inefficient administration of the rationing machinery led to famine conditions, and millions died of famine and the resultant epidemics during the twelve months from August 1943. The Department of Anthropology (Calcutta University) after an extensive survey of sample groups computed 3,400,000 total deaths by famine in Bengal and 46% of the people suffering from major diseases. The Official Famine Enquiry Commission (Chairman: Sir John Woodhead) placed the figure of deaths 'as a direct result of famine and the epidemics' at 1½ millions. Many other areas besides Bengal suffered. Rationing was accompanied by Government control on various consumer goods in short supply which, in its turn, led to extensive blackmarketing.

iii. Government Policy

There was a marked difference in the Government policy towards financing war. While in 1914 loans were floated at progressively higher rates of interest, an intensified cheap money policy coupled with maximum taxation was vigorously pursued in 1940. War loans carried lower rates of interest; war profits went back to the Government in taxes. In 1914 higher interest rates swelled war loans and reduced insurance business: in 1940 higher taxes led to tax-evasions; lower interest rates diverted the larger war profits to other channels of investment and insurance was the net gainer after 1943.

In 1940 panic psychology led to gold and silver hoarding, first in bullion and then in coins. By 1941 strain on currency became severe. Smaller coins were re-issued with lower silver content and paper currency reappeared in larger quantities. This drove 'good money' out of circulation (Gresham's Law). Simultaneously prices rose. The basic needs of the country and of the war such as iron and steel, cement, paper, metals, semi-manufactures, foodstuffs and the like outran supply; essential imported goods like medicines, textiles, tools and machines were driven out of the free markets; casual luxuries like toiletries, silks, cars, radios and the like became scarcer. Black markets flourished and enriched more men considerably.

Rapidly increasing war purchases rapidly increased sterling balances. To have on hand a ready means of obtaining war supplies at continuously increasing prices, paper currency was issued in continuously increasing volume. There was no check on over-issue and each successive issue of paper money raised prices to higher levels until three 1945-rupee notes purchased less than a pre-1939 rupee coin.

iv. Inflation

Free issue of inconvertible paper money raised the total effective money supply:

Table No. 55.

(in crores of rupees)

Year	*Currency in circulation*	*Deposits*[1]	*Total*
1939-40	339	145	484
1940-41	335	176	531
1941-42	492	234	726
1942-43	750	391	1141
1943-44	991	559	1550
1944-45	1197	648	1845
1945-46	1342	745	2087
1946-47	1365	740	2105
1947-48	1417	796	2213

Thus is seven years the effective money supply more than quadrupled. Prices soared; cost of living rose to giddy heights; commercial profits increased; the whole economic structure underwent a rapid transformation. Business figures of insurance reached very high levels.

v. Capital formation

If capital formation (by which is meant the volume of national income not currently consumed but saved and then devoted to investment) gives a measure of the economic progress of any

[1] Demand deposits with commercial banks, plus deposits with Reserve Bank *minus* banks' balances with Reserve Bank *minus* Government's deposits with Reserve Bank.

country India fared but poorly:

Table No. 56.

(figures in crores of rupees)

Year	With the inclusion of sterling balances	Without the inclusion of sterling balances
1939-40	180.4	176.4
1940-41	232.5	179.5
1941-42	429.2	235.2
1942-43	405.3	99.3
1943-44	585.6	207.6
1944-45	331.8	—69.2
1945-46	239.3	—107.7
1946.47	—199.5	—203.5
1947-48	— 43.8	— 43.8

(Source: *The Eastern Economist*)

Large surplus capital sought investments during 1941-44. In the early days of British rule foreign capital in the first place developed national services like railways, irrigation, etc. through sterling loans on reasonable terms raised in London markets and secondly developed Indian industries through private capital. By 1945 sterling balances had completely liquidated sterling loans. A national government might have directed surplus capital towards national reconstruction and industrialisation, but in the prevailing conditions much of the excess capital was frittered away in unproductive schemes and unco-ordinated plans. Nevertheless the holdings in a few foreign firms were transferred to Indian hands but at inflated prices.

Joint stock companies were floated in larger numbers. Anti-inflationary measures of the Government included control of capital issues introduced in May 1943. By the end of 1943, 687 applications for Rs. 25 crores were received for starting new industries or expanding existing ones; out of 459 cases for Rs. 10.33 crores disposed of till the end of March 1944, 406 for Rs. 9.98 crores were approved, mainly for financing agricultural, transport and allied schemes. Difficulty of importing machinery limited the expansion of existing factories and very soon available surplus capital outweighed the needs of new flotations. Then that excess capital began to acquire control over existing well-organised industries, trading houses and business organisations at highly inflated prices.

Finance capitalism

Here it is well to recall a typically Indian business institution. An integral part of Indian trade and industry has been, for many years, the Managing Agency system. A firm of managing agents (usually a single person, or an association of a few individuals either in partnership or with limited liability) controls, directs and finances a group of several (often heterogeneous) public companies, who are generally financially interdependent among themselves and look up to the controlling firm for normal credit and necessary finance. This concentration of control and credit enables a relatively few individuals of the managing agency firm to control the shares of particularly desirable institutions. Indian industry and trade had developed under that pattern and were therefore particularly vulnerable to the influx of finance capitalism.

Surplus capital seeking new avenues of investment enabled finance capitalism to make rapid inroads into trade and industry, which then began to maintain close relations with credit institutions like banks and insurance companies. The pattern of developing these relations lay in acquiring controlling blocks of bank and insurance shares and electing common directors. It was thus sought to supply credit to the several companies under the control of managing agents whose members were elected directors of the financial institutions.

It started in 1943 and rapidly gathered momentum. Insurance shares were quoted at highly inflated prices, and this at a time when progressively decreasing interest rates held out little or no hope for shareholders' dividends. They changed hands at fabulous prices and were sought after by interested financiers. And the impact of finance capitalism influenced life assurance in a three-fold manner.

Firstly new flotations. But in this sphere the control of capital issues and the stabilising influence of the department of insurance had a decisive effect. Nevertheless over Rs. 3½ crores came to be invested (see Table No. 57 given opposite). Secondly acquisition of controlling blocks of insurance shares. Not many companies were involved in the change but their size was large enough to let considerable life and other funds to be passed over to new owners. Thirdly interdependence with banks. Banks which acquired full control over insurance companies were few but those which had common directors were many.

It is doubtful whether finance capitalism would have made

Table No. 57.

Details of new flotations during 1942-45

(capital in lakhs of rupees)

Year	Life offices No.	Life offices Paid-up capital	Composite offices No.	Composite offices Paid-up capital	General offices No.	General offices Paid-up capital
1942	1	3.5	5	63.5	2	52.5
1943	—	—	4	81.6	4	17.3
1944	—	—	1	31.3	7	66.1
1945	1	1.3	—	—	2	12.4
Total	2	4.8	10	176.4	15	148.3

Source: *Indian Insurance Year Books.*

such significant entry into life assurance had the basis of sound life office operations been realised sufficiently well. Its influx by itself would have mattered but little and could even have bettered insurance but for the quest for quick profits that the war had caused to intensify. For example the funds of life offices which thus changed control could have been left alone until stable business conditions made investment of capital in industrial development *safe* and not *speculative.* But what really did happen was that out of the huge funds of life offices payments of large emoluments to nominees of new owners became general both legitimately and otherwise; investments in sister concerns under common management were engineered; and speculative transactions became common. That no long-range plan for the constructive development of insurance business was attempted was deplorable. When the funds were used to promote unsound, speculative flotations, critics of section 27 thanked the Government for their consistent refusal to amend it. When the abuses threatened to disrupt the financial structure of firstly the companies and secondly business operations particularly because of their alliance with banks, the Government made a quick move.

Cowasjee Jehangir Enquiry Committee

On 21 April 1945 a committee was appointed under the chairmanship of Sir Cowasjee Jehangir; Messrs. Wajahat Hussain, K. R. P. Shroff, A. H. Lloyd, L. S. Vaidyanathan, J. K. Mitter and Sir George Morton served the committee as members and the general terms of reference were ' to enquire into the undesirable features in the management of Insurance companies in India and to recommend measures that should be taken to check the evil'. The committee entered into its momentous task on 27 April and, after collecting a large volume of evidence—both oral and written, official and unofficial—from over 30 associations, supplemented by the information (obtained in his official capacity) which the Superintendent of Insurance was able to supply on the working of several companies, produced a report within a few months which revealed the disgraceful level to which some of the companies had sunk. The darkest chapter of life assurance was painted in all its stark reality.

Although the terms of reference were general, the committee confined its investigation to life assurance, and, analysing the evidence that was tendered, made specific recommendations to amend the existing insurance law so as to rid life assurance of those disturbing trends which had tried to debase its operations, manifest more particularly in three different directions:

a. Acquisition of Control. The evidence tendered revealed many cases of financiers having acquired control over existing, progressive companies at prices far above the prevailing market values, and the dividend paying capacity of the shares. Frequent changes in the management of established companies are bad enough, but when those changes were invariably accompanied by (1) the replacement of the permanent, qualified and experienced personnel by the inexperienced and unqualified nominees of the new management, (2) payment of excessive remuneration to the new incumbents, and (3) payment of large compensation to the erstwhile managerial staff for the termination of their services, the position was alarming, for the interests and the funds of the existing policyholders were thereby jeopardised.

The specific recommendations of the committee included introduction of statutory provision so as to (1) make it obligatory for every shareholder to disclose the interest, direct or indirect, he has in the share standing in his name or in the names of others, (2) compel a transferee to disclose his (or others') interest in the proposed transfer of the share, (3) limit a single person's holdings in a company (either for himself, for others, or for himself and others) to 10% of the paid-up capital, and in the case of a bank or investment company to 5%, (4) advertise the changes in the directorate, (5) eliminate common directors among life offices, (6) prohibit excessive remunerations for the new, and compensations for the old, personnel. All the recommendations with but a few alterations, have now been incorporated in the Insurance (Amendment) Act 1950.

After a thorough analysis of the suitability of different classes of shares for a life office, the committee recommended 'one class of shares' with face value and called-up amount the same for all the shares issued and with voting rights strictly proportionate to the paid-up value.

b. Manipulation of Funds. Acquisition of control was accompanied in a few cases by manipulation of the 45% o fthe funds which was free from Government control. The committee 'found, in one case, that an overdraft was taken on the pledge of the approved securities representing 55% investment of the life fund' and made specific recommendations to restrict the freedom of investments. Most of the restrictions suggested now form part of the new Insurance Act (*vide* pages 118 and 119, Chapter VII).

c. Inter-locking between Banks and Insurance Companies threatened to disrupt the very foundation of credit and was condemned by the committee in unmistakable terms. On the evidence in its possession the committee was able to prove that banks and insurance companies invested in each others' shares, presented an 'artificial appearance of strength' but operated on a crumbling financial structure. Thus the shares of the insurance company 'appear on the liabilities side as capital and on the assets side as a deposit with the bank. The bank shows on its liabilities side the amount of the insurance company's share capital under deposits while on the assets side it shows the shares of the insurance company'. Again 'in a valuation year some of the investments of the insurance company may be sold to the bank at fictitious prices. . . . The valuation would thus show a surplus. After the valuation the same securities would be repurchased from the bank thereby avoiding any loss to the bank'. And 'by having different dates for the balance sheets (of a bank and an insurance company under common management) a transfer and a retransfer of assets between the insurance company and the bank in exchange for useless assets can go on from year to year'. The remedial legislation recommended included (1) limitation of a bank's or investment company's holdings to 5% of the paid-up capital, (2) restriction of investment in the shares of any one banking or investment company to 2% of the life funds or 2% of the subscribed share capital of the bank or investment company and in current or fixed deposit account of a bank to 2% of the funds, (3) statutory fixation of an identical date for the balance sheets of all banks and insurance companies.

There were a few other recommendations too—such as prohibition of remuneration to the executives on a commission basis, and power of investigation to the Central Government on recent changes in ownership. That an enquiry such as the committee conducted was urgently needed was never in dispute, for the testimony that was taken and the documents submitted (most of them of a confidential nature and therefore not subject to public scrutiny) revealed the existence of a state of affairs in some of the companies which called for drastic reform.

Public reaction to the report was profound. Many had but little knowledge of insurance matters but what criticism was made did no good for insurance. There was a persistent cry for nationalisation and very stringent controls in the meantime.

Short-term Endowment Policies

Disquieting as the tendency to evade taxes was, the wilful use of insurance to aid that evasion was a matter for concern. But that was what happened at the height of inflation. Short-term endowment policies for five years or less were issued with a condition that 90 per cent of the premiums paid were loaned to the policyholders. The loans together with the rebates on income-tax gave considerable gains to the insured and the practice was so widespread that the Government amended the Income-tax law by enacting a provision (similar to the one existing in England) by which such part of the premium as was in excess of 10% of the sum assured was not eligible for tax relief. Short-term endowment policies receded to normal requirements subsequently.

States Legislation

Insurance Act 1938 was the signal for many Indian States to enact parallel legislation to control the business within their borders. The States which did so included Jammu and Kashmir, Mysore, Baroda, Travancore, Pudukkottah, Indore, Porbandar, Cooch-Behar and finally Hyderabad. The regulations in general demanded initial deposits, compulsory investments in State Securities, separate books of accounts and separate statements. Private representations by life office associations and direct negotiations by the Government resulted in certain modifications and reciprocal arrangements. For example a few States exempted Indian offices from initial deposits and some gave other concessions. In general 55% of the State liabilities were required to be kept in State assets, and copies of statements submitted to the Superintendent of Insurance had to be filed with State Insurance Departments. Constitutional changes may introduce uniform laws in the future.

iii. 1945-1950

Business Trends

Inflation led to a phenomenal increase of new business from 1943, and every succeeding year registered a new record until 1946. With the loss of the highly developed territories in Pakistan business receded in 1947 and 1948 and simultaneously trade depression set in.

Another feature may have far-reaching consequences in the future. From 1942 agricultural and industrial labour got more income than ever before; yet higher price levels kept real incomes down to less than the pre-1939 figures. None of this excess income however reached insurance. Caught between inadequate wages and colossal prices lower middle classes ceased to have a separate existence. Some of the higher income groups among middle classes became richer and enriched insurance; others became poorer and merged with the lower groups. Nevertheless the setback to insurance from the elimination of middle classes was real and may tend to become grave in the future.

Twenty-six purely life offices and fourteen composite companies were started during the decade; 15 of the 26 life offices were mutual and 11 proprietary. Two out of these forty have their head offices in Pakistan. The fact that there have been no failures of the offices which started operations after the enforcement of the Insurance Act is significant; much as the free flow of money helped them to establish themselves soon, the stricter control of the Governmnet did more to consolidate their position.

New Flotations

The House of Devkaran Nanjee floated their Insurance Department in 1941 which now writes Life, Fire, Motor and Accident business; in the life department it operates savings bank insurance besides ordinary classes. The Eastern Life was started at Karachi in the same year by a band of energetic workers who had considerable experience with the Allianz und Stuttgarter; after partition its head office has been shifted to Bombay. The Deepak was floated in 1943 with an influential Board and transacts all classes of insurance business.

In 1943 was started the Jayabharat. With leaders in business and industry on its Board the Jayabharat was able to establish itself soon, build up strong connections and make rapid strides in all classes of business. In the same year was floated the New

Great with well-known personalities in the business world on its Board. With its chief operating office in Bombay, New Great has built up a sound business in a remarkably short time. Another well-known composite company that was started in 1943 is the Prithvi of Madras.

The All-India General rose up at Bombay in 1944 with Mr. Ramdeo Podar as chairman, and became the first office to write over Rs. 1 crore of new business in the very first year of its inception. Under the capable management of Mr. S. B. Cardmaster, who brought his long experience to bear upon the new institution, the All-India built up an extensive organisation. The Sterling General was constituted in Delhi as a general office and took over the life business of Sterling Life in 1944. The British India General, one of the largest general offices in India, entered the life field when it took over the management of the Zenith in 1943; after transferring its existing business as at 31 December 1942 to the British India General, the Zenith itself started new life business from 1st January 1943.

The other offices which were started in the decade include the Advance, Union Life and General, Ajai Mutual, Anand, Central Mercantile, Citizens of India, Digvijay, Famous Life, Glory, Home Security, Howrah, New Metro, Pioneer Fire and General, Supreme Mutual, Trinity Mutual, Vasant, Vishwabharati, Habib and Yeshwant.

Interim Government

Politically 1945 was memorable. The release of congress leaders was followed by renewed but fruitless attempts at compromise. The formation of a labour government in Britain raised hopes in India and led to the visit of three of its foremost ministers in May 1946. They proposed both a long-range settlement and an all-party Constituent Assembly and authorised Viceroy Lord Wavell to negotiate a representative *de facto* interim government; but as negotiations with Indian leaders proceeded, large-scale communal riots broke out first in Calcutta and then in Naokhali, surpassing in magnitude and destructive capacity any communal disorder previously known in modern Indian history. Reprisals started in Bihar soon. The internecine war was still on when on 2 September 1946 in the Council Room of the Viceroy's House, Lord Wavell administered the oath of office to Pandit Jawaharlal Nehru as the leader of the first members of a wholly representative cabinet composed of all parties but the Muslim League; communal disturbances continued unabated even when the League entered the cabinet a month later.

It was soon evident that the coalition cabinet was failing. The Constituent Assembly met in Delhi in December 1946 under the shadow of this failure (for the Muslim League refused to participate); nevertheless it defined fundamental rights, formally abolished untouchability and declared the future status of India as an Independent, Sovereign Republic.

Meantime the cry for Pakistan became insistent. Passions ran high. In January 1947 the Union Punjab Ministry banned private armies and thus unleashed mass emotions in a province which, despite its mixed communal character, had preserved long and proud traditions of peace. A period of blood-letting, killing, torture, abduction and rape followed on a large scale; the flourishing towns of Amritsar and Multan went up in flames and life in Lahore came to a standstill. Conservative estimates placed casualties at over 5,000 men, women and children, but worse was to follow.

Partition

Fresh from his successes as the Supreme Commander of Allied Forces in South-East Asia, Viscount Mountbatten of Burma replaced Lord Wavell as Viceroy and the British Cabinet resorted to shock tactics by declaring June 1948 as the dead line for the complete transfer of power to India. A suggestion was made in May to partition the Punjab and Bengal to solve the grim tragedy. Squarely facing realities, the new Viceroy met the leaders, hustled the British Cabinet to accept a tentative plan of immediate action and finalised an agreed procedural scheme in an incredibly short period of time: as announced on 3 June 1947 the plan partitioned India into two dominions, with division of the Punjab and Bengal. The announcement immediately abated communal warfare, albeit temporarily.

The process of partition was completed with incredible speed. The swift and solemn passage of the Indian Independence Act marked the end of British domination which had begun in the eighteenth century and had brought a measure of administrative unity to the vast subcontinent. The title of the Emperor of India held by the British Crown since 1876 lapsed: the historic office of the Secretary of State for India was abolished and the Secretary of Commonwealth Relations took over the conduct of British relations with India and Pakistan. India nominated Viscount Mountbatten as the first Governor-General and Pakistan chose Mahommed Ali Jinnah and under them was carried out the complicated process of dividing the rights, assets, powers, properties, liabilities and the defence services.

Independence

At midnight on 15th August 1947 India emerged as an independent dominion. At the Durbar Hall of the Government House the Chief Justice of India administered the oath of office to Viscount Mountbatten of Burma as the first Governor-General of the Dominion of India and Pandit Jawaharlal Nehru was sworn in as Independent India's first Prime Minister. Suppressed emotions were released and freedom was heralded with jubiliation and cheer. And a fifty-year struggle was over with Indian Independence, but tragedy lurked around the corner.

Punjab Tragedy

The June 3 announcement of partition with its division of Bengal and the Punjab had neither satisfied the aspirants of a united India nor the advocates of an Islamic State. The dramatic declaration of the plan had temporarily lulled communal riots and the prospects of independence suppressed inborn antagonism; but when partition was an accomplished fact and the appointed day approached, antagonism turned into brutal hatred and hell was let loose in Western Pakistan. Contemporary history provides no parallel for the sheer brutality of the carnage that followed; the horrors of religious persecution in the Middle Ages paled into insignificance before the hellish savagery of fanaticism in the Punjab. That beautiful land was a closed chamber of death and destruction for weeks; days later news of the tragedy trickled through no-man's land to stun a civilised world. The immediate repercussions were equally brutal. In the cities of Amritsar and Delhi and in the villages of Eastern Punjab the tragedy was repeated. By the middle of September there started the tremendous task of evacuating the terrorisd survivors of the massacre. Rough estimates put down 4½ millions on either side of the border as the number of persons evacuated; probably they were much more. Nine million men and women were thus cut off from their hearths and homes and set adrift.

The condition of the refugees were tragic beyond description. Few carried anything but the clothes they wore. Most of them were bereaved; all of them had come through a nightmare. Women and children had been abducted, raped, maimed, thrown to the gutter. Men had witnessed their womenfolk murdered or maimed in front of them, powerless to retaliate. Crippled with abject terror, weak with the suppression of surging emotions, refugees by the millions poured into the villages and towns of India creating problems of tremendous magnitude to the Government and the public. The material rehabilitation of the once peace-loving folk was a heavy task upon the resources of the Government and the people; but far more urgent and difficult was their spiritual rehabilitation. The trouble soon spread to Sind but there it was neither so widespread nor so intense, for evacuation had started in time.

Life Office Problems

Life offices were greatly affected. Most of the larger companies had successful branches in the worst affected areas of the Punjab and had painstakingly built up a net-work of competent organisations. Their employees and agents were at their posts when the trouble started; they were there through almost three weeks of hell before impoverished means carried them across the border.

Some of the head offices and considerable assets were in Pakistan. The tragedy gave no time for cogent thought and long before its intensity was realised many offices had been looted, damaged, burnt or destroyed with considerable loss to property.

Three problems arose immediately and confronted the offices. The assets, records and other salvageable effects, had to be removed; the evacuated personnel had to be settled and a way found to dispose of the policies on the lives of those who were affected. Whereas the co-operation of the two governments was needed to remove the effects, resettlement of the personnel created more complications because of the difficulties in restarting operations in Pakistan.

In the cause of the evacuated offices and their personnel the late Pandit Santanam of the Lakshmi did yeomen service. He formed an association of the displaced offices in October, organised relief, moved the authorities to afford facilities for removing the records and properties from Pakistan and actively helped the offices in resettlement. Where chaos prevailed, order was partially restored by January 1948.

Refugee Policyholders

Many of the insured were untraceable. Several had died but their relatives became scattered. Where deaths could be attested, legal difficulties prevented immediate settlement. A large number of refugee policyholders had hardly any means of paying premiums.

And then life offices rose to the occasion magnificently. Where premiums had been fully paid upto 30th June 1947 payments for the succeeding eight months were accepted before 31 March 1948 without any proof of continued good health; all claims on deaths occurring between 1 July 1947 and 31 March 1948 were met in full subject only to deduction of unpaid premiums without interest; lost or mislaid policies were duplicated without the customary charges; and various facilities and concessions were freely given to deserving policyholders.

Premium Adjustments

By far the most intricate of the problems was the adjustment of premiums paid into branch offices and banks, for as policy numbers were rarely quoted and normal routine had been disrupted no means existed to trace the relative policies but the laborious method of going through the entire records in the head office; meantime premiums had to be kept in deposit. Said Sir Purshotamdas Thakurdas at the annual general meeting of the Oriental on 18 August 1949: "most of the displaced policyholders had to leave behind their policies and could not quote the policy numbers. In a company of the size of the Oriental with nearly seven and a half lakhs of policies on its books, the difficulty of getting at the correct policy file from mere names can be easily imagined because of identity of name amongst several policyholders. To give only a few of the several instances that can be quoted, there are as many as 515 policies under the name of 'Kartar Singh', 289 under name 'Gurbaksh Singh' and 251 under name 'Amar Nath'."

Legal Problems

With the creation of two dominions out of a single country which had enjoyed a unified structure of civil and criminal laws, the adaptation of existing laws became obligatory. Section 18(3) of the Indian Independence Act 1947 provided "Save as otherwise expressly provided in this Act, the law in British India, and of the several parts thereof existing immediately before the appointed day shall, so far as applicable and with the necessary adaptations continue as the law of each of the new dominions and of the several parts thereof until other provision is made by laws of the Legislatures of the dominion in question or by any other legislatures or other authority having power in that behalf." The Insurance Act 1938 and the Indian Companies' Act 1913 were accordingly adapted by both the dominions under the India

(Adaptation of Existing Laws) Order 1947 and to avoid the legal complications consequent upon their immediate enforcement a "Standstill Agreement" was signed by both the dominions providing for the maintenance of *status quo* till 31 March 1948. Nevertheless, a feeling that Pakistan's future policy might conflict with India's interests, existed and an influential deputation of Indian offices met the Commerce Member at New Delhi on 20 October 1947 to represent, firstly, the need for initiating negotiations for an Inter-Dominion reciprocal treaty covering registration, deposits, investments, accounts and valuations; secondly, equality of treatment with United Kingdom companies, particularly in the matter of investments; and thirdly, extension of the Standstill Agreement till 31 March 1949. But differences in interpretation arose almost immediately to complicate an already difficult issue.

Complications

The first of these differences related to reserves. An Inter-Dominion Agreement on insurance concluded in December 1947 included a provision for treating 15% of the Statutory Deposits with the Reserve Bank as reserves for Pakistan policyholders till such time as their policy liabilities were more accurately determined. Indian offices and the Government of India intended this clause to apply only to those offices which had evacuated their head offices from Pakistan, but Pakistan sought to extend its scope to all companies which withdrew from that dominion.

Secondly, differences arose in the interpretation of the Standstill Agreement. Pakistan contended that all offices operating in Pakistan should have complied with the statutory provisions of the Insurance Act and the Indian Companies' Acts, as adapted, including registration, deposits, statements, records, etc., immediately after 15th August 1947, and that they had not been insisted upon merely in the absence of adequate administrative machinery. Section 277 of the Companies' Act, as adapted, required all offices established outside Pakistan to register within six months of 15th August if they had a place of business inside Pakistan before that date or within one month of opening a new office later. Indian offices felt that the Standstill Agreement gave them immunity till 31 March 1948. On the representation of the Government of India Pakistan showed an inclination to extend the time for registration by three months.

Meantime, Pakistan introduced an Insurance Amending Bill on 26th February 1948 requiring all companies operating there to deposit Pakistan government securities equivalent to 50 per cent of the deposits prescribed by section 7 of the Insurance Act 1938 before 15th April 1948, and further substituting the words 'Pakistan Government Securities' for the words 'approved securities' wherever they occurred in the Insurance Act. Offices which ceased to write new business after 15th April 1948 were excluded.

Thus by April 1948 an unfair and, in some respects, paradoxical situation was created, for thereafter Indian offices were liable to be treated as foreign offices with consequent liability to invest 100 per cent of Pakistan policy liabilities in Pakistan Government securities, to appoint trustees residing in Pakistan and approved by that government, to maintain separate books of accounts, to submit separate returns and to conduct separate valuations. Whereas the Insurance Act gave preferential treatment to United Kingdom companies in both dominions, Indian offices which hitherto had operated without restrictions in Pakistan, came to be treated as foreign offices. Indian offices protested and placed their requirements before the Government of India which included extension of the date of registration by one year, exemption from the provision for the appointment of trustees, equality of treatment with United Kingdom companies (particularly in the matter of investments), facilities for the compliance of investment provisions by stages and acceptance of Provincial, Municipal and Port Trust Securities in the category of approved securities. These provisions were vital to the Indian offices and their absence compelled them to decide against registration in Pakistan.

Further Developments

An Inter-Dominion Conference held in Karachi on 27 April 1948 discussed such questions as deposits, investments, statutory provisions and facilities for conducting business and came to inconclusive decisions. Repeated attempts of the Government of India to end the stalemate proved abortive. The strained relations on the Kashmir question confused an already complicated problem. The cease-fire in Kashmir on 1 January 1949 cleared the way for cordial discussions and an Inter-Dominion Conference was held immediately when Pakistan, *inter alia*, offered such terms as these:

(*a*) Indian offices transacting fresh business to invest 55% of their liabilities in the proportion of 25% in Pakistan Government securities, 15% in Government of India securities and 15% in approved securities including United Kingdom securities. If the United Kingdom companies were required to invest 25% of their liabilities in Pakistan Central Government securities and the balance in approved securities not including United Kingdom securities, by the end of 1950, such a provision would extend to Indian offices also.

(*b*) Indian offices could comply with the investment provisions under section 27(3) within a period of four years.

(*c*) The State Bank of Pakistan may be the Trustee unless the government and the offices mutually agree upon other trustees resident in Pakistan. If the provision does not extend to United Kingdom companies by the end of 1950, Indian offices would be put on the same footing.

(*d*) Pakistan would not be agreeable to let those offices which start operations now to withdraw later free of all obligations. If however statutory provisions more onerous than those existing were introduced in the future sufficient notice would be given to the Indian offices which would be exempted from the new provisions if they withdrew at that stage.

Two difficulties still existed. Firstly, the offer providing for investment of 15% liabilities in Government of India securities operated only till 31 December 1950 and might be withdrawn then, and secondly, the provision for trustees gave United Kingdom companies preferential treatment. The decision not to resume business was therefore not rescinded. The non-devaluation of Pakistan currency in September 1949 complicated the problem still further.

Further Amendments

Meantime changes were made in the Act. In March 1946 Insurance Act 1938 was further amended to include the non-controversial provisions of the bill which had lapsed in 1944. The provisions of this Act (Insurance Amendment Act VI of 1946) fixed minimum amounts for insurance and annuity payments on a single policy issued by life assurance companies[1] and maximum by provident societies, separated life funds from other assets, provided for adjustments in liabilities for reinsurance accepted and ceded, allowed for payment of commission on revived policies and simplified the amalgamation of provident societies.

Another bill was introduced on 3 April 1946, provided for the

[1] Except under certain conditions, an insurer cannot issue policies for less than Rs. 1,000, or annuities of less than Rs. 100; Provident Societies can issue policies upto Rs. 900, or annuities upto Rs. 100. Another important clause of this Act provides that in ascertaining solvency of an insurer, the unpaid capital should not be taken into account.

control of expenses, capital structure, voting rights, excessive remunerations, part-time and common executives and various matters designed to direct insurance operations more scientifically and passed through a very chequered career. A Select Committee submitted its report on 5th March 1947 but momentous political issues crowded it out during that session of the Assembly. Conferences were held thereafter, representations made and considerable lobbying ensued but constitutional changes and tragical events brought in the need for a complete revision of the entire law. The bill was consequently withdrawn on 30th January 1948. An Informal Committee consisting of Mr. S. Ranganathan (Ministry of Commerce), Mr. M. A. Ansari (Superintendent of Insurance), Mr. L. S. Vaidyanathan (Oriental), Mr. J. C. Setalvad (Vulcan), Mr. B. K. Shah (New India), Mr. T. C. Kapur (Bombay Mutual), Mr. N. Dutta (Hindustan), Mr. N. V. Naidu (United India), Mr. S. C. Roy (Aryasthan) and Mr. N. J. Gor (Presidency Life) subsequently examined the proposals, reviewed the entire insurance law and suggested important modifications. The Insurance Advisory Committee then considered the report and the Government re-examined the whole issue. The net result was the Insurance (Amendment) Act 1950 which has just become law.

* * *

Thus the ten years from 1939 were packed with more incidents in the insurance world than the whole period of over 100 years since life offices began to issue policies in India. By controlling the business of life assurance in a manner that left the companies dissatisfied, the strict provisions of the Act left loopholes which tended to develop a section of it on unhealthy lines but it seems as though the Insurance (Amendment) Act 1950 has delivered the business out of its 'darkest chapter'.

That darkest chapter helped to intensify the public prejudice that manifested itself at the beginning of the decade and invited public demand for nationalisation; public prejudice is gradually giving way to public confidence and the demand for nationalisation is not now so insistent.

Economic forces tended to upset the even tenor of the business. Panic psychology at the beginning of the decade brought the business down to a low ebb; inflationary trends and surplus profits then raised it to its highest pinnacle and subsequent reaction has made it flexible. The elimination of the middle classes is significant and might have serious repercussions later; meantime, the evolution of a suitable machinery to direct the surplus earnings of lower income groups is a matter of urgency.

Political conditions were equally uneven. The 1942 movement was almost a revolution but hardly affected insurance business. Communal riots threatened to disrupt business; the advent of freedom raised hopes of lasting peace and prosperity but the Punjab tragedy shattered them. Partition perhaps set the most intricate problem during this period of constant ups and downs.

CHAPTER XIX

ON TO THE FUTURE

This is the end of our story. Magnificently enacted, with unlimited energy and zeal, by the great pioneers of the industry, the story of insurance has had its dramatic interludes, its full share of prosperity and adversity, a wide range of experience and opportunities for profiting by that experience. That, on the whole, it tries to provide the people with the strength and the security that make life worth living, is only one of its many attributes.

For instance, one of the first things that insurance does is to replace the loss of income on the death of an earning member, for that is its fundamental function. It may be that such a loss can hardly be measured in terms of rupees, annas and pies, but, all the same, it seems reasonable to say that every death of an earning member results in a definite pecuniary loss to those who depended on him. To the extent that insurance replaces the loss of earnings by a definitely guaranteed sum, its service to the family is unique, and no scheme has so far been devised so scientifically and so unfailingly as insurance to replace that loss.

But modern insurance does much more than merely replace the loss of income on death. It creates an estate—a sort of trust —on the date of the contract, to be paid for later in small easy instalments, which cost normally not much more than the cigarettes a man buys or the pictures he sees. And with that estate he is able to meet his needs whatever they are, and whenever they occur, needs such as the education of his children, the building of his house, a pension for his old age, a provision for his dependents, in fact, a variety of financial arrangements. In the manner in which modern insurance is able to meet the different financial needs of a man, from the cradle to the grave, its wonderful qualities have never been equalled.

In the process of building up that estate, a man is very likely to develop a magnanimity of outlook that is as wholesome as it is profound. The thrill of accomplishment, the self-confidence of financial independence, the courage of security, a new inspiration and initiative, are merely some of the many manifestations of that magnanimity. That by conserving the small savings of a man, insurance is able to encourage his thrift, increase his credit, organise his wealth and invest that wealth in sound, productive channels, is merely incidental to its operation, but essentially fundamental to his well-being.

Life assurance is as indispensable to a man in business as it is to a man with a family. For it enhances his credit, enables him to tide over a tight corner without fuss or fear, strengthens the financial structure of a partnership, replaces the loss on the death of an able executive or an expert technician and builds up his goodwill. The fabulous amount of compensation a producer might get on the death of a star on the sets, or the large sums of money paid out to the dependents of the victims of an aeroplane tragedy have all been made possible by the application of life assurance. To the individual proprietor of a business the legacy that a policy can leave may perhaps be the only tangible goodwill that his dependents might inherit. And wherever the financial structure of a business is related to the contingencies of life, life assurance is the only factor that can add strength to that structure.

To the Society

Next to the individual, the community. A community in which most of the members are adequately covered is richer, stronger and more useful. An uninsured man is a weak link in its structure. In the days of the epics and the upanishads, our forefathers gave to the world a wonderful system of joint security in the family and thus conserved the wealth of the society; they created charities to provide additional security. Individualism rose up out of the ravages of time to destroy the security of the joint family and threw the onus of supporting the weaker elements on to the charities. So long as charity remained the second line of defence in the community, it helped to develop the nobler elements in a man's make-up, but when it became the only means of social security it tended to destroy the moral structure of society. Witness the sturdy vagrants who flock to the gates of the great temples on all auspicious days. Republican India is trying to rebuild a strong and decent society, and there can be no place in it for demoralising, misplaced charities; life assurance is perhaps the only means of creating a nation of self-reliant, independent, morally healthy men.

To the Nation

But this is not its only benefit to the nation. In the sphere of national reconstruction, the policyholders' funds are gainfully employed to construct roads and railways, to develop irrigation and power, and to expand industry and agriculture. Twenty-five years ago insurance funds in Government securities were less than ten crores, today they are over Rs. 110 crores with prospects of nearly Rs. 10 crore annual additions.

Technical Personnel

To those giant brains of the industry who look after the technical side of insurance operations, the nation owes a debt of gratitude. "The evolution of the scientific ideas which provide the bases for the activities of insurance in the various aspects is due to several giant brains associated with institutions focussing their attention upon ways and means of developing the business and thereby making insurance capable of rendering social service of a unique type," [1] wrote Mr. L. S. Vaidyanathan. Today the actuarial profession in India is barely twenty-five years old; when it grows older the actuaries, with their profound knowledge of actuarial science and their analytical brains, might specialise in other spheres of public activity during their career and make valuable contributions to increase the amenities of life.

This then is a picture of the benefits of insurance. It may be possible for a few individuals to make their own arrangements to cover the risk they encounter in life, but those arrangements, even in the case of those few, would largely remain speculative. On the other hand life assurance is the greatest and the most efficient system of providing for all contingencies of life and of covering all risks to enable every one to obtain security at the cheapest possible rate. Credit institutions like banks and insurance companies stabilise internal economy and enhance the credit of a nation. The principle of insurance is fundamentally bound up in modern society for it is the one indispensable source of strength to every man in the modern State.

Social Security Services

Much as the extension of adequate insurance cover is a desirable consummation, we cannot delude ourselves with the expectation that a Utopian society can be created overnight where every man, woman and child is protected. For our system is in an appalling mess. What with falling incomes and soaring prices, starvation wages and threats of growing unemployment, the task ahead is by no means easy and calls for superabundance of patriotism and courage. It may therefore be pertinent to make

[1] *Indian Insurance Year Book,* 1945.

a rapid survey of the possible ways of developing insurance in such a way as to serve society better.

First come the needs of industrial labour. And for this the governments of the advanced countries of the west have perfected three specific classes of insurance, collectively termed "Social Security Services," comprising old age pensions, unemployment relief and national health insurance. This social security is the responsibility of the State and covers classes of people who are normally unable to take up the ordinary classes of insurance.

i. Old age pensions

Except for the superannuation schemes of the Government and allied services and the provident fund schemes of private and public institutions, which, thanks to a proposed legislation, may soon become compulsory for most classes of industrial labour, no central agency exists to provide for the maintenance of the old and feeble whose faculties of mind and body are not equal to the strain of useful work. The costliest of all social security services, old age pension is a life annuity and is the reward for years of continuous and loyal service; its cost is tacitly included in the wages of labour. The possibility of dissipation robs provident fund of much of its attractiveness and a contributory pension scheme is immensely preferable in its social aspect.

Much work has to be done in India before this scheme of social security passes out of its present nebulous stage; even if it is applied to all industrial labour it can merely cover a fraction of the large army of people with a reasonable claim on old age relief. That may be a tough problem for posterity. But this much is certain: an ill-regulated scheme of national endowment free of any contributory obligations might easily debase the moral fabric of man by discouraging his urge to earn and save.

ii. Unemployment relief

On a different footing stands unemployment relief. Unemployment is a very complex economic problem common to all communities which have advanced beyond a self-subsistence economy. Largely produced by modern industrial expansion, its origin may be traced to a variety of forces such as personal defects, industrial changes, economic malaise and political upheaval, which affect its intensity differently. Systematic unemployment insurance organised by the State is an indispensable provision to tide over temporary periods of industrial dislocation, but misused, it can, (and has often done so in the past) degenerate into a system of 'doles' with accompanying evils far graver than unemployment itself. Nevertheless it has been estimated that one out of every 16 in Britain was on 'dole' in the pre-war days and one out of every 10 American. The nebulous state of industrial activity in India created an industrial labour which remained largely ill-defined; the flexible character of that labour with its roots firm in the villages helped to reduce the gravity of unemployment in the past. Industrial expansion may tend to complicate it in the very near future.

iii. Health Insurance

The Government has already made a move in this matter. The formation of the State Insurance Corporation is perhaps one of the finest acts of the present Government and if it is able to develop in the manner in which its plans were formulated it can regulate a fundamental aspect of social security.

Industrial Insurance

These three services, together with a few subsidiary ones, cover what are technically termed 'Social Security Insurance' and are mainly administered by the State. Social security has already made a beginning in India, but not industrial insurance.

Industrial insurance, as that term is usually understood, is the business of insuring chiefly the industrial or wage-earning class, for small sums under policies providing for weekly or sometimes monthly premiums, which are normally received at the home of the policyholders by an authorised collector. Collection is perhaps the most intricate of the administrative difficulties of an industrial office and is usually made by district managers and local collectors who, besides being responsible for the collection and transmission to the office of renewal premiums, act as agents for all classes of business transacted by the office.

One of the main criticisms directed against the operation of industrial insurance, which, incidentally, is one of the reasons behind the demand for its nationalisation in England, is the excessive lapsing which occurs after only one or a few weekly premiums have been paid. To prevent this the usual system of remunerating the collectors and district managers is such that their incomes depend more upon the maintenance of business than upon writing new business. Further, in England, many companies provide for payment of one-quarter only of the sum assured in the event of death otherwise than by accident in the first three months, one-half in the second three and the full sum assured thereafter; then, in order to give the holder additional inducement to maintain his policy, the sum assured increases by about 5% after five years and an additional 2½% after 10.

Industrial assurance is written on all members of the family from birth to age sixty-five or seventy. In England the amount which may be paid on the death of a child has long been limited to certain statutory maxima. Premium tables usually show the varying amounts of insurance obtainable on each plan and at each age for a given weekly or monthly premium. Premiums are usually based on the mortality experience of the general population (which includes a proportion of impaired lives) and are in consequence higher. Medical examination is rarely required. Proposals and policy forms are much simpler. Letters of acceptance are dispensed with. Benefits and privileges depend upon the company; but assignments and loans are usually prohibited.

This then is a rough picture of industrial insurance. Far from replacing social security services, industrial insurance supplements their benefits and provides perhaps the only practical way in which many of the wage-earning classes may themselves secure the benefits of life insurance for amounts they can afford and on terms which are suitable to their circumstances. The Friendly Societies of England probably originated the scheme to make provision for funeral expenses; following their practice policies were issued largely on the dividing and assessment principles by over 1,200 Provident Societies which sprang up in various parts of India about fifty years ago. The Provident Societies Act 1912 by enforcing a measure of control over their operations, drove most of them out of business; still over 500 existed at the commencement of the Insurance Act 1938. A majority of them could not (in some cases would not) deposit even the modest sum of Rs. 5,000 required under the Act and went out of business. Of the 111 societies operating in 1946 (in which year life assurance wrote the largest amount of business) 83 had an income of less than Rs. 500 a month and only 9 averaged over Rs. 1,000! They collectively wrote 24,031 policies for Rs. 1¼ crores. It is just possible that they have a place in the country but hardly for the handling of the highly organised plan of industrial insurance.

The rapid growth of industrial insurance in England and America is proof of its immense economic importance to the community and to the State. In India, the shift of incomes to the lower classes that was incidental to the war, brought its need to the forefront; the present industrial expansion intensifies that need. Social security plans might help the labour to obtain security during their tenure of employment and a little sustenance later, but industrial insurance alone can give them the financial security he needs. Despite the collective strength the Trade Unions have given to labour, an individual worker is often weak financially; industrial insurance can give him that strength too. Nothing much remains today (for him or for the country) of the over Rs. 80 crores that the nearly 14 lakhs of workers received through wages in 1946 (vide First Census of Manufactures, 1946) largely because of its absence. If a properly organised plan of industrial insurance is initiated by those offices which are in a position to do so, there is no excuse for the Government or for the labour to withhold active support.

Group Insurance

From schemes for labour let us pass on to schemes for all classes of employees. While industrial insurance for the working classes has made no entry at all in India, group insurance has made a modest beginning. The group plan gives insurance cover to groups of lives, usually composed of the employees of a common employer, without medical examination, at a low cost and enables an employer to assure payment of a certain sum at the death of his employees. The group plan can be applied to almost any kind of insurance, the yearly-renewable-term assurances and annuities[1] being the most common.

Group insurance differs but little in its principles from ordinary life insurance but much in its effects. The group is the unit of selection instead of the individual. Normally at least three-fourths of the eligible employees and a minimum number of 100 or 50 must elect and participate in the group. The policy is issued to the employer, who applies for insurance, makes the contract with the company, is responsible for the payment of premium and is the policyholder. Premiums depend upon the type of industry and on the distribution of the employees according to age and may be paid either wholly or in part by the employer; in the latter case it is usual for the employees to contribute the same amount per month per Rs. 1,000 of insurance,

[1] Latterly two major types of permanent group plans have been developed in America: the *unit-purchase* type (where if an employee continues in the employ of an employer an increasing part of his group life insurance will be in the form of whole life paid-up assurance) and the *level-premium* type (which provides for whole life, endowment or retirement-income plans with level premiums payable for life or to age 65).

regardless of age, even though under the yearly-renewable-term premiums increase annually, the excess being borne by the employer. The amount of insurance may be based on an employee's salary, his position, the length of his service or any other recognisable factor which precludes individual selection against the company. Conditions of the contract include provision for granting ordinary permanent insurance cover to those leaving service before a specified age and disability benefits. That by reducing administrative expenses the company is in a position to offer insurance at an actual cost which, in many cases, is substantially below the rates for which the same insurance could be individually secured is merely one of the many advantages of group insurance to the employees. Stability of employment, better employer-employee relationship and relief from moral liability for financial assistanc in certain circumstances make group insurance attractive to the employer.

Closely similar to group insurance is the group annuity contract providing for the payment of an annuity or pension to the employees of a common employer, who enters into the contract. It replaces the ordinary retirement plan that many offices have instituted and provides, in many respects, a more satisfactory basis for old-age pensions of employees than individual schemes which are rarely financially sound. Various provisions such as payment of increased annuity on retirement at an age later than the normal, a reduced annuity for retirement before the normal age and full annuity for early retirement due to ill-health, make a group annuity contract immensely beneficial to the employee and helps the employer to maintain better employer-employee relationship. Premiums, based on the circumstances existing at the commencement, are paid to the company by the employer either annually or quarterly usually on a contributing principle and are very often influenced by the occupational factor.

The expansion of social security schemes in England and America has helped to stress the importance of group life and group annuity plans and to open up fresh fields for their application. Originally conceived in America, they have made rapid strides in England, especially after the war, and recent reports indicate an intensified demand. A few progressive industries in India have made a beginning but the share of the Indian companies has been insignificant. That the potential demand is large is evident from the rapid expansion of commercial enterprises.

Rural Insurance

Such then are the most significant developments of modern life assurance. In India great has been its expansion in recent years, but small its coverage, for it has largely remained confined to the urban middle and upper classes and to the ordinary classes of insurance cover. Its extension to all classes in the city may constitute an important aspect of its future development, but no less important, and in fact, almost pressing, is the need for penetrating rural India.

Here first comes the tenant farmer[1]. His problems are complex, for he is reared in a tradition of poverty. He is poor because his earnings are low. His earnings are low because his poverty precludes individual ability to become proficient in his work and because absence of any reserve makes him economically too weak to bargain. Economists have, at various times, tried to tackle the problem of his poverty by different methods and by diverse plans. Co-operative credit, co-operative farming, co-operative marketing and co-operative banking constitute one phase of this programme. Extensive land reforms, as are envisaged in the latest legislative enactments, provide a second. The Gandhian method of supplementing income from land, by income from subsidiary trades, conceives a noble ideal. Extension of cheap rural credit is an admirable counterblast to the throttling tactics of the usurious rural banker. But any scheme that ignores the contingencies of life, which evades the question of incentives for saving and which avoids conserving those savings for future use, is fundamentally unsound. A new land tenure might give more land to the landless peasant and co-operative farming expand their production; supplementary trades might increase his income and co-operative credit facilitate him to do so; but insurance and insurance alone can urge him on to earn and save, (almost on a compulsory level), conserve those savings for his future and rid posterity of its poverty. He is poor partly because he inherited debts;[2] if his debts at birth could be banished

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[1] Rural India is composed of heterogeneous economic groups. A rough classification may be: (1) farm labourers (which constituted about 30 million in 1931) who cannot afford insurance, (2) tenant farmers and cultivators with small holdings (roughly under 5 acres), and (3) the rest of the land-owners who rarely do actual cultivation. The latter two classes have been referred to in this section, as tenant farmers and land-owners.

[2] A survey of some villages in the Cuddalore Taluka conducted by Dr. Narayanaswami Naidu and Mr. P. Vaidyanathan reveals that 53.0% of the total debts of 50 families was inherited.

he has an even chance of fighting economic weakness.

The farmer works when there is work, ekes out a bare living from the land and spends what little he can save, for his very poverty eggs him on to spend. Insurance alone can compel him to save, and thus *prevent* him from leaving a legacy of debt to his heirs. His insurance needs are modest—a couple of hundred, may be, or Rs. 1,000 at the maximum. Time stands still in rural India and premiums may have to be collected, in small sums, at regular intervals and kept low to make insurance popular. Not many can read or write there and it is not an easy matter to inspire confidence. Co-operative insurance has a major role in rural India.

The position of the land-owner is better. He can afford the regular classes of insurance—he has need for them—and the problem is more of supply than demand. Scattered as they are in the villages of India, distance makes the question of supply more difficult. Absence of qualified doctors makes medical selection rarely possible but sturdy constitutions, hard labour, and open spaces make it hardly necessary. Nevertheless residential hazard may be a fundamental factor in selection for some rural areas are notoriously unhealthy.

A systematic plan of expansion from the cities to the larger towns, then to the smaller ones and subsequently to groups of contiguous villages may be worthwhile; stress of competition may very soon compel such a plan. This would entail detailed planning, complete knowledge of the distinguishing features of every district, intensive educational propaganda, selfless workers, infinite patience and large initial outlay. But the result will be worth the effort. The real problem is this: rural India is very much sceptical of the plans and programmes of the city salesman, and so the selection of the agent may be the deciding factor in the success of any plan for expansion beyond the cities.

The Question of Cost

These then are the important fields for the expansion of insurance in India, and an important aspect of its operation may now be considered. Insurance is an economic need and its progress is regulated by the economic forces of supply and demand. Supply is almost unlimited. Demand will depend upon the ability and willingness of the people to sacrifice present to future satisfactions. The ability is regulated by forces (usually beyond the control of the offices or the people) that arrest the power to save. Not so willingness. Present goods are more valuable than future goods; a present enjoyment is more highly esteemed than the opportunities for the same enjoyment at a future date. Therefore people, as a general rule, will only sacrifice a present good in order to obtain a greater one in the future. A person who invests a sum of money expects its return in full, together with an addition, as a reward for waiting, at the end of a given period. A man may put aside a supply of commodities or the means of procuring them as a provision against old age or unforeseen difficulties, and many would do so without the inducement of interest, security of the investment (which now happily insurance is able to offer) being the only criterion for selecting the medium. The realisation of the future, which is one of the results of advanced civilisation, manifests itself in the willingness of the people to provide for future emergencies, as well as an increased recognition of the duty of making provision for dependents in case of death or disablement. But how far these two forces (viz., realisation of future emergencies and recognition of the duty to dependents) strong enough to overcome the natural resistance to invest in a scheme which, at the present level of cost, entails a certain loss of capital?

Realisation of future emergencies and recognition of the duty to dependents combine and provide the primary incentive in insurance. Benefits provide a second and future enjoyment a third. When the aggregate of the premiums paid is more than the sum assured, the force of the first incentive has to be fairly strong to overcome the resistance provided by the cost. If that were not so three things would have happened: insurance would have been purchased and not sold; assurances providing for more equitable cost (such as limited payment whole of life) would have been preferred; endowment assurances would have lost all their glamour. That they do not happen proves that a man insures primarily to enjoy the fruits of his savings. It is possible to advance sound arguments for the present level of cost (and we have tried to give some of them in the foregoing pages) but very few may really be convinced, for no insurable man lives who firmly believes that he stands in need of cover against premature death. A man may earmark the amount of interest on his savings against the price of protection but only one in a thousand may *willingly* part with the entire interest and a part of the capital to meet a possible future emergency for his family. That even a 5% reduction in the present level of prices may induce a 25% increase in the total turnover may be a rough guess but must provide food for thought.

Nationalisation

This question of cost is much more important than what is suggested by the above discussion. For let us look at what an important insurance journal has to say: [1] "one challenge against present-day insurance in one country is that there have been but few, if any, failures in recent years. The inference, presumably, is that the public has been paying an excessive price for the security provided, and that even were all business on a with-profit basis, there was a danger of the excessive price being perpetuated through lack of economy of cost. For that reason, legislators in more than one country are working on the idea that the function of State supervision is the dual one of testing both the security of the insurance undertaking and its social equity, i.e., whether its cost is commensurate with the value the community attaches to the selling of insurance protection." The needs of the times is evidently for company managements through sound underwriting and investment policy to maintain an adequate, but not grossly exaggerated policyholders' funds, and to give protection at equitable cost. That way lies a continuation of sound insurance as a private enterprise. The real challenge to private insurance may come from its inability to pass on to the public benefits from improved insurance hazards in an excess of zeal for still more security.

The mention of that challenge is a warning for the future; but as the challenge of nationalisation is there now as a result of socialist trends, the question merits more than a passing reference. At the same time this is not a discussion on the relative merits of the wider aspect of socialism *versus* capitalism for that is beyond the scope of this book but merely an attempt to probe into the equity of the demand for nationalisation in the narrower field of insurance. That insurance is a highly-developed social service is an admitted fact; that equity and justice should govern its operations is beyond dispute; that its profits should go to benefit the people who contribute towards its prosperity is a simple matter of equity; but what is open to question is the equity of the demand on grounds which are far from equitable.

i. *Moral Grounds*

The moral grounds for nationalisation are perhaps the most potent but the least equitable, for this question of equity has many phases. For instance, the quest for equity in underwriting (like

[1] *The Review* (London), 7-6-1946.

the elimination of undesirable lives) might conflict with the question of equality of individual rights under the constitution; the prohibition of private trading in insurance might run contrary to the provision of the fundamental right 'to practise any profession or to carry on any occupation, trade or business' [Section 19 (1) (g) Part III, the Constitution of India]; equity in State ownership of insurance without a parallel ownership of co-operative credit, banking, education, private trusts, electric power, fuel, medicine and a host of other trades, professions and services, may very well be questioned. Added to all this is the directive principle of effectively providing for 'securing the right to work, to education and to public assistance in cases of unemployment, old age, sickness and disablement, and in other cases of undeserved want' (Section 41, Part IV, The Constitution of India). That, in equity, is the insurance that the State should undertake; that, in essence, the protection that the State should provide, for they stand most in need of it for no fault of their own. Over 30% of the people of India thus demand social security immediately; there is time enough later to take over the security of the 1% of the people whom the life offices serve.

ii. *Technical Grounds*

The regrettable lapses of a few of the offices might have added weight to the technical grounds for State ownership had nationalisation offered a blueprint for successful business operation. We are led to believe that technical efficiency and economic management are State monopolies; unscientific operation and extravagance products of capitalism. The efficiency and strength of the larger companies that control 85% of the business disprove the theory; Parliamentary debates, periodic commissions and news reports prove that technical blunders and extravagant management are hardly private monopolies. In fact it is not a choice between an imperfect system called private enterprise and a perfect system called nationalised insurance. It is a choice between two human systems, both of which will inevitably have their defects and deficiencies because they are human—with perhaps one distinguishing feature. State ownership will control insurance through a cold, impersonal, remote committee. The warmth of personal contact which is the basis of healthy growth will be exchanged for an impersonal approach that damps enthusiastic support. Efficiency may have to be sacrificed at the altar of security tied up with red tapes—a security that is real in private insurance, at least under present regulations, but which may prove to be a mirage when it fails to meet a demand in time under Government ownership. For no man or group of men, no matter how brilliant, tied down by the red tapes of a bureaucratic set-up can ever hope to realise the needs and anxieties of a vast multitude of people and instil security and confidence into them. No man in Government service can make a decision on any matter on the spot without an immense amount of paper work with the inevitable red tape, that begins at the local office and moves at a snail's space through various departmental heads, local boards, regional councils, up to the final authority in Delhi and finally back through the same successive channels. A father of a prospective bride in the meantime may have to defer her marriage because of the inability of a local office to grant a loan; a widow might have to remarry for subsistence by the time the authority decides to sanction payment of an unassigned insurance on the life of her late husband; a minor son might have grown into a major person before his rightful title is established. This question of nationalisation is fraught with grave inequities to the policy-holder. The private insurer is a profit-making tough bargainer but is too shrewd a businessman to deny custom through bad management. A State insurance bureau may prove to be a bureaucratic creation that frightens much more than it protects.

iii. *A Few Misconceptions*

Here it may be pertinent to clear a few misconceptions. A Post Office Savings Bank is often cited as an illustration of prompt payment. That is hardly an apt comparison. A savings bank account stands on the same footing as a bank account. Treasury payments on any other account is always delayed by the need for ensuring a vast amount of detail—necessary to ensure justice —that usually calls for infinite waiting. Comparison of costs with the Postal Insurance Fund is often misleading, for that fund is operated among a select group of highly eligible lives (reducing mortality rates) through a system of voluntary contributions (practically eliminating the cost of procuration and loss through lapses) and by a departmental policy that, theoretically at least, has facilities for adjusting interest rates.

iv. *Other Grounds*

The political, economic and social grounds for nationalisation often tend to coalesce and build a road that may lead to militant socialism (such as what Hitler practised in Germany) that centralises all power in the hands of a few political bosses unless great vision and absolute discretion are applied. For success begets success; control in one sphere inevitably leads to control over wider spheres of national life which may end in the dispossession of the citizens' fundamental right to own property, to carry on the profession of his choice and to spend his income as he chooses, out of sheer necessity. That the common man recoils from such a system is proved by the voluntary brake that the Socialist Party in Britain has had to apply to its programmes. That nationalised insurance can place itself in an economic and political straight-jacket is proved by what is happening in France. Let M. P. Aubry tell that story: [1]

> "A very real anxiety has been manifested in informed circles concerning the present situation, and even more, the future of French insurance industry whose 34 nationalised firms account for 62% of its business. Although less spectacular and carried to a lesser degree than in the other nationalised sectors, 'politicalization' is very marked here. Moreover, it seems to be an inevitable result of the system itself. The appointment of the directors of these companies depends either upon political men, the Ministers of Finance or of National Economy, or upon the National Insurance Council which is in some degree subject to their influence, or upon union organizations which are for the most part closely bound up with political parties. The Minister of Finance appoints the General Director. Thus directly, or not, these essential appointments are influenced by political considerations. The effects of this were immediately discernible in the administrative offices of the companies, which have far too often concerned themselves with problems that were foreign to the real interests of the enterprise and the policyholders.
>
> "The limited independence of the branch organisations which is necessary if they are to show any initiative has, under these conditions, been superseded by a bureaucratic centralization. Efficiency and team spirit have disappeared in the central offices of these companies where neither the managers nor the general directors have been given the specific mandate to defend the interests of the company, but rather the divergent interests of the policyholders, the employees or the State.
>
> "The financial condition of the companies has been seriously affected by this situation and is, for the most part, deplorable. Nor can these difficulties of the nationalized insurance companies be explained by comparing their losses with those of a few minor com-

[1] An extract from a study on the nationalized industries and utilities in France, which appeared as a series of articles in *Les Monde* (Paris) and reproduced in *Le Courrier Des Indes* (Bombay, May 1949); this contains an interesting analysis of the technical aspects of the nationalized industries.

panies in the free sector, because the nationalised companies occupy a much more favoured position. The question of funds is a grave one for all these companies. For a long time the State, which is the only stockholder, refused to increase their capitalization, and preferred that the companies, since they could not issue bonds themselves, should have recourse to bank loans which were inevitably difficult to carry, and which only postponed the solution of the problem to the date when they fell due. A few months ago, however, the State agreed to underwrite increase in capitalization, but freed itself of the obligations involved by turning over to the companies Treasury bonds which are negotiable only in cases of the utmost urgent necessity. We cannot refrain from criticising these methods which hamper the administration of enterprises that the law makers wished to keep strictly within the framework of civil and commercial law.

"This need for capital is so acute that some directors of the nationalised insurance companies are afraid that a merger of these companies into one huge State-owned company may seem imperative. Such a step might have the most dangerous consequences for the entire nationalised insurance industry because of the topheaviness of the agency thus created and the complete disappearance of the spirit of enterprise which it would entail. Moreover, the reinsurance companies, which bring foreign exchange into the country, would certainly lose the greater part of their foreign business, since foreign insurers would hardly care to have the French State reinsure them."

After this it would be a pity if nationalisation of the companies which cater for the upper and middle classes is advocated.

Conclusion

That is not to mean that the industry is in a perfect state of robust health. It is not. We can fill a whole book with the many ills that the industry has had—and maybe, still has, but in a recognisable form, as for example lapses. But it is not necessary. What is necessary is to see clearly the general principles that should govern the operation of insurance to the greatest good of the largest number; to arrest the destructive forces that sought to lead it astray; to unite in strengthening its constructive forces through an effective system of sound rationalization; and above all to set its hands to the hard task of revivifying it and revitalising its efforts. For the task ahead is clear. The immediate need of India is wealth; the immediate problem poverty. The low figure of national income is an index of the poverty of the people. So let us bestir ourselves, united by a superabundance of patriotism, to give more wealth to India. Let us unleash the energies of free people to fight every move that tends to stifle the freedom to produce more wealth. Let us start off an astonishing surge of human energy that creates an abundance of wealth. Let us stop apologising for the past and uphold the noble ideals of thrift, self-help, decency and co-operation. Let us unite to give strength to life assurance in its magnificent effort to conserve the wealth for posterity.

APPENDIX

PROGRESS IN FIGURES

No picture of Indian insurance is complete without a record of its growth. The first policy was issued in India about 150 years ago probably on the life of an Englishman. Established in 1871 the Bombay Mutual is the first life office now in operation open to all sections of the public but its activities were limited until 1918. The formation of the Oriental in 1874 signalled the beginning of Indian insurance, and for many years the progress of life assurance in India was identical with the growth of the Oriental. The conservatism of the people, mass illiteracy, ignorance and poverty arrested the progress in the early years; foreign competition then was a check on its expansion. The spread of English education and the birth of the middle classes quickened its pulse; nationalism in 1906 gave it an impetus; nationalism in the twenties hastened its expansion; public enthusiasm ran wild in the thirties and tended to import unhealthy trends which were promptly curbed by the Insurance Act 1938; and war-time destructive forces tried to mar its fair name later and are being checked by Insurance (Amendment) Act 1950.

An accurate estimate of its progress till 1900 is difficult; nevertheless, a measure of that progress is afforded by the records of the four major offices operating at that time:

Table No. 58

Progress of the four established offices around the year 1900

Year	Life Office	New Business Rs.	Business in force Rs.
1899	Oriental	63,71,990	7,16,14,380
1897	Bharat	1,65,500	1,65,500
1902	Indian Life	2,00,000 [1]	10,86,440
1902 [2]	Empire	1,80,320	12,89,015

The total business in force of the Indian offices may therefore be taken as nearly Rs. 8 crores in 1900 of which the Oriental's share was over Rs. 7 crores.

[1] Estimated.
[2] Average for the ten years 1897-1907.

Progress of Life Offices

Government publications give returns of Indian life offices from 1914 (although separate figures for their Indian and foreign business were not available until 1928) and those of foreign offices operating in India from 1928. The following figures and tables worked out on the basis of the details published in the Government Year Books, have been divided into three periods, viz. 1914-29, 1930-39 and 1940-48.

(In all the charts in the accompanying pages AB represents index numbers of total business in force, CD index numbers of new business, TT actuals of business in force and NN actuals of new business.

The word GAIN has been used to denote the increase of business in force in two consecutive years: thus business in force in 1930 is Rs. 85 crores and in 1931 Rs. 94 crores and the GAIN in 1931 is therefore Rs. 9 crores. The word LOSS has been used to denote the amount of business withdrawn by death claims, maturities, surrenders and lapses. The loss in 1931 is calculated by taking the difference between the new business in 1931 (Rs. 17 crores) and the Gain for 1931 (Rs. 9 crores), that is to say Rs. 8 crores)

First Period (1914-1929)

Fifty-two offices were in existence at the beginning of the period of which ten have ceased to exist since; fifty-three offices were started during 1914-1929 of which 29 have ceased to exist now.

Table No. 59
New Business and business in force
of Indian companies for 1914-1929

Year	No. of companies	No. of new policies	New Business Rs.	Index No. (New Business 1914 base 100)	Business in force Rs.	Index No. (New Business 1914 base 100)
1914	44	Not available	3,19,99,952	100	22,44,10,860	700
1915	42	do.	2,24,34,565	70	22,82,57,473	712
1916	44	do.	1,75,41,189	55	22,13,40,665	690
1917	41	do.	2,23,48,262	70	23,98,54,447	750
1918	43	do.	2,85,59,144	90	25,11,77,126	779
1919	42	do.	4,49,06,170	141	28,23,19,175	881
1920	43	28,046	5,16,90,623	162	31,08,70,377	972
1921	45	28,677	5,46,81,849	170	33,51,87,576	1046
1922	48	29,341	5,64,10,279	176	36,61,62,008	1144
1923	46	31,682	5,84,93,533	183	39,05,86,308	1221
1924	48	36,251	6,88,59,259	215	42,00,00,000	1312
1925	49	42,517	8,15,16,447	255	47,00,00,000	1469
1926	51	52,754	10,34,91,698	324	53,50,00,000	1671
1927	56	66,680	12,77,23,424	399	62,00,00,000	1937
1928	61	92,724	15,40,80,000	481	71,11,12,000	2221
1929	62	1,06,232	17,28,96,000	540	81,31,64,000	2540


Over 75 Years
of
unremitting service and unimpeachable security have enabled the Oriental to stand in the vanguard of Indian Insurance with unparalleled strength and integrity.
Total Assurances in force ... Rs. 173,09,01,837
Funds ... ... ,, 57,44,28,039
Annual Income ... ... ,, 9,83,19,846
Total Claims paid ... ,, 46,40,22,022
Write for particulars of our attractive Schemes of Assurance to :
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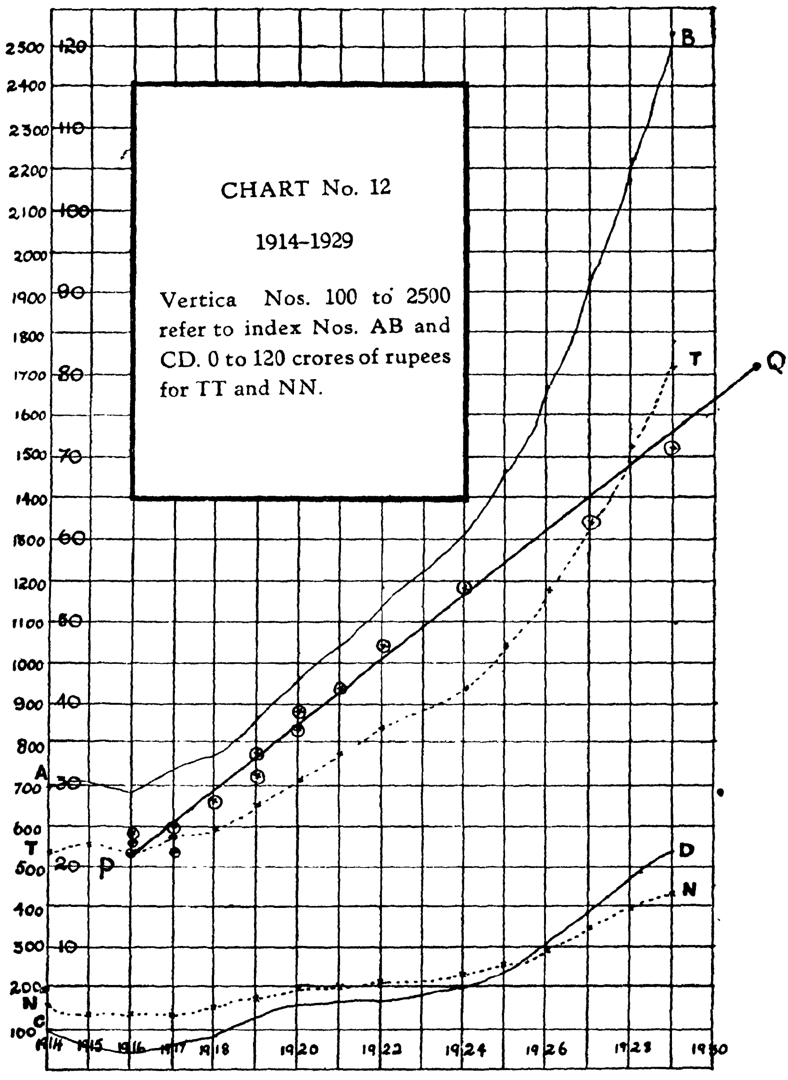


Chart No. 12 shows index numbers and actual figures of both new business and business in force. The curve NN (for new business) shows a sharp upward trend from 1924 when the congress began to take active interest in insurance; in 1929 new business was nearly 5½ times that in 1914. Business in force increased 3½ times during this period.

(all amounts in thousands of Rupees)

Total new business effected during 1914-1929 ..	1,09,76,32
Increase of business in force (business in force 1929 less business in force 1914)	58,87,53
Total business lost through death claims, maturities, surrenders and lapses	50,88,79
Average new business per year	6,86,02
Average loss per year	3,18,05

Thus the average loss per year through death claims, maturities, surrenders and lapses is half the new business during the period.

Number of policies effected during 1920-1929 ..	5,14,904
Average amount per policy during 1920-1929 ..	Rs. 1,805

An abnormality

Business in force in 1916 was Rs. 69,16,808 less than in 1915, despite Rs. 1,75,41,189 new business received in that year; in other words Rs. 244 lakhs of business was lost in 1916 through death claims, maturities, surrenders or lapses. This might have been a direct result of the panicky conditions then prevailing, a large number of company failures or to incorrect figures: the published figures however do not show any appreciable increase in the percentage of claims or surrenders paid in that year:

	Percentage of the total outgo			
Year	Death Claims	Maturities	Surrenders	Total
1915	25.2	10.4	2.9	38.5
1916	26.3	9.9	3.2	39.4
1917	24.0	13.0	4.0	41.0

Curve PQ

In Chart No. 12 new business has been plotted horizontally and business in force vertically, with the points of contact marked with a cross. The result is more or less a straightline graph, the points lying near about PQ where PQ has an inclination of 45° proving that the progress of new business and business in force has been steady.

(1930-39)

(*Business in India only*)

62 offices were operating life business at the end of 1929 of which eight went into liquidation during the period and nine were amalgamated. 163 companies were floated during the period of which 84 were either amalgamated or liquidated subsequently. 182 companies were in existence on 1 July 1939 when

Table No. 60.

Amounts in thousands of Rupees.

New business and business in force together with index numbers

Year	No. of companies included	No. of new policies issued in India	New business effected in India Rs.	Index Number	Total Number of Policies in India	Business in force with bonuses Rs.	Index Number
1930	68	1,05,686	15,68,09	100	5,13,955	84,88,91	541
1931	82	96,909	17,09,20	109	5,02,144	93,95,81	600
1932	94	1,13,213	18,94,70	121	5,54,282	1,01,81,12	650
1933	108	1,54,920	24,08,76	154	6,36,080	1,14,34,27	729
1934	135	1,83,063	27,97,30	159	7,42,250	1,31,69,91	840
1935	151	2,04,799	31,57,32	201	8,35,782	1,46,02,18	991
1936	166	2,39,272	35,98,23	229	9,88,734	1,67,77,45	1070
1937	181	2,62,997	39,04,73	249	10,98,784	1,84,29,07	1170
1938	187	2,98,478	43,29,59	276	12,39,567	2,03,71,23	1300
1939	181	2,88,529	42,51,23	271	13,31,305	2,15,19,23	1372

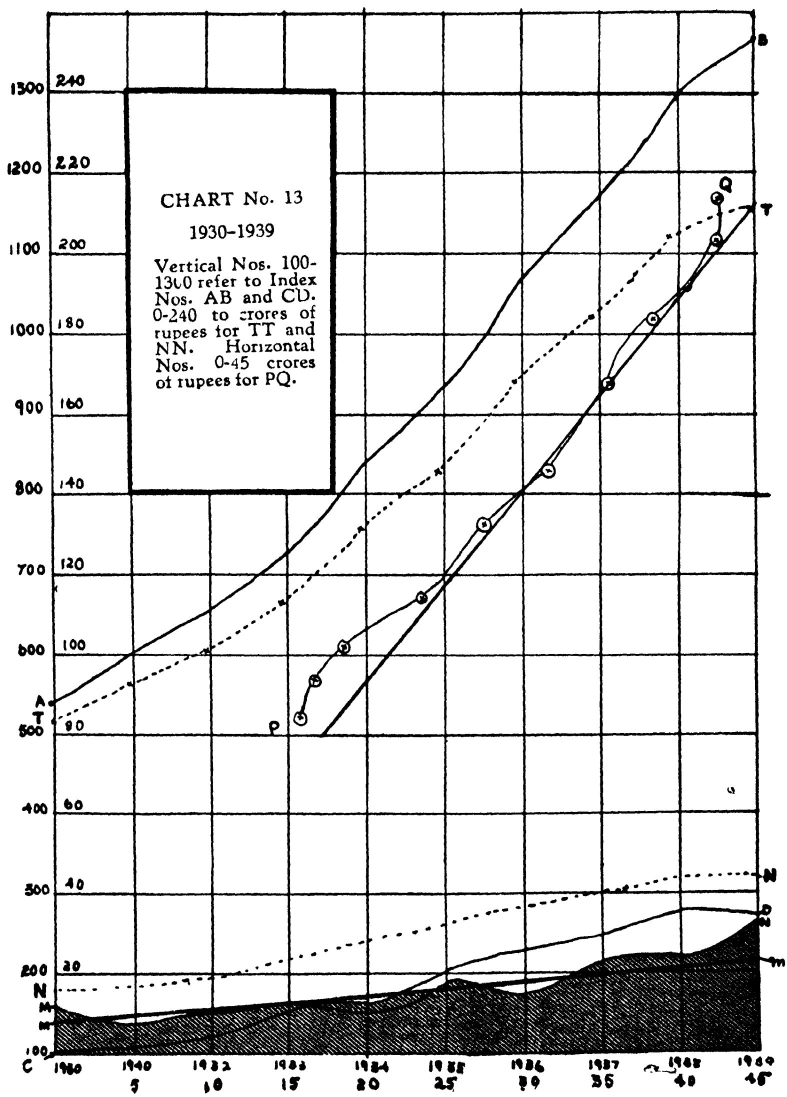
Index numbers for both new business and business in force base 100 new business for 1930

Table No. 61.

Year	No. of companies included	No. of new policies issued in India	New business effected in India Rs.	Index Number	Total Number of Policies in India	Business in force with bonuses Rs.	Index Number
1939	181	2,88,529	42,51,23	100	13,31,305	2,15,19,23	506
1940	167	1,96,490	32,31,61	76	13,71,963	2,25,51,23	530
1941	170	1,88,843	34,14,18	80	14,26,758	2,37,24,42	558
1942	172	1,68,989	36,47,33	86	14,64,133	2,50,68,46	590
1943	167	2,82,642	62,93,79	148	16,28,482	2,94,08,14	691
1944	175	4,31,521	95,19,81	224	19,40,432	3,66,15,05	861
1945	183	5,77,280	1,22,77,61	289	23,76,294	4,59,42,73	1081
1946	180	5,95,590	1,31,42,57	309	25,69,180	5,14,49,99	1210
1947	170	5,23,545	1,14,06,32	268	27,06,945	5,47,16,99	1287
1948	163	4,66,963	1,07,68,43	253	27,90,509	5,66,37,90	1332

Index numbers for both new business and business in force base 100 new business for 1939.

Insurance Act 1938 came into force; within a year they dropped down to 159 (these figures do not include non-life companies). 26 non-Indian companies carried on life business immediately before the Act came into force; ten of them withdrew on 1 July 1939; and the Allianz und Stuttgarter was taken over by the Custodian of Enemy Property later.



Curve AB in Chart No. 13 indicates the index number of business in force and curve CD new business, curve TT actual amounts of business in force and NN of new business.

Total number of policies effected during 1930-39	19,47,866
Total new business effected	Rs. 2,96,19,15,000
Average amount per policy	Rs. 1,521
Total of the number of policies in force every year	84,42,883
Total of the business in force every year ..	Rs. 14,43,69,18,000
Average amount per policy in force ..	Rs. 1,710

The amount per policy based on the above two calculations differ primarily because of the large number of participating policies on which higher bonuses were declared at the time and secondly due to economic forces. The average amount per policy during 1914-1929 was Rs. 1,805, but the abnormal fall in prices around the year 1928 which was a prelude to acute economic depression, raised the purchasing power of the rupee and lowered the amount per policy during 1930-1939. Many new policies for lower amounts such as Rs. 500 began to be issued at this time. In the years 1930, 1938 and 1939 the amount per policy was less than the average of Rs. 1,521 for the decade; it was almost level in 1937. These years showed lower amounts per policy of the business in force also.

The index numbers show the growth in new business from 100 in 1930 to 271 in 1939 and the business in force from 541 to 1372, taking a similar basis as for the period 1914-1929, viz., new business of the first year of the period as 100, for both new business and business in force.

	Rs.
Increase of business in force for 1930-1939 (business in force for 1939 less that for 1930)	1,30,30,32,000
Total new business effected during 1930-39 ..	2,96,19,15,000
Amount of business lost by death claims, maturities, surrenders and lapses	1,65,88,83,000
Average new business per year	29,61,91,500
Average loss per year	16,58,88,300

During 1914-29 the loss per year was approximately half the new business written. The position changed perceptibly after 1929, and loss through deaths, maturities, surrenders and lapses was more than the net gains, or in other words *more than* half the new business written was lost. Indiscriminate company flotations and higher lapse ratios as a direct result of ruinous rate of rebates directly reflected on the quality of business. A reference to the Table on page 321 would show that depression by itself did not significantly increase surrenders.

Around the year 1937-38 death claims began to fall below maturity claims. It is quite probable that the business written prior to 1910 was composed of more whole life policies than endowment assurances.

The year 1931 provides an anomaly. 96,909 policies were stated to have been issued for Rs. 17,09,20,000 (average amount per policy Rs. 1,765) which, because of the fact that 1931 was the worst year of the depression, may not be exactly correct. It is probable that the number of policies given in the year book for 1931 was incorrect.

In Chart No. 13 MM is the curve of loss from 1930 to 1939; mm is a straight line roughly showing half the new business. Where the loss curve MM is above the line mm it indicates an abnormal year when the loss due to death claims, maturities, surrenders and lapses has not been replaced by new business, or when the gain is less than the loss.

(1940-1948)

(*Business in India only*)

197 companies were registered under the Insurance Act 1938 of which 159 wrote life business only, 18 operated life in addition to other classes and 20 were confined to general business. Of the 197, 169 had been registered under the Indian Life Assurance Companies' Act 1912, 15 which were in existence before 1912 had been given exemptions under the 1912 Act, and 13 commenced business after the 1938 Act came into force. 48 companies registered under the 1912 Act did not register under the Insurance Act 1938 and were either amalgamated or placed under receivers. 167 companies were writing life business on 1 January 1940; 41 companies were started during the period all of which were working at the end of 1948. *Thus no company started after Insurance Act of* 1938 *came into operation has gone out of business,* which provides tangible proof of the good effects of the Act.

Table No. 61, page 387, giving new business, business in force and index numbers on the same basis as the other two periods, is not absolutely correct for from 1944 onwards a few of the companies did not submit returns in time and were left out from the Year Books.

Amount in thousands of Rupees

New policies effected	34,31,863
Average per year	3,81,318
Total new business effected	Rs. 7,37,01,65
Average new business per year	Rs. 81,89,07
Average amount per policy	Rs. 2,147.5
Total of the number of policies in force every year	1,82,74,696
Average number of policies in force per year	20,30,522
Total of the business in force every year ..	Rs. 34,61,14,91
Average business in force per year	Rs. 3,84,57,21
Average amount per policy of business in force	Rs. 1,894

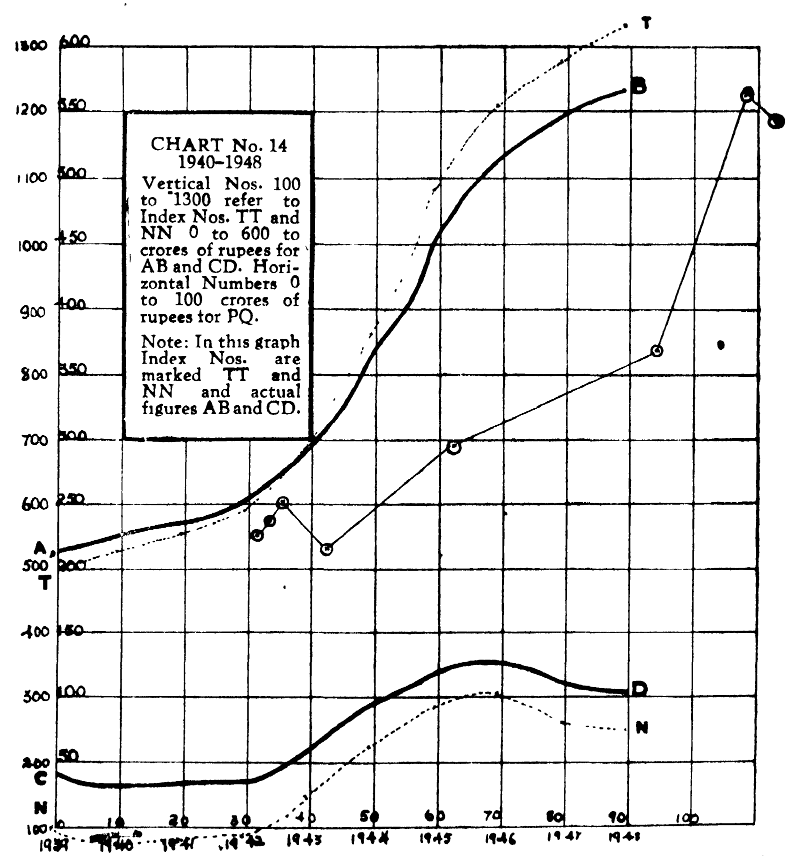


Chart No. 14 gives the new business, business in force and their index numbers.

1940, 1941 and 1942 were abnormal years due to the war when the business receded; the increase in new business from 1943 was phenomenal, the 1943 figure being a third more of the 1942 figure and 1944 1½ times the 1943. 1947 and 1948 were abnormal when the curve shows a downward tendency firstly due to partition and secondly to decreasing saving power.

TREND OF GROWTH

For a comparative study of the entire period 1914-1948 the following table gives new business, business in force, loss and gain in total business: (Table No. 62, page 393, Chart No. 15, page 394).

In Chart No. 15 NN is new business curve, GG gain curve and LL is loss curve.

Wherever the loss curve LL is above the gain curve GG, an abnormality is indicated, and the abnormal years were 1916, 1918, 1923, 1924, 1930, 1932, 1935, 1937, 1938, 1939, 1940, 1941, 1942, 1947 and 1948.

A point of the utmost importance is that *slightly more than half the new business is lost in death claims, maturities, surrenders and lapses,* and the net gain to the toal business is less than half the new business. When the loss and gain are equal or gain is more than the loss it shows progress. When the loss is more than the gain the business shows retrocession: such a condition may be due to bad economic conditions, political or communal upheavals, or abnormal death claims due to epidemics or other natural causes. The fifteen years which have not shown progress may be classified roughly as under the basis of the causes that led to abnormality (this is a purely personal view).

1916, 1940, 1941, 1942	—	Panicky conditions due to war.
1923, 1924, 1930, 1932	—	Bad economic conditions.
1947, 1948	—	Partition and communal disturbances plus loss of saving power.
1918	—	Influenza epidemic.
1935	—	Earthquakes.
1937, 1938, 1939	—	Higher lapses due to rebating and bad quality of business.

Part of the retrocession in 1937 was due to the partition of Burma: likewise, 1947 and 1948 were seriously affected by partition.

The best year relatively was 1946: the worst 1916.

Table No. 62

New Business, Business in force, Loss, and gain in business in force in crores of rupees during 1914-18

Year	New Business (NN)	Index No.	Business in force	Loss (LL)	Index No.	Gain (GG)	
1914	3		22	1		1	
1915	2	100	23	1	50	1	50
1916	2	100	22	3*	150	—1*	—50
1917	2	100	24	0	0	2	100
1918	3	150	25	2*	100	1	50
1919	4	200	28	1	50	3	150
1920	5	250	31	2	100	3	150
1921	5	250	34	2	100	3	150
1922	6	300	37	3	150	3	150
1923	6	300	39	4*	200	2	100
1924	7	350	42	4*	200	3	150
1925	8	400	47	3	150	5	250
1926	10	500	54	3	150	7	350
1927	13	650	62	5	250	8	400
1928	15	750	71	6	300	9	450
1929	17	850	81	7	350	10	500
1930	16	800	85	12*	600	4	200
1931	17	850	94	8	400	9	450
1932	19	950	102	11*	550	8	400
1933	24	1200	114	12	600	12	600
1934	28	1400	132	10	500	18	900
1935	32	1600	146	18*	900	14	700
1936	36	1800	168	14	700	22	1100
1937	39	1950	184	23*	1150	16	800
1938	43	2150	204	23*	1150	20	1000
1939	43	2150	215	32*	1600	11	550
1940	32	1600	226	21*	1050	11	550
1941	34	1700	237	23*	1150	11	550
1942	36	1800	251	22*	1100	14	700
1943	63	3150	294	20	1000	43	2150
1944	95	4750	366	23	1150	72	3600
1945	123	6150	459	30	1500	93	4650
1946	131	6550	514	76*	3800	55	2750
1947	114	5700	547	81*	4050	33	1650
1948	108	5400	566	89*	4450	19	950
Total	1141			594		544	
Average (excluding the year 1914)	33.5			17.5		16	

* Abnormal years.

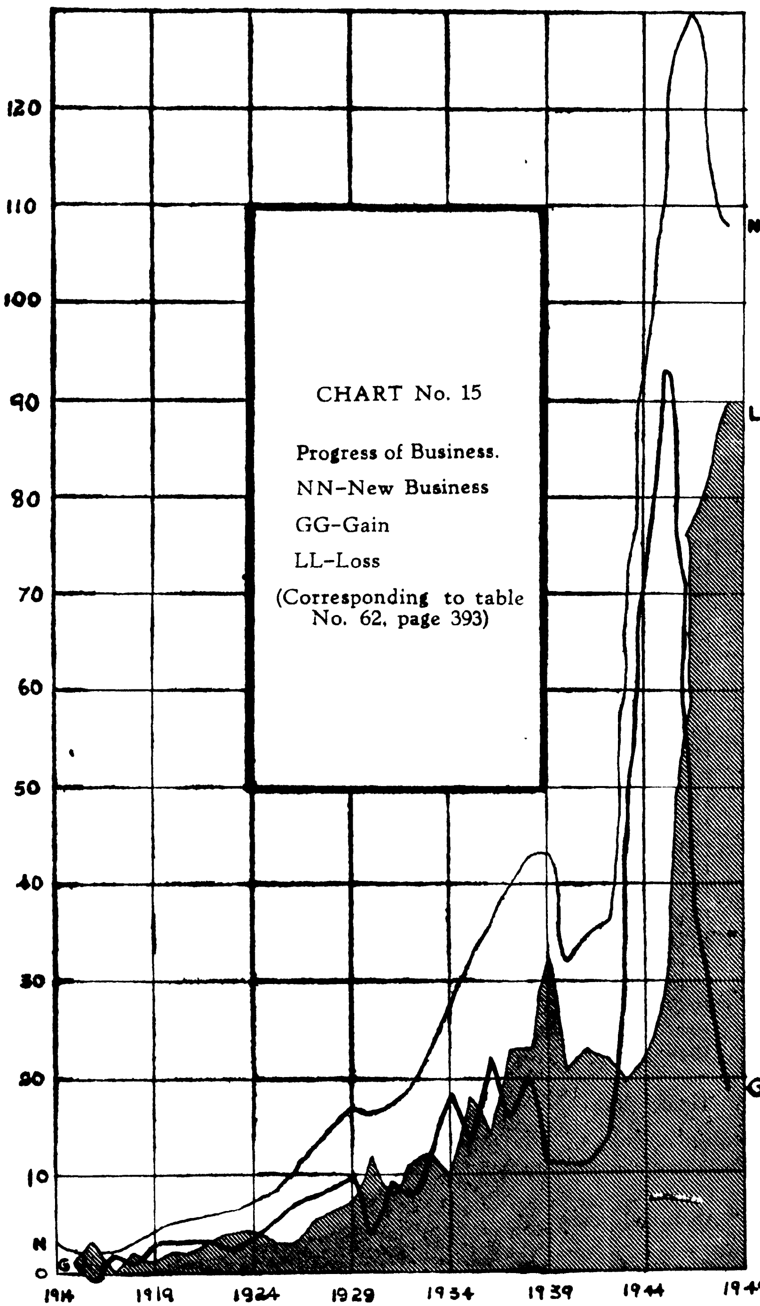


CHART No. 15
Progress of Business.
NN-New Business
GG-Gain
LL-Loss
(Corresponding to table No. 62, page 393)
120
110
100
90
80
70
60
50
40
30
20
10
N
G
0
1914
1919
1924
1929
1934
1939
1944
1949
N
L
G

Table BP—No. 63.

Amounts in thousands of rupees: Policies in actual numbers. Reference on page 396.

Year	b Rs.	B Rs.	Bg Rs.	Bl Rs.	Pn	PT	Pg	Pl
1930*	156,809	848,891			105,686	513,955		
1931	170,920	939,581	90,690	80,230	96,909	502,144	11,811	108,720
1932	189,470	1,018,112	78,531	110,939	113,213	554,282	52,138	61,075
1933	240,876	1,143,427	125,315	115,561	154,920	636,080	81,798	73,122
1934	279,730	1,316,991	173,564	106,166	183,063	742,250	106,170	76,893
1935	315,732	1,460,218	143,227	172,505	204,799	835,782	93,532	111,267
1936	359,823	1,677,745	217,527	142,296	239,272	988,734	152,952	86,320
1937	390,473	1,842,907	165,162	225,311	262,997	1,098,784	110,050	152,947
1938	432,959	2,037,123	194,216	238,743	298,478	1,239,567	140,783	157,695
1939	425,123	2,151,923	114,800	310,323	288,529	1,331,305	91,738	196,791
1940	323,161	2,255,123	103,200	219,961	196,490	1,371,963	40,658	155,832
1941	341,418	2,372,442	117,319	224,099	188,843	1,426,758	54,795	134,048
1942	364,733	2,506,846	134,404	230,329	168,989	1,464,133	37,375	131,614
1943*	629,379	2,940,814	433,968	195,411	282,642	1,628,482	164,349	118,293
1944*	951,981	3,661,505	720,691	231,290	431,521	1,940,432	311,950	119,571
1945*	1,227,761	4,594,273	932,768	294,993	577,280	2,376,294	435,862	141,418
1946	1,314,257	5,144,999	550,726	763,531	595,590	2,569,180	192,886	402,704
1947*	1,140,632	5,471,699	326,700	813,932	523,545	2,706,945	137,765	385,780
1948*	1,076,843	5,663,790	192,091	884,752	466,963	2,790,509	83,564	383,399
Total	10,175,271	48,199,518	4,814,899	5,360,372	5,274,043	26,203,624	2,276,554	2,997,489 A
(1)	5,197,516	2,327,1662	2696,908	2,500,608	2,895,183	11,944,806	1,121,679	1257,181
(2)	4,977,755	2,492,7856	2117,991	2,859,764	2,378,860	14,258,418	1,154,875	1,740,308
(3)	100	473	47.3	52.7	100	492.5	39.9	60.1
(4)	100	500.8	42 55	57.45	100	,497	43.2	56.8

(1) Totals for abnormal years marked by (*) (2) Totals exluding abnormal years (3) Index Numbers of the totals 'A' with new business base 100 and new policies base 100 (4) Index Numbers excluding abnormal years, base new business 100 and new policies 100.

Analysis of Growth

An analytical study of the progress of the Indian companies' business in India for the 18 years ending 1948 (1930-1948) has been attempted. The following two tables were prepared for the purpose:

(I) Table BP giving all amounts in thousands and the number of policies in actual numbers (page 395).

(II) Table bp giving all the above figures reduced to one-ten-thousandth of those in table BP corrected so that more than 5,000 is taken as ten thousand and less than 5,000 is omitted (table below).

The following abbreviations have been used:

i. b — New business effected
ii. B — Business in force
iii. Bg — Progress of B in consecutive years (gain)
iv. B — (b — Bg) business lost
v. Pn. — New number of policies effected
vi. PT — Total number of policies in force
vii. Pg — Progress of PT in consecutive years
viii. Pl — (Pn — Pg) Policies lost

Table No. 64 — bp.

Year	b	B	Bg	Bl	Pn	PT	Pg	Pl
1931*	17	94	9	8	10	50	1	11
1932	19	102	8	11	11	55	5	6
1933	24	114	12.5	11.5	15	64	8	7
1934	28	132	17	11	18	74	10.5	7.5
1935	32	146	14.5	17.5	20	84	9	11
1936	36	168	22	14	24	99	15	9
1937	39	184	16.5	22.5	26	110	11	15
1938	43	204	19	24	30	124	14	16
1939	43	215	12	31	29	133	9	20
1940	32	226	10	22	20	137	4	16
1941	34	237	12	22	19	143	5.5	13.5
1942	36	251	13	23	17	146	4	13
1943*	63	294	43	20	28	163	16	12
1944*	95	366	72	23	43	194	31	12
1945*	123	459	93	30	58	238	44	14
1946	131	514	55	76	59	257	19	40
1947*	114	547	33	81	52	271	13.5	38.5
1948*	108	566	19.5	88.5	46	279	8	38
Totals	1,017	4,819	481	536	525	2,621	225.5	299.5
(1)	520	2,326	269.5	250.5	237	1,187	111.5	125.5
(2)	497	2,493	211.5	285.5	288	1,434	114.0	174.0

(1) totals of abnormal years marked (*)

(2) totals excluding abnormal years.

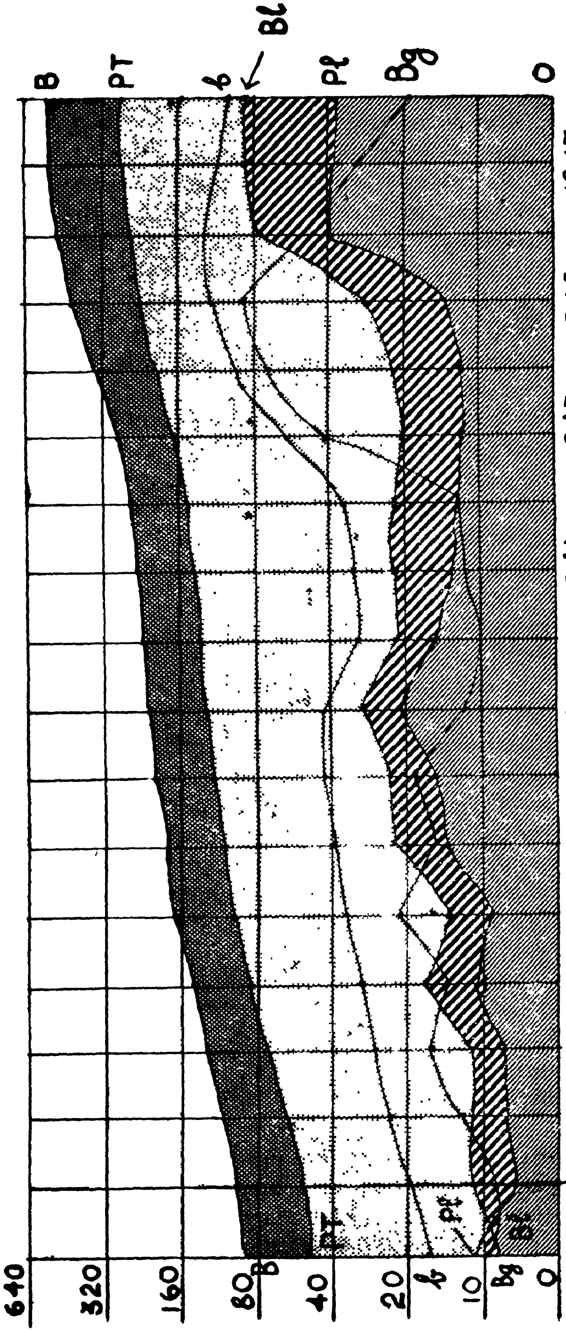


Chart No. 16, prepared from Table bp.

B-B.-Business in force in rupees; PT-PT—Total number of policies in force; Bg-Bg—Net gain in rupees; bb—New business effected; Bl-Bl—Loss rupees; Pl-Pl— Loss of policies in force. (See pages 396 and 398.)

To represent all the above figures in a graph, they have been plotted in a logarithmic scale of graph (taking the figures given in table bp) wherein the scale increases by 0, 10, 20, 40, 80, 160, 320, 640, that is to say double at each step, as this scale would show the rate of growth more perceptibly.

In the accompanying graph the area between curve BB for business in force and zero line oo shows the volume of business in force from 1931 to 1948. The figure for 1930 gets eliminated because Bg, Bl and Pg and Pl are taken basing on the figures for 1930 and 1931. In the graph the total area indicated by the shaded portions shows the business (in rupees) in force and the area covered by base line oo and loss curve Bl shows business lost (Bl) in rupees.

The loss curve Bl shows a depression between 1939 and 1945 but there is no corresponding off-shoot in the graph BB during this period, showing that the policies lost in 1939-1945 were of lower denomination. This period coincides with the time when the lower middle classes cracked up.

The curves BB and PT-PT follow up closely showing that the total number of policies and total business have a uniform rate of growth: in other words, the composition of policies of various denominations that make up the total business in force was of uniform proportion throughout. This is indicated by the area covered by curves BB and PT-PT.

Similarly the curves Bl and Pl show the same rate of growth or fall. This means that the loss in policies of various denominations was also of uniform proportion. This is indicated by the area covered by curves Pl-Pl and Bl-Bl.

In the table BP, the relation between new business, business in force, business lost and gained have been shown in a ratio and also for Pn, PT, Pg and Pl.

Amount per policy:

	Rs.
New Business	1,719
Business in force	1,748
Business gained	1,834
Business lost	1,643

In calculating the above figures the abnormal years of 1931, 1943, 1944, 1945, 1947 and 1948 have been eliminated: in 1931 the number of policies decreased but the total business increased. In 1943-45 and 47 and 48 the range between Bg and Bl was abnormal.

The amount per policy of business in force is more than that on new business, indicating partly bonus additions (which was negligible during the war years) and partly a tendency for policies of higher denominations to stay and not get lost. The value for the business gained is higher still indicating that policies of higher denominations go to add up to the business in force. The amount per policy lost was the least showing that more policies of lower denominations get lost.

Generally speaking more than half the business lost is due to surrenders and lapses. An analysis of the business on the books of a company every year and similar analyses of the business introduced by the branches and then of inspectors of each branch would give sufficient data for a comprehensive sales programme so as to eliminate much of the avoidable losses through surrenders and lapses. A comparison with all-India figures would indicate the relative position of the company and a departure from the average for an office would show the comparative sales ability of the branches and inspectorates. In many cases the figures might give an indication of the extent of financial selection necessary for the future of the business.

INDIAN BUSINESS OUTSIDE INDIA

The branch that the Oriental opened in Colombo in 1903 is, so far as records go to show, the first to operate life business outside India. The business written or the total volume of business on the books prior to 1928 is not available, for the law did not provide for the submission of separate returns upto that time: the figures during 1930-48 are given on page 400.

No chart has been prepared for this as various factors have contributed to show abnormal variations: 1930, 1931, 1932, 1933 showed losses more than gains, obviously on account of the world economic depression—in fact, we are inclined to believe that these figures show its intensity more accurately than the corresponding figures for India—1937 figures were distorted because of the separation of Burma from India; the figures for 1940-45 were affected because of war when most of the overseas business had to be kept in suspense; 1947 and 1948 were similarly affected by partition. Excluding these years, the trend of foreign business is as indicated by Table No. 66, page 400.

In normal years therefore losses are only a third of the new business, showing that the business of the foreign branches of Indian offices is of better quality than that of the Indian; that contention gets added weight when it is remembered that the average sum

Table No. 65

New Business, Business in force, gains and losses of Indian life offices outside India (thousands of rupees—gain and loss in lakhs)

Year	No. of New Policies	New Business effected	No. of Policies in force	Business in force including bonus	Gain (lakhs)	Losses (lakhs)
1930	2,977	81,97	14,369	3,77,45	33	49
1931	2,528	66,39	15,295	4,06,54	30	36
1932	2,655	71,69	16,151	4,20,76	14	58
1933	2,922	74,41	17,036	4,42,55	22	52
1934	3,879	94,47	19,036	4,95,39	52	42
1935	4,867	1,24,09	21,464	5,61,28	66	58
1936	7,410	1,81,98	26,672	6,89,39	1,28	54
1937	11,656	2,69,13	48,202	12,44,55	5,56	—287
1938	15,218	3,38,53	61,302	15,14,71	2,70	69
1939	15,733	3,45,10	70,854	17,22,75	2,08	137
1940	12,611	2,91,39	75,171	18,40,23	1,17	174
1941	10,425	2,54,44	77,840	19,18,84	79	175
1942	3,825	1,42,17	64,084	15,92,35	—3,27	469
1943	6,251	2,29,68	64,599	16,86,99	95	135
1944	9,152	3,05,91	68,903	18,72,67	1,86	120
1945	12,729	4,22,24	77,434	21,79,03	3,06	116
1946	16,199	5,73,48	85,665	24,90,44	3,20	253
1947	16,506	5,51,29	84,515	25,35,13	45	506
1948	21,137	7,04,14	2,02,198	45,29,68	19,95	—1289

Table No. 66

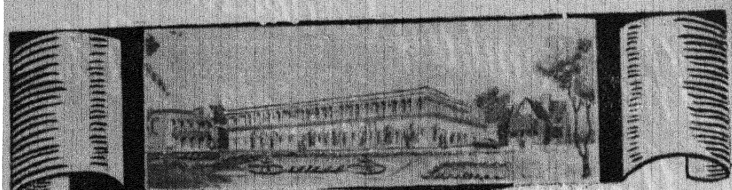
(amounts in lakhs of rupees)

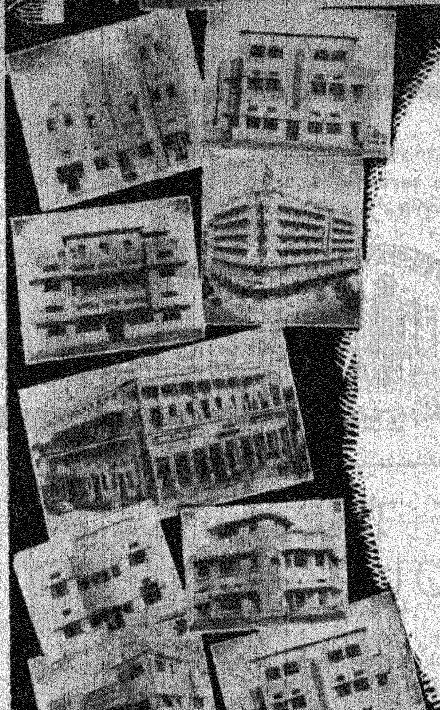
Year	New Business	Business in force	Gain	Loss
1934	94	495	52	42
1935	1,24	561	66	58
1936	1,82	689	128	54
1938	3,39	1515	270	69
1939	3,45	1723	208	137
1946	5,73	2490	320	253
Total	16,57	74,73	10,44	6,13
Average	2,76	12,46	1,74	1,02

per policy is much more than the corresponding figure for India.

FOREIGN COMPANIES IN INDIA

Figures of the foreign offices operating in India are available from 1928 only since before Act XX of 1928 came into force no separate returns of their business had to be submitted. No con-





siderable study of the following table is possible as (1) some of the policies get transferred annually on the transfer of the policy-holders outside India (this might be one of the reasons why despite the new business of Rs. 8.9 crores written in 1933, business in force receded from Rs. 79.2 crores in 1932 to Rs. 76.7 crores in 1933, showing a loss of Rs. 11.4 crores), (2) many offices ceased to write new business from 1939 (3) returns are insufficient, as for example four British offices' returns were either incomplete or not available in 1941, distorting the figures for both 1941 and 1942.

Table No. 67

New Business, Business in force, gains and losses of foreign companies in India. (Thousands of rupees)

Year	New Business Rs.	Business in force Rs.	Gain Rs.	Loss Rs.
1929	12,22,14	64,08,14	1,14,863	73,51
1930	11,75,82	69,76,48	56,834	6,07,48
1931	9,59,48	74,19,38	4,42,90	5,16,58
1932	8,75,04	79,22,15	5,02,77	3,72,27
1933	8,89,80	76,69,76	—2,52,39	11,42,19
1934	10,14,01	83,23,54	6,53,78	3,60,23
1935	11,62,20	88,77,57	5,54,03	6,08,17
1936	10,74,65	93,07,74	4,30,17	6,44,48
1937	9,65,53	92,60,43	—47,31	10,12,84
1938	8,41,95	94,31,02	1,70,59	6,71,36
1939	4,10,99	56,60,35	—37,70,67	41,81,66
1940	3,79,77	60,11,71	3,51,36	28,41
1941	5,36,89	62,55,10	2,43,39	2,93,60
1942	6,35,60	72,25,34	9,70,24	
1943	9,18,13	74,64,87	2,39,53	6,78,60
1944	11,96,98	81,57,35	6,92,48	5,04,50
1945	12,60,15	91,85,45	10,28,10	2,32,05
1946	12,83,82	1,00,84,91	9,01,46	3,82,36
1947	12,34,64	1,01,90,06	1,05,15	11,29,49
1948	11,96,82	1,01,08,30	—8,17,6	12,78,58

GROWTH OF POLICIES

A study of the trend of the policies issued and in force has been attempted in order to show the incidence of insurance cover among the people. These are tabulated on the next page.

Over 55% of the policies issued in India are thus withdrawn by death, maturity, lapse or surrender and 45% are carried forward.

Taking the numbers in ten thousands vertically and the years horizontally, Chart No. 17 shows curves Pn, Pl and Pg. The area between the base line and Pn-Pn shows the number of policies issued each year and the shaded portion the number of policies

Table No. 68.

New policies, policies in force, gains and losses each year during 1930-1948.

(Indian Companies in India.)

New policies—Pn.
Total policies in force—Pt.
Grain in total policies—Pg. (Pt_2 minus Pt_1)
Loss in policies—Pl. (Pn minus Pg)

Year	Pn.	Pt.	Pl.	Pg.
1930	105,686	513,955	—	—
1931	96,909	502,144	108,720	—11,811
1932	113,213	554,282	61,075	52,138
1933	154,920	636,080	73,122	81,798
1934	183,063	742,250	76,893	106,170
1935	204,799	835,782	111,267	93,532
1936	239,272	988,734	86,320	152,952
1937	262,997	1098,784	152,947	110,050
1938	298,478	1239,567	157,695	140,783
1939	288,529	1331,305	196,791	91,738
1940	196,490	1371,963	155,832	40,658
1941	188,843	1426,758	134,048	54,795
1942	168,989	1464,133	131,614	37,375
1943	282,642	1628,482	118,293	164,349
1944	431,521	1940,432	119,571	311,950
1945	577,280	2376,294	141,418	435,862
1946	595,590	2569,180	402,704	192,886
1947	523,545	2706,945	385,780	137,765
1948	466,963	2790,509	383,399	83,564
Total	5,379,729		2,997,489	2,276,554
Average Less 1930	293,002		166,527	126,475
Index Nos.	100		56.8	43.2

(Chart on page 403, No. 17)

withdrawn due to death, maturity, lapse or surrender. Where curve Pg goes below the curve Pl, the year is abnormal. Abnormal years during 1930-1948 were 1931, 1932, 1935, 1937, 1938 1939, 1940, 1941, 1946, 1947 and 1948.

Indian Companies' business outside India

(Table No. 69, page 404)

In 1937 and 1948 the total number of policies advanced much more than the new policies written, as the business in Burma and Pakistan were treated as foreign business, and these two years have been excluded from the average; yet the figures of gains and losses can hardly indicate the real trend of the business, as: (1) a number of policies are transferred every year

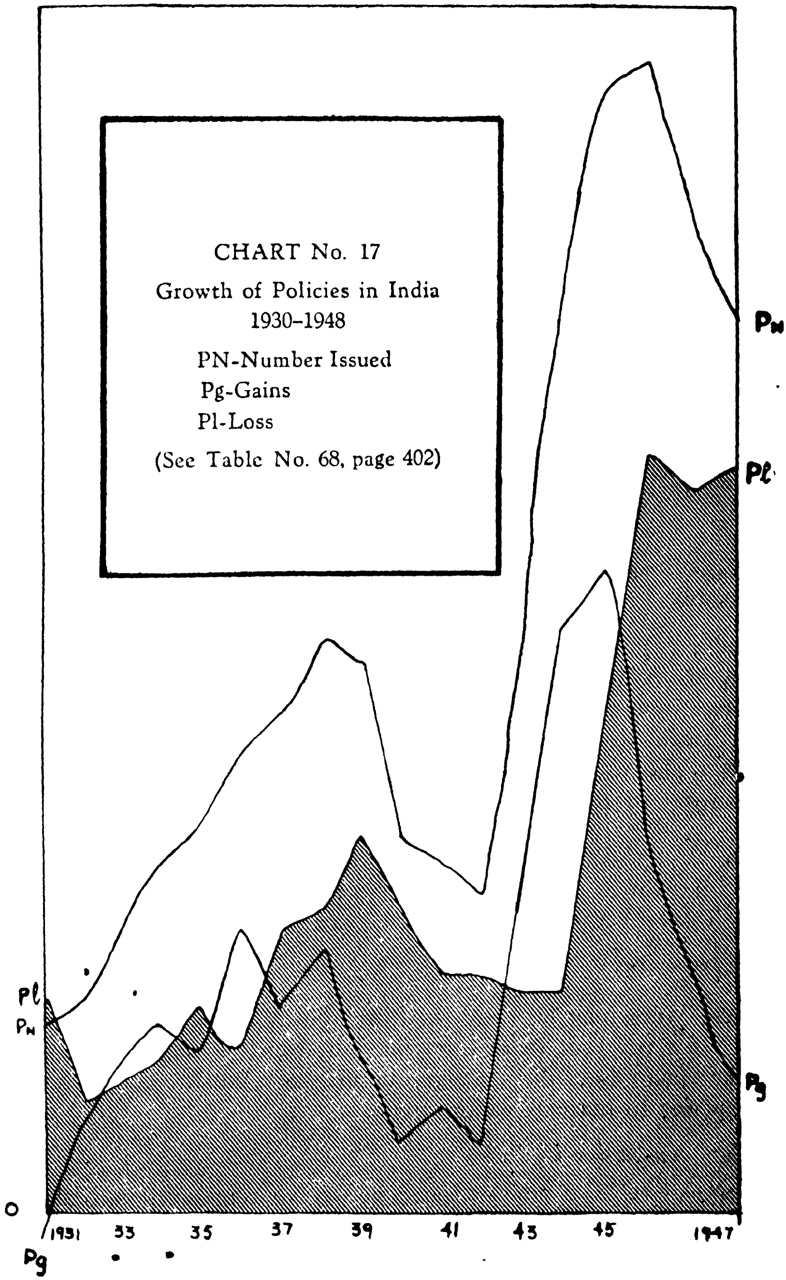


CHART No. 17
Growth of Policies in India
1930-1948
PN-Number Issued
Pg-Gains
Pl-Loss
(See Table No. 68, page 402)
Pn
Pl
Pg
Pl
Pn
0
1931
33
35
37
39
41
43
45
1947
Pg

Table No. 69.

Indian Companies outside India.

References on page 402.

Year	Pn.	Pt.	Pl.	Pg.
1930	2977	14,369	—	—
1931	2528	15,295	1602	926
1932	2655	16,151	1799	856
1933	2922	17,036	2037	885
1934	3879	19,036	1879	2000
1935	4867	21,464	2439	2428
1936	7410	26,672	2202	5208
1937	11656	48,202	-9874	21530
1938	15218	61,302	2118	13100
1939	15733	70,854	6181	9552
1940	12611	75,171	8294	4317
1941	10425	77,840	7756	2669
1942	3825	64,084	17581	-13756
1943	6251	64,599	5736	515
1944	9152	68,903	4848	4304
1945	12729	77,434	4198	8531
1946	16199	85,665	7968	8231
1947	16506	84,515	17656	-1150
1948	21137	202,198	-96546	117683
[1] Average	8931		5893	3038
Index No.	100		66	34

to India (2) of the eighteen years for which figures have been given, six were war years, two were taken up by partition problems, five witnessed economic depression, and only the years 1936, 1938, 1939 and 1946 could possibly have shown normal trends. The following table gives the totals of the years 1931, 1932, 1933, 1934, 1935, 1936, 1938, 1939, 1940, 1941 and 1946:

Table No. 70.

	New Policies	Loss	Gain
Totals	94,447	44,275	50,172
Average	8,586	4,025	4,561
Index No.	100	46.9	53.1

If these years may be taken to have shown normal trends, the gain is 6.2 per cent more than the loss, which is another proof of the fact that the foreign business of Indian companies is superior to business within India.

Foreign companies in India

A similar table of policies issued by foreign companies in India is given on the following page (No. 71).

[1] Excluding 1930, 1937 and 1948.

Table No. 71.

References on page 402.

Year	Pn.	Pt.	Pg.	Pl.
1930	39,523	202,703		
1931	28,229	211,769	9,066	19,163
1932	25,920	231,003	19,234	6,686
1933	28,463	219,767	−11,236	39,699
1934	31,555	244,483	24,716	6,839
1935	33,997	259,159	14,676	19,321
1936	34,133	272,238	13,079	21,054
1937	31,049	272,310	72	30,979
1938	25,952	276,143	3,833	22,119
1939	11,058	165,646	−110,497	121,555
1940	9,584	181,247	15,601	
1941	11,229	179,122	−2,125	13,354
1942	9,363	196,431	17,309	
1943	13,604	192,784	−3,647	17,251
1944	18,727	186,585	−6,199	24,926
1945	22,259	216,371	29,786	
1946	20,669	227,526	11,155	9,514
1947	20,076	228,526	1,000	19,076
1948	18,776	234,489	5,963	12,813

Omitting 1933, 1939, 1941, 1943 and 1944 when pg is a negative figure, and 1940, 1942 and 1945 when Pg is more than Pn, we have the following totals:

Table No. 72.

	Pn	Pg	Pl
Total	270,356	102,794	167,562
Average	27,036	10,279	16,756
Index No.	100	38.0	62.0

Omitting the year 1937 also when the transfer of Burma distorted these figures too,

Table No. 73.

Total	239,307	102,722	136,585
Average	26,590	11,414	15,176
Index Nos.	100	42.5	57.5

Even these figures may not represent the correct position as a number of policies are transferred out of India every year.

AMOUNT PER POLICY

Table No. 74, page 406.

The index numbers given in columns 5, 6 and 7 have been plotted in Chart No. 18 and will give an indication of the relative variation of the amount insured per policy in successive years.

Table No. 74.

Average sum assured per policy New business

Year	Indian offices		Foreign offices	Corresponding index numbers (taking actuals in hundreds and the figure for business of Indian companies in India for 1929 as base 100)		
	Inside	Outside				
(1)	(2)	(3)	(4)	(5)	(6)	(7)
1920	1,843					
1921	1,907					
1922	1,923					
1923	1,846					
1924	1,899					
1945	1,917					
1926	1,962					
1927	1,915					
1928	1,662					
1929	1,794	2,848	3,092	100	156	172
1930	1,974	2,753	2,975	111	156	167
1931	1,764	2,626	3,399	100	144	189
1932	1,674	2,700	3,376	94	150	189
1933	1,555	2,547	3,126	89	139	172
1934	1,528	2,435	3,213	83	133	178
1935	1,542	2,550	3,419	83	144	189
1936	1,504	2,456	3,148	83	139	172
1937	1,485	2,309	3,110	83	128	172
1938	1,460	2,225	3,244	83	122	178
1939	1,473	2,193	3,716	83	122	206
1940	1,645	2,311	3,963	88	128	222
1941	1,808	2,441	4,781	100	133	267
1942	2,158	3,717	6,788	122	206	378
1943	2,227	3,674	6,749	122	206	372
1944	2,206	3,343	5,874	122	183	328
1945	2,128	3,317	5,727	117	183	211
1946	2,205	3,540	6,114	122	194	321
1947	2,177	3,340	6,170	122	183	326
1948	2,306	3,331	6,300	128	183	332

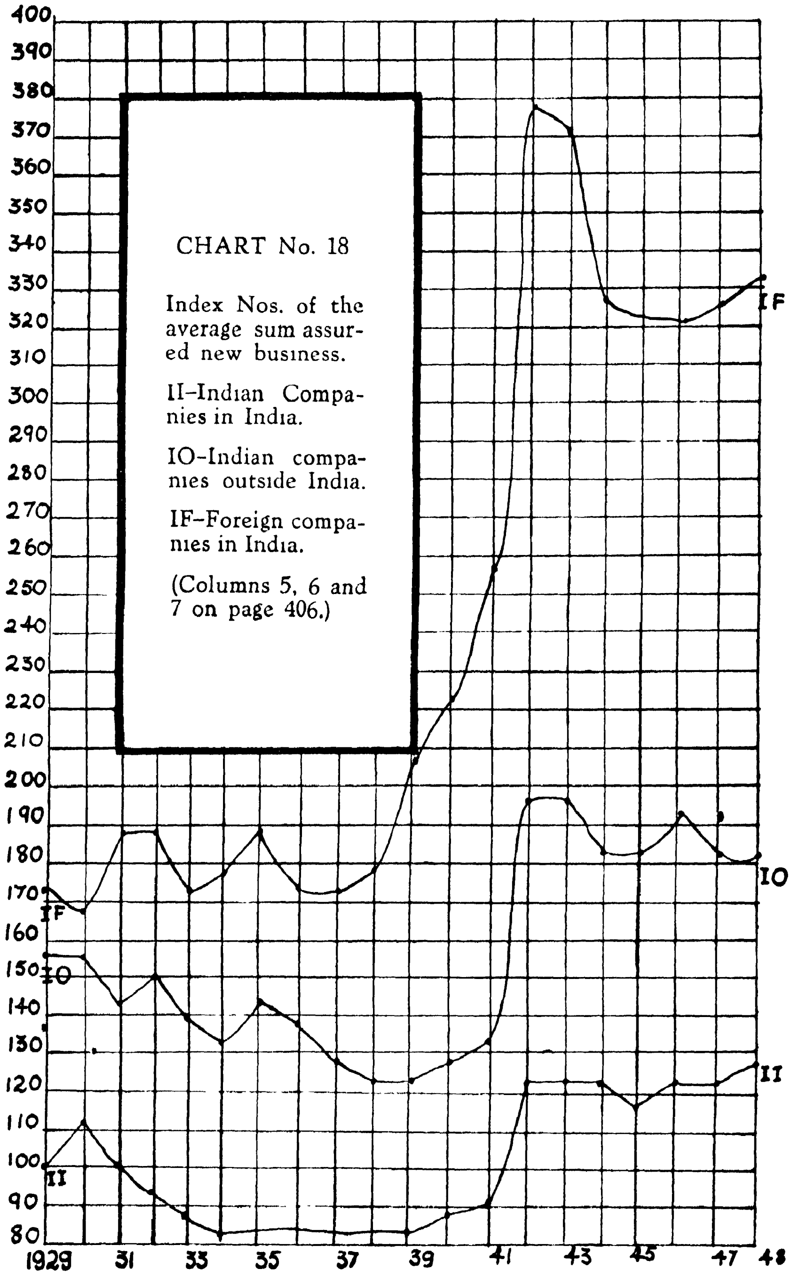


CHART No. 18
Index Nos. of the average sum assured new business.
II–Indian Companies in India.
IO–Indian companies outside India.
IF–Foreign companies in India.
(Columns 5, 6 and 7 on page 406.)
400
390
380
370
360
350
340
330
320
310
300
290
280
270
260
250
240
230
220
210
200
190
180
170
160
150
140
130
120
110
100
90
80
1929
31
33
35
37
39
41
43
45
47
48
IF
IO
II

INCOME

Table No. 75.

Details of Income received by Indian insurance companies in thousands of rupees, break-down under each head as percentage of the total income and variation of premium income in successive years.

Base for variations and Index Numbers: Period 1913-29—1913
1930-39—1929
1940-48—1939

Year	Premium for life assurances and annuities	Interest, dividend less tax	Other receipts	Relative Percentages			Index No of Premium Income	Variations
(1)	(2)	(3)	(4)	(5)			(6)	(7)
1913	1,02,99	23,23	47	81.1	18.5	0.4	100	—
1914	1,09,17	25,13	50	80.9	18.7	0.4	901	6
1915	1,06,83	27,54	6,35	76.2	19.5	4.3	104	—2
1916	1,06,79	29,54	80	77.9	21.6	0.5	104	0
1917	1,10,45	32,83	91	76.7	22.7	0.6	107	3
1918	1,14,34	35,98	3,58	74.3	23.4	2.3	111	4
1919	1,28,21	39,07	1,72	75.9	23.1	1.0	124	13
1920	1,46.24	43,07	1,09	76.8	22.6	0.6	142	18
1921	1,60,27	48,78	9,78	73.2	22.3	4.5	156	14
1922	1,74,06	51,82	10,57	73.6	21.9	4.5	169	13
1923	1,85,79	59,59	3,59	74.6	23.9	1.5	180	11
1924	2,04,39	62,63	23,00	70.5	21.6	7.9	198	18
1925	2,25,19	66,64	6,64	75.4	22.4	2.2	219	21
1926	2,52,89	73,10	6,51	76.0	22.0	2.0	246	27
1927	2,91,76	79,69	57,38	68.0	18.6	13.4	283	37
1928	3,34,78	85,69	2,72	79.2	20.2	0.6	325	42
1929	3,89,68	95,89	6,12	79.3	19.5	1.2	378	53
[1]1930	4,30,47	1,03,86	5,34	79.8	19.2	1.0	110	10
1931	4,67,48	1,13,40	6,34	79.6	19.3	1.1	120	10
1932	5,18,20	1,24,52	45,74	75.3	18.1	6.6	133	13
1933	5,76,93	1,35,53	103,06	70.7	16.6	12.7	148	15
1934	6,58,27	1,50,29	25,87	78.9	18.0	3.1	170	22
1935	7,45,06	1,60,97	27,36	79.8	17.2	3.0	191	21
1936	8,43,81	1,72,78	118,33	74.4	15.2	10.4	217	26
1937	9,81,67	1,98,53	21,32	81.7	16.5	1.8	252	35
1938	11,49,61	2,40,14	23,95	81.4	17.0	1.6	295	43
1939	12,18,00	2,46,00	19,00	82.1	16.6	1.3	313	18
1940	11,73,17	2,53,84	40,16	80.0	17.3	2.7	96	—4
1941	12,28,13	2,67,87	72,92	78.3	17.1	4.6	101	5
1942	12,74,46	2,79,68	99,82	77.1	16.9	6.0	105	4
1943	15,90,59	3,03,61	70,28	81.0	15.5	3.5	131	26
1944	19,31,57	3,20,09	48,55	84.0	13.9	2.1	159	28
1945	24,10,69	3,45,24	81,86	84.9	12.2	2.9	198	39
1946	27,44,26	3,42,82	115,20	85.6	10.7	3.7	225	27
1947	28,99,69	3,63,46	49,73	87.5	11.0	1.5	238	13
1948	30,76,75	4,22,88	249,80	82.1	11.3	6.6	253	15

[1] Index number 1929—base 100. [2] Index number 1939—base 100.

An interesting feature is that the percentage of receipts from interest and dividends to total receipts shows a sudden decrease from 1943 corresponding to the period when the pursuit of cheap money policy was intensified.

OUTGO

Breakdown figures of outgo under different headings from 1913 and the percentage of each to the total outgo for the year are given on pages 410, 411 and 412.

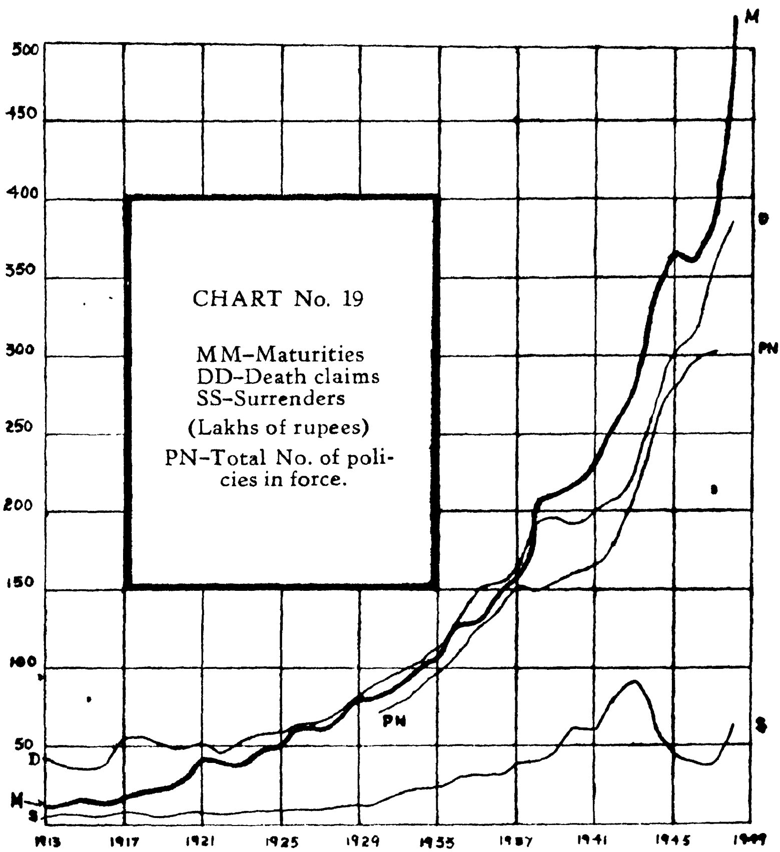


Chart No. 19 gives Death Claims, Maturities and Surrenders from 1913-1948: Amounts paid by death and maturities show the same slope in the curves. The abnormal increase in the surrenders during 1940-43 is well brought out in this chart.

Table No. 76.

Break-down figures of outgo under different headings for 1913-1938.

(thousands of rupees)

Year	Claims		Surrenders	Annuities	Expenses of Management	Dividends	Depreciation	Miscellaneous	Increase to Life funds
	Death	Maturity							
1913	41,79	12,37	3,14	1,02	22,83	44	26	...	44,84
1914	36,87	13,56	4,99	1,08	23,47	60	87	...	53,36
1915	35,21	14,65	4,28	1,06	22,56	54	21,00	...	41,42
1916	35,99	13,53	4,49	1,14	21,88	54	51,76	...	7,80
1917	54,59	18,79	5,77	92	22,15	65	27,20	...	34,12
1918	54,98	19,64	4,52	95	25,02	64	32,22	...	15,93
1919	51,25	24,09	3,95	93	31,79	58	5,26	...	51,15
1920	47,62	29,19	4,93	93	38,15	54	9,61	...	59,43
1921	50,75	42,90	7,32	68	42,67	94	55,85	...	17,72
1922	44,88	39,82	5,45	88	47,42	1,01	14,24	...	82,75
1923	52,20	39,09	5,87	65	48,77	98	4,79	...	96,62
1924	56,53	47,59	7,25	64	58,06	90	1,86	...	1,17,19
1925	57,99	49,78	7,41	59	62,93	3,47	5,09	...	1,11,21
1926	64,46	63,53	9,18	69	72,29	2,33	3,67	...	1,16,35
1927	64,70	62,41	9,56	52	86,19	1,87	9,39	...	1,94,19
1928	71,40	67,60	11,59	64	1,02,51	7,52	17,31	...	1,44,62
1929	80,08	83,11	12,67	63	1,18,17	2,35	38,05	...	1,56,63
1930	91,55	82,75	14,44	67	1,25,75	2,61	40,88	...	1,81,02
1931	96,72	89,51	21,23	82	1,33,62	5,62	48,53	...	1,91,27
1932	1,03,13	99,72	23,97	86	1,48,78	3,19	37,90	8,10	2,62,81
1933	1,13,70	1,08,32	23,77	89	1,74,76	9,05	10,74	10,97	3,63,32
1934	1,29,07	1,27,61	28,12	89	2,06,22	7,84	7,76	16,86	3,10,06
1935	1,51,42	1,30,02	33,78	99	2,31,03	4,48	16,21	15,99	3,49,47
1936	1,53,69	1,45,64	33,45	1,13	2,73,90	7,70	17,10	15,35	4,86,96
1937	1,58,87	1,59,43	39,61	1,37	3,16,54	9,93	15,70	15,47	4,84,60
1938	1,93,67	2,09,39	42,45	1,42	3,64,83	9,98	29,94	17,18	5,44,24

Table No. 77.

Break-down figures of outgo during 1913-1938 expressed as percentages to the total outgo of each year.

Year	Claims		Surrenders	Annuities	Expenses of Management	Dividends	Depreciation	Miscellaneous	Increase to Life funds
	Death	Maturity							
1913	32.9	9.7	2.5	0.8	18.0	0.5	0.3	...	35.3
1914	27.4	10.1	3.7	0.8	17.4	0.4	0.7	...	39.5
1915	25.2	10.4	2.9	0.9	16.0	0.3	14.9	...	29.4
1916	26.3	9.9	3.2	0.9	15.9	0.4	37.7	...	5.7
1917	24.0	13.0	4.0	0.6	15.4	0.4	19.0	...	23.6
1918	35.7	12.8	2.9	0.6	16.3	0.4	20.9	...	10.4
1919	30.3	14.3	2.3	0.6	18.8	0.3	3.1	...	30.3
1920	25.0	15.3	2.4	0.4	20.1	0.7	5.1	...	31.0
1921	23.2	19.6	3.4	0.3	19.5	0.4	25.5	...	8.1
1922	19.0	16.8	2.3	0.4	20.1	0.4	6.0	...	35.0
1923	21.0	15.7	2.3	0.3	19.6	0.4	1.9	...	38.8
1924	19.5	16.4	2.5	0.2	20.0	0.3	0.7	...	40.4
1925	19.4	16.7	2.4	0.2	21.1	1.2	1.7	...	37.3
1926	19.4	19.1	2.8	0.2	21.7	0.7	1.1	...	35.0
1927	15.1	14.6	2.2	0.1	20.1	0.4	2.2	...	45.3
1928	16.9	15.9	2.7	0.2	24.2	1.8	4.1	...	34.2
1929	16.3	16.9	2.6	0.1	24 0	0.5	7.7	...	31.9
1930	17.0	15.4	2.7	0.1	23.3	0.3	7.6	...	33.6
1931	16.5	15.2	3.6	0.1	22.7	1.0	8.3	...	32.6
1932	15.0	14.5	3.5	0.1	21.6	0.4	5.5	1.2	38.2
1933	13.9	13.3	2.9	0.1	21.4	1.1	1.3	1.4	44.6
1934	15.5	15.3	3.4	0.1	24.7	0.9	0.9	2.0	37.4
1935	16.2	13.9	3.7	0.1	24.8	0.5	1.7	1.7	37.4
1936	13.6	12.8	2.9	0.1	24 1	0.7	1.5	1.4	42.9
1937	13.2	13 3	3.3	0.1	26.3	0.8	1.3	1.3	40.4
1938	13.7	14.8	3.0	0.1	25.8	0.7	2.1	1.2	38.6

Table No. 78.

Break-down figures of outgo under different headings for 1939-1948 (thousands of rupees).

Year	Claims: Death	Claims: Maturity	Surrenders	Annuities	Expenses of management	Dividends	Depreciation	Miscellaneous	Increase to Life funds
1939	1,96,00	2,13,00	47,00	7,00	4,04,00	10,00	83,00	13,00	5,10,00
1940	1,91,95	2,17,88	62,71	6,89	3,39,31	5,93	25,93	16,16	6,00,41
1941	2,00,98	2,34,17	60,61	6,86	3,36,91	5,71	43,18	26,00	6,54,50
1942	2,07,84	2,58,84	80,23	6,88	3,39,89	6,09	7,02	27,26	7,19,91
1943	2,26,73	2,77,92	93,59	7,24	4,43,20	8,13	24,67	10,99	8,71,01
1944	2,67,29	3,41,02	62,32	7,98	6,03,01	4,28	16,15	7,09	9,91,07
1945	3,03,49	3,66,85	48,49	8,30	7,77,36	8,30	28,65	8,39	12,92,00
1946	3,13,64	3,62,45	42,37	9,81	8,56,00	5,70	20,21	7,19	15,84,91
1947	3,56,11	3,87,68	39,24	9,24	8,82,83	6,45	58,86	17,08	15,55,39
1948	3,88,30	5,17,69	65,25	10,14	8,93,31	13,22	101,67	12,04	17,47,81

The above figures expressed as percentage of the total outgo for each year.

Year	Claims: Death	Claims: Maturity	Surrenders	Annuities	Expenses of management	Dividends	Depreciation	Miscellaneous	Increase to Life funds
1939	13.2	14.4	3.2	0.5	27.3	0.7	5.6	0.9	34.2
1940	13.1	14.9	3.2	0.5	23.1	0.4	1.8	1.1	41.9
1941	12.8	14.9	3.9	0.4	21.4	0.4	2.7	1.7	41.8
1942	12.6	15.7	4.8	0.4	20.4	0.4	0.4	1.7	43.6
1943	11.6	14.3	4.8	0.4	22.8	0.4	1.3	0.5	43.8
1944	11.6	14.8	2.7	0.3	26.2	0.2	0.7	0.3	43.2
1945	10.7	12.9	1.7	0.3	27.4	0.3	1.0	0.3	45.6
1946	9.8	11.3	1.3	0.3	26.4	0.2	0.6	0.2	49.9
1947	10.7	11.7	1.3	0.3	26.7	0.2	1.8	0.5	46.8
1948	10.3	13.8	1.7	0.3	23.8	0.3	2.7	0.3	46.8

PER CAPITA INSURANCE

The growth of insurance in India may be illustrated by the following figures of *per capita* insurance: (figures for 1901, 1911 and 1921 are estimated)

Table No. 79

Year	Population (crores)	*Total business in force (crores)	Per capita insurance	% business written by Indian companies to total
1901	29.4	24 [1]	As. 13	33%
1911	31.5	44 [2]	Rs. 1-6	45%
1921	31.8	76	Rs. 2-4	45%
1931	33.8	168	Rs. 5-0	56%
1936	36.3	261	Rs. 7-4	55%
1941	38.9	292	Rs. 7-8	80%
1944 [3]	39.8	446	Rs. 11- 0	82%
1945	40.1	551	Rs. 13-12	84%
1946	40.4	615	Rs. 15-12	82%
1947	40.7	649	Rs. 15-12	85%
1948	41.0	667	Rs. 16- 0	87.5%

On the basis of the policies issued, the following table will show the incidence of insurance among the people:

Table No. 80.

Year	Indian companies	Foreign companies	Total	Total population (Millions)	
1931	502,144	211,769	713,913	338	one in 475
1936	988,734	272,238	1,260,972	363	one in 290
1941	1,426,758	179,122	1,605,880	389	one in 240
1945 •	2,376,294	216,371	2,785,551	401	one in 144
1946	2,569,180	227,526	2,796,706	404	one in 144
1948	2,790,509	234,489	3,024,998	350	one in 115

* This is the sum total of the business of Indian and foreign companies, as many of the foreign companies in India had considerable business on Indians.

[1] The business of Indian companies alone was probably Rs. 8 crores: Foreign companies at this time were doing more business on foreigners in India.

[2] These figures are estimated: the figures of Indian business for 1921 was 37 crores.

[3] Population figures from 1944 onwards are estimated.

As a large number of policyholders have more than one policy either with the same or different companies the above figures may have to be slightly altered. It is almost impossible to estimate the extent of this duplication of policies on a single individual, and even if a very conservative view is taken, and it is presumed that there are three policies for every two people assured, the following would give a rough idea of the extent of insurance in the country:

Table No. 81.

1931	one in 700
1936	one in 430
1941	one in 360
1945	one in 215
1946	one in 215

This would show that one person out of every 215 is insured. Taking five members as the average size of a family, the above figures may also be expressed as saying that one out of every 23 families is insured; if again we accept the assumption that every two persons assured has three policies, the number of families insured will be one out of every 35.

The extent of sales-concentration is obvious from the fact that insurance is practically an urban business. The 1941 census showed the urban population to be 13% of the total and even on a generous estimate due to subsequent intensified urbanisation, 75% of the population is untouched.

The Indian Census report of 1931 gives the following table:

Table No. 82.

Percentage of population aged

0-15	15-50	50 and over
39.9	50.5	9.6

It has also been estimated that the 15-40 group represents the working population and the composition of the age-groups on this basis is:

Table No. 83.

Age	*Percentage*
0-14	40
15-40	41
40 & over	19

Discarding for a moment children's policies and annuities, insurance is issued almost wholly after the age of 20: it would therefore be almost correct to estimate that 50% of the population will be eligible for insurance. On the basis of this assumption, it may be possible to work out the following table:

Total Urban population	..	100 million
People eligible for insurance	..	50 million

The composition of sexes has an important bearing on the selling of insurance for insurance is principally issued to males:

Table No. 84.

Females per 1000 males, urban population

Madras	..	993
Bihar & Orissa	..	820
C.P.	..	886
Bengal	..	601
United Provinces	..	805
Bombay	..	773
Assam	..	577
Punjab	..	699
Average	..	770

(Source: *Census Report*, 1931.)

This would mean that 56.5 millions of the urban population are males: may be a little more on account of the housing shortage. If we take 50% of the male population as being eligible for insurance, about 28 million people are eligible: 2.8 million policies were issued during 1948, showing that one out of every 10 male eligible for insurance in the urban areas is insured.

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