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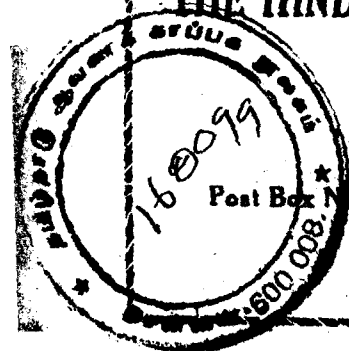
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Progress of Insurance Business in India

Indian Insurance Year Book, 1950

I

A perusal of the Report by the Controller of Insurance on Insurance Business carried on by Insurers and Provident Societies during the year 1949, excerpts of which appeared in our December 1950 issue, and the Indian Insurance Year Book, 1950, will impress one at the out set that Insurance Business in India is making satisfactory progress despite the all round economic depression and the high cost of living. But it must be realised that in a big country as India, with a population of well over 1/4th of the human race, where insurance consciousness has only recently developed, there is a tremendous scope for expansion. Though, the progress made by Insurance Companies in 1949 may be considered as satisfactory comparatively, it is but a drop in the ocean when we take into account the possibilities for service in the country. There were 341 Insurance Companies, exclusive of those that have been cancelled, of which 235 were constituted in India and 106 out of India. Of the 235 Indian Insurers, 125 carried on Life Insurance business only, 50 carried on Life Insurance Business along with other insurance business and 50 carried on Insurance business other than life. Among these, 41 were either Mutual Insurance Companies or Co-operative Insurance Societies, to whom part IV of the Indian Insurance Act, 1938 was applicable. Of the 106 non-Indian Insurers, 5 carried on Life Business only, 15 carried on Life Insurance Business along with other Insurance Business and 86 carried on Insurance Business other than life. The total new Life Insurance business effected in India during 1949 amounted to 5,44,000 policies insuring a sum of Rs. 135.35 crores and yielding an annual premium of Rs. 7.47 crores. Of this, the new business effected by Indian Insurers alone amounted to 5,26,000 policies insuring a sum of Rs. 123.13 crores yielding an annual premium of Rs. 6.73 crores. The total Life Insurance business effected in India and remained in force at the end 1949 amounted to 33,03,000 policies insuring a total sum of

Rs. 739.49 crores including Bonus additions and having a premium income of Rs. 37.18 crores. Of this, the share of Indian Insurers was represented by 80,74,000 policies insuring a sum of Rs. 636.95 crores and having a premium income of Rs. 31.46 crores. Thus, it will be seen that on an average a Life Insurance Company has secured only Rs. 70 lakhs new business for 12 months in a sub-continent as India whose population is about 40 crores. In the matter of total Business in force, each company had a business of only Rs. 3.44 crores. In the face of this very meagre record, it is poor consolation to say that Insurance Business has shown an increase in the country. This is primarily due to the quality and the unattractiveness of the service rendered by Indian Insurers as compared with those established in the United Kingdom, Canada, and the United States of America. Firstly, the rates of premiums charged by the Indian Insurers are very high compared to the returns promised. High premium rates and low returns do not attract the public to resort to savings through life Insurance. One of the main factors that is responsible for high premiums is the notoriously high management expenses. In 1949, the total expenses of management of Indian Insurers in respect of Life Insurance business, expressed as a percentage of the premium income was 32.2% and if half a dozen insurers having the largest premium income were excluded, the expense ratio in the case of the remaining insurers would have been 37.6%. On the other hand, the total expenses of management of Non-Indian Insurers, who are at times accused of over-spending backed up by their huge resources, with a view to paralise and oust out Indian Insurers, expressed as a percentage of the premium income was only 22%. Further, if this expense ratio is worked out in the case of United Kingdom, Canadian and American Insurers for their total business, it is as low as 12 to 15% in the majority of cases. While referring to the causes for the high Management Expenses in his Report, the Controller of Insurance rightly observed that "In a way, however, these troubles may prove a blessing in disguise, as these will *ipso facto* check the craze for bigger business every year at any cost which has been responsible for many an ill from which Indian Life Insurance Business has been suffering e.g. forced business, larger lapses and uneconomic production costs." Surely, these three factors, "forced business," "large lapses" and "uneconomic production costs" are the bane of Indian Insurance. Even if these contributing factors which ultimately influence the premium rates to go up, are checked, the insuring public will be greatly benefitted. The point that deserves to be stressed here is that the causes for high rates of premium are not beyond the control of the managements of the various companies and that therefore every effort should be made to lower them. Unless this is done, Insurance Companies and their services at the present cost would not appeal to the general public.

Rights of Non-Tariff Companies.

Would denial help growth of Indian Insurance?

BY R. RAJARAM,

Assistant Manager, Vanguard Fire & General Insurance Co., Ltd.

IF one takes into consideration the exemption under the explanation to Section 64 'O' of the Insurance Act 1938, it may be seen that there is a clear provision in the Act for the existence of Non-Tariff companies without being subjected to the control and regulations of the Tariff Committee of the General Insurance Council and thus the Government intends to allow some insurers to remain as Non-Tariff companies. Accordingly the Government has already taken steps in considering the cases of Non-Tariff companies in connection with the question of the above exemption, but it has yet to announce its decision.

One of the reasons which would appear to have been responsible for the delay is the existence of considerable difference of opinion in regard to the grant of such exemption for the continuation of Non-Tariff companies. This difference of opinion raises important issues which in the interests of the general insuring public, should be considered dispassionately in order to avoid prejudice getting the better of principles in the conduct of insurance business in India on sound lines.

Opposition for the grant of such exemption to Non-Tariff companies would appear to have originated from the apprehensions of certain big Tariff Insurers who fear that such Non-Tariff companies

would continue to quote much lower rates than the Tariff companies which in turn, would nullify the provisions of limitation of overall costs. It would also appear from the speech of Mr. Setalvad that the Indian Insurers agreed to the limitation of overall costs by statute on the clear understanding that Government would not allow any insurer except Lloyds Underwriters to work as Non-Tariff companies, and that he (Mr. Setalvad) feared such exemption if granted, would also harm the small companies. Such fears as these we must say-do not do justice to the big Non-Tariff companies, which whatever else they may do, cannot be expected to support decisions which work against the interests of the policy-holders of the country as a whole. Again, the restrictions placed upon the payment of commission to agents by the recent Amendments to the Insurance Act, 1938 will definitely increase the margin of profit of the Non-Tariff companies and thereby strengthening the financial position of the companies still further. Hence there is no ground for fear that such Non-Tariff companies if permitted would nullify the provisions of limitation of overall costs.

The Non Tariff companies being themselves conscious of the consequence arising out of the contravention of the prescribed limit of expenses would think twice before taking any such action as

would adversely affect their very soundness. Even in the event of such happening, there would seem to be no cause for anxiety since it is not difficult for the Central Government to take effective steps against the insurer concerned through the Controller of Insurance as clearly specified in the Act. In this connection it is gratifying to note the remarks made by our Commerce Minister in his address to the General Insurance Council recently met at Bombay, to the effect that the Government do not desire that the Non-Tariff Companies who in their own way serve some useful purpose, should necessarily go out of existence so long as they play game according to accepted cannons.

In the circumstances, there is no cause for entertaining any unfounded fears as a result of the granting of exemption to some companies to work as Non-Tariff insurers. It is to be noted in this connection that many of the Non-Tariff companies have proved quite successful by providing the requisite insurance facilities and continuing to give a service to the general insuring public, whose appreciation of and demand for insurance has rapidly increased.

In making the foregoing observations I must make it clear that I am holding no brief for Non-Tariff companies. If I advocate the grant of exemption to them, I am doing so only in the firm belief that such exemption would be a great advantage in the public interest as well as in the general interests of the business and thus would help the expansion of the Insurance Industry in every nook and corner of the country.

Finally, as the Indian Insurance is still in its early stages of development the need for the Central Government's encouragement for serving the general insuring public is greater now, and the Government should even support where the concerned insurance company—whether Tariff or Non-Tariff—by reason of its sound policies and able management deserves it.

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Life Insurance and God

By STANLEY E. MARTIN

(From Mr. Martin's address to the Million Dollar Round Table Hour at the organization's 61st Annual Convention in Washington, D.C.)

BECAUSE I believe in the efficacy of life insurance and its service to mankind, I like to use all the power possible in presenting it to my prospects. Sometimes this power can manifest itself in the simplest, most elementary logic. To generate power, I like to use drama. Let me illustrate.

I call on a man who is thirty-five years old. As equipment, I have three silver dollars. These three silver dollars are labeled "ability", "Opportunity" and "time". I put them down on the man's desk, and I leave them there all through our discussion. It isn't difficult to get agreement from any man that, if he had plenty of ability, plenty of opportunity and plenty of time, he could accumulate plenty of dollars and, thereby, be financially successful. Now I undertake to analyze this chap, to show how he stands in the possession of these three requisites for success. It goes something like this:

Ability

"You are an outstanding guy, Charlie. There are very few men in this community who, at your age, have shown as much business ability as you have shown. Have you ever reflected what an enormous investment there is in this ability which you bring to your job? You have eight years of grammar school, four years of

high school and four years of college. Yes, you worked during the summer; you studied, you planned and you read autobiographies of success. You were industrious, courageous, enterprising and ambitious. You have worked long hours, pushed and strained to acquire and use more and more ability.

"For about twenty of the thirty-five years you have lived, you have spent most of your energy toward the building of the ability which has made you stand out from other young men of your age. If your ability were a tangible thing, like this silver dollar which represents it, and I picked it up and was about to take it away would you fuss and fight? Oh yes, you would defend it with the last drop of blood in your body; because it is so vital to you and your family, and because you have such an enormous investment in it and depend on it so much. Yes, it is one of the three things required to attain success and, fortunately, or because of your strength of character you are heavily endowed with it.

Opportunity

"The second dollar represent opportunity. You have that, also. You have your own business. Its record of success indicates that it is good one, and that it represents true opportunity. We often find, however, that when men have great ability, they have the capacity to create

their own opportunities. I suspect that if the opportunity you have were a tangible thing, like this dollar, and I attempted to take it away from you, you would put up a pretty good fight. It must be recognized, however, that, if you still retained your ability, you would probably create, or avoid yourself of, another opportunity.

Time

"The third silver dollar is intended to represent time—the time necessary to achieve success. Let me illustrate it this way: If because of your ability and your opportunity, you are able to make \$35,000 a year, you will pay about \$10,000 of it in taxes. If you spend \$15,000 so that your wife and your two little girls can live nicely, you will have about \$10,000 left. In twenty years, you will have \$200,000, and you will only be fifty-five; but it does take twenty years. That's time—and lots of it.

"There isn't any way you and I can tell whether or not you have, or will have, time to use your ability and opportunity. Did it ever occur to you that there are just two ways you can get the necessary time? You can get it from God; or you can get it from me. I suspect that, if you do any thinking about God, you appraise Him, as most of us do, as an omnipotent omniscient God. Do you pray sometimes that God will give you time; and do you teach your two little girls to get down on their knees and ask God to give Daddy time? Perhaps you say it in a different way. Perhaps the children ask God to spare Daddy; but isn't it true that you plead reverently with God to give you the time? The only unfortunate thing about this method is

that you never know whether or not you have made a deal. You can only hope that God will answer your prayers. Your Bible states: "The ways of the Lord are strange indeed." Yes this method is most uncertain. I think you understand the way you can purchase that time—through me. My way is very simple. If you want to set aside \$100,000 of the money that is to come from your ability and opportunity, provided you have the time, we shall provide the time on this basis: over a period of twenty years, you will pay us a little less than \$70,000. You will pay that at the rate of about \$3,500 a year and, when you have paid \$70,000, it is all paid for. If however, you run out of time after having paid only one of the \$3,500 payments, the entire \$100,000 will be delivered to your family just as if you had had the time. The worst deal you can make is to buy the time at a 30% discount. You pay \$70,000 and you get \$100,000. If \$100,000 is enough, simply give me the first payment, sign this form which I'll help you complete, and you can then be certain that you have all the requirements necessary to be successful; and a major portion of it is unconditionally guaranteed—you cannot run out of time."

Qualifying the prospect

Now that seems to be a pretty decent job of explaining quickly and clearly the things necessary to attain success, and it gives absolute guarantee to the man who appears to be destined for success. It is simple; it is logical it is sensible; it is dramatic and it is strong. It would seem to be a perfectly natural thing for the man who wants to attain success to avail himself of the opportunity to make it certain—and just buy. So I pause, and give him an

opportunity to buy before I launch into the real sales talk to sell the idea. If he makes a crack about this being something for someone else, to be payable only if he dies, then I attempt to qualify him right quickly.

"A man can't feel too much like a hero for making the deal I suggest. We guarantee him some time he needs. He pays us \$70,000 over a twenty-year period. If he has the full time, because God has given it to him it will develop that he didn't need the guarantee we provided him so we give him back all his money, and a little profit, for being a good Daddy. Of course, he will have lost the interest on the \$3,500 each year. This amounts to not quite \$100 a year.

What do you think of a man, who has a wife and two little girls, who makes the statement that he has just made arrangements to save \$3,500 a year for himself and give his wife and little girls the interest of \$100 each year? You think he is pretty selfish, don't you? Does it occur to you that I have asked you to do less than that for your wife and little girls? It's life insurance, isn't it? Only if you die—otherwise it's just money; money that you saved for *you*!"

Prospect Must Answer 'Yes'

I tell him, also, that, in my experience I have discovered that there are two types of men: the men who want their families to have things, and the men who want to see their families have things. Then I ask him which class he belongs. Most of them contend that they are in the group who want their families to have things whether or not they can see them have them; and I don't do any more talking

about that phase of the problem. If, in our discussion, I get agreement on all majors and the buyer refuses to buy, I force him again to an admission that he understands it; that he knows it will work; that he knows he will get a 30% discount and that he knows there is no other way in the world it can be done with certainty. In this review of agreements on majors, I ask him:

1. It is true that it takes all three—ability, Opportunity and time?
2. Is it true that you have the ability and opportunity, and that you would fight like wild to protect them?
3. Do you need the time?
4. Will this (the application) give it to you?
5. Will anything else under the sun give it to you for sure?
6. Must you have it?
7. Then give me the money for the first year. What are we waiting for?

I can get pretty excited over the power of our product. It is true, that it takes Time—whether or not he thinks so and whether or not he likes it. It is true, also that I alone can give it to him on a contractual, guaranteed basis.

If he chooses not to buy, and leaves it as a matter to be settled between God and him, it looks as though I should give up however, just before I go, I inject a new idea:

Time Can Be Bought

"Perhaps it is an unfortunate thing that I came and told you my story. Only

a short time ago, I told you that there were two ways you could get the time necessary for success. I'm afraid that is no longer true. You understand our method and, for some reason, you have refused to avail yourself of the certainty of having the necessary time. It would seem that, by this decision, you have outlawed yourself against the other procedure. Don't you dare get on your knees and ask God to help you! That would be pure deceit, and you cannot deceive God. Why should an all-wise, all-just God answer your prayers? God helps those who help themselves. You can pray to God for your daily bread; but you can't expect Him to butter it and put it in your mouth. God has provided water for you; but you can't expect Him to give you a bath. If God is as wise as I think He is, He would probably say to you (if He answered you at all):

"Don't bother Me with things you can handle yourself. You had an opportunity to get the Time you need, and you wouldn't take it; you wouldn't buy it at a 30 % discount. A man came to your office and offered it to you today. Get off your knees and tell your children to pray for something which you will permit them to have. I'm busy helping people who are helping themselves toward the attainment of things they sincerely want and need."

"Isn't it obvious that if you deal with me to be sure, for your family's sake, you won't quit praying to God? You will love life more — and probably live longer. Your deal with me will add zest to an already good life. Of course, you will continue to pray to God for time to enjoy the success which you will then have guaranteed."

"It would seem, then, that you deal either with God and me, or with neither

of us. You can't figure a way to deal with only one of us.

If he won't buy after that barrage, I'm willing to quit; but I quit with my banners still flying. I pity the poor guy. He should be scared to death; and my unshakable convictions have become stronger. I know that, no matter what he thinks and whether or not he likes it, he will never be sure he has Time until he deals with me. You deal with both—or neither one."

Customer Types and Their Reactions.

As this sales procedure has been tested in our office, we have some clinical experience which has taught us what to look for, and how best, to take advantage of its power and drama. These are the customer reactions:

1. One type of customer is the chap who has bought substantial life insurance on an intelligent basis of measurements against needs. He is obviously impressed with the story; but he has an unspoken objection which he cannot identify. Unconsciously he feels that this may not be the amount nor the type of life insurance he should buy. He seems to want to buy, but he is bewildered about what to do. When we recognize this type, we come to his rescue and identify his problem for him. Then we do what we call a measuring job; writing down all the requirements for himself and his family. We take his measurements and his life insurance policies, and arrange for his examination. Then we cover with him as rapidly as possible three steps illustrating his problems and the logical solutions thereto:

First: "It is a difficult thing to own life insurance correctly". If indicated as necessary, we will illustrate for him some of the tragedies attendant on bad ownership of good life insurance.

Second: "You bought your life insurance for something. Have you ever written down the job it must do for you and your family in order to make for successful and adequate ownership?"

Third: "Some day your life insurance will be measured against some kind of job. Let's write down what that job is".

2. Be careful of the second type of customer. He might upset your apple cart. He is the guy who lets you get only half way through your story, and pops off: "Say, that makes sense. It's a cinch. To whom do I make my check payable?" Never let him get away with that!! You say: "Oh no—you can't do that to me. Wait until I tell you what will happen to you if you try to deal with God without doing business with me!" If he buys too soon, you quickly buy it back!

3. The third type of customer recognizes the logic. He feels that it is wise for him to take advantage of the opportunity; but he doesn't think about solving all his problems at once by buying \$100,000 of 20 pay life. Sometimes he becomes an easy sale for \$10,000; \$20,000 or \$25,000. We let him buy whatever he wants. We float with the current, take his application and settlement and leave. Having made this easy sale, we follow one of two procedures:

It we have reason to think we can do a good measuring job and get additional business by completing his entire program, we follow procedure No. 1, just illustrated. We go back after the examination and settlement, but before delivery and tell him that, since he is a customer now, he is entitled to our complete service; and we are off on our regular sales track: "It is a difficult thing to own life insurance correctly. You bought it for

something. Some day it will be measured against some kind of job. Let's measure." If successful, we nearly always deliver all or part of the additional required.

If the man proves to be one who will not go along on the measuring job; or if we so estimate him from something we know or feel, then we use procedure No. 2. Then we order extra insurance of exactly the amount he has bought. If he buys \$10,000, we order \$10,000 additional; if he buys \$50,000, we order \$50,000 additional. We go back and deliver to him the insurance he has purchased, and then we show him an illustration intended to make him see the wisdom of buying all the life insurance he can buy now, to keep him from losing money.

The Cost To Wait

We draw a line straight across the paper and, above the line, we write "Age 35". Below the line, we put down \$393.00. Then we say to him: "A person can buy a life insurance policy which provides \$10,000 of life insurance protection at age 35, and it will cost \$393.00. At age 65, the policy will have a value of \$10,007.50 (including dividends at present scale). He will have paid the company \$7,860.00, showing a profit of \$2,147.50.

This illustration shows what an amazingly profitable deal a young man of 35 can make with a life insurance company. We offer it to you with all the enthusiasm we can, and we press you to adopt the plan; however, if you don't wish to buy it at age 35, my company is perfectly willing to make you a similar deal next year at age 36, if you are still insurable. But it will cost you more money. At age 36 it will cost \$401.10. At age 65, the policy will have a cash value of

\$9,940.40 (including dividends at present scale). You will have paid the company \$8,022.00, showing a profit of \$1,918.40. If you delay the program only one year, you lose \$229.10. This \$229.10 is the cost not to be insured for one year. Can you think of any reason why you should give my company, or any life insurance company, \$229.10 for nothing; or worse, \$229.10 for the doubtful privilege of not being insured for one year?"

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Why Insurance Career.

By S. S. JOSHI,

INSURANCE selling is a unique social service.

After completing the course of his education every young man has to select a career for earning his livelihood. He would either become a Business Man, Doctor, Lawyer, Engineer, Professor or he would go the common way of clerical service, either with the Government or in Private Employment. In as much as technical professions requires particular specialisation and expert knowledge of the Profession which is generally beyond the capacity of every common man the business requires investment of a large amount and sufficient waiting capacity to yield fruitful results which an ordinary man cannot afford. Naturally the only other alternative left for the youngman is Clerical service in Public or Private institution or Government Offices. The chances of success in business and in technical profession being limited the ordinary youngman is desirous of securing a fixed monthly income without undertaking any risk and the least possible exertion on his part. He is, therefore, naturally prompted to adopt the last selection i.e., employment as a clerk. In Private employment even Life long

would need some monetary help to fall back upon in his advanced age which becomes an object of contempt and hatred in the event of being penniless. Moreover it does not vouchsafe for him security of service in anyway. He is in the employ during the pleasure of the Master. Even a little incident would be sufficient to annoy the Master and terminate the service of the poor clerk. In Government Service though there is some security in the permanent cadre the duration of service required to win for him a handsome pension is as long as 25 to 30 years. And even this hard earned pension would last only so long as the retired clerk lives after earning the pension and would automatically stop on his demise with the result that his dependents would be left without any support. On the other hand the insurance agent if he works successfully for 5 years, is able to secure in the shape of renewal commission a regular handsome income as long as the business secured by him worth at least Rs. 50,000/- remains in force. Similarly if he works in the line successfully for 10 years he would not only earn for himself a regular renewal commission for the rest of his life but would also ensure the same for his dependents after his death.

From the above description it will be clear that even as a source of livelihood, insurance selling has its own charm and to my mind compares well if not excels the other professions. Our young men would be well advised to include insurance salesmanship also as one of the items in the list of careers for their selection and consider its advantages well before making their final choice.

That Insurance Salesmanship is a very intelligent and respectable career goes without saying. Its technique consists in the study of human mind, the capacity of the individual pocket and prompt suggestion of a suitable scheme for every individual. Watching the proper opportunity to approach the prospect, creating sufficient interest in his mind and bringing home to him the absolute necessity of life Insurance and availing of the exact psychological moment when the prospect is in a mood to accept the suggestion of the salesman and doing all this with the least tinge of boredom are some of the qualities which make the profession a real and living art. These have to be acquired by patient and persistent endeavours. Repeated experiments on mental reactions of the various proponents, personal courtesy, and intelligent grasp of the subject of

insurance would ensure success.

Besides the Medical Profession there is no other career excepting Life insurance which contains the element of Social service to a large extent. An Insurance salesman in the right sense of the word carries the worry of the thousands of lives in his tender heart which is overflowing with eagerness to render as much help as possible to the largest number of countrymen in making handsome provision for their dependents. In moments of disgust when there is none other to look for timely help, the sincere advice of the Insurance agent would stand forth as the mainstay of the helpless and forlorn dependents. Truly speaking the credit for this timely help goes to the insurance seller. The merit of such service will be only realised when timely help reaches the needy and deserving persons through the agency of insurance.

The educated youth of the country should therefore join the insurance career in large numbers and help the spread of the gospel of insurance so that our countrymen may become more insurance minded sooner and thus help in increasing the wealth of the nation.

Legal Section.

Liability to Super-Tax of interest from Tax Free Securities

WHETHER interest from tax free securities of the Central Government was liable to super-tax formed the subject matter of a reference by the Income-tax Appellate Tribunal. The judgment given recently by the Lahore High Court in this case answered this question in the affirmative.

The assessee which was a company carrying on life insurance business had received during the previous year for the year of assessment 1939-40 a sum of Rs. 19,708 as interest on tax free securities of the Central Government. The Income-tax department took the view that this amount was liable to be included in the total income of the assessee for the assessment year in question; the contention of the assessee was however that the amount could not be so included and was exempted both from income-tax and super-tax.

The judgment of the High Court was as follows:—

“Under Section 55 of the Income-tax Act in addition to the income-tax charged for any year, there shall be charged for that year in respect of the total income of a company an additional duty of income-tax, called super-tax, at the rate laid down for that year by an Act of the Central Legislature. By Section 56 of the same Act the total income of any company shall, for the purposes of super-tax, be the total income as assessed for the purposes of income-tax. ‘Income’, under

Section 2(6) (c) includes the profits of any business of insurance carried on by a mutual insurance company computed in accordance with Rule 9 in the Schedule and “total income” under Section 2(15) read with Section 4 means the total amount of income, profits and gains of a person from whatever source derived. The heads of income chargeable to income-tax mentioned in Section 6 are (i) salaries, (ii) interest on securities, (iii) income from property, (iv) profits and gains of business, profession or vocation and (v) income from other sources. Section 10 defines what the profits and gains of business are and says that in the case of an insurance company the profits and gains of any business of insurance and the tax payable thereon shall be computed in accordance with the rules contained in the Schedule to the Act. The rules in the schedule deal with the manner in which the profits and gains of insurance business are to be computed; the governing rule being that the profits and gains of such business shall be taken to be either (a) the gross external incomings of the preceding year from that business less the management expenses of that year, or (b) the annual average of the surplus disclosed by the actuarial valuation made for the last inter-valuation period ending before the year for which the assessment is to be made, after adjusting such surplus so as to exclude from it any surplus or deficit included therein which was made in any earlier inter-valuation

period, and any expenditure other than expenditure which may under the provisions of Section 10 of the Act be allowed for in computing the profits and gains of a business, whichever is the greater. Rule 3 gives certain directions in computing the surplus for the purposes of Rule 2 and clause (c) directs that the whole amount of interest received in respect of any securities of the Central Government which have been issued or declared to be income-tax free shall be deducted. It is thus clear that the provisions of clause (c) in Rule 3 are relevant only for the purpose of computing the surplus which is mentioned in clause (b) of Rule 2, and that the rules in the schedule are merely an artificial method of calculating the profits and gains of insurance business for the purposes of Section 10. Where, therefore, an insurance company also receives income from interest on securities such income has to be added to the amount of profits and gains from the business of insurance for the purposes of assessment of income, though where the interest received is from any security of the Central Government, which is income-tax free, no income-tax is payable on it by reason of proviso 2 to Section 8. But for this exemption an insurance company would be liable to pay income-tax on interest on securities in exactly the same way as it is liable to pay income-tax on income from property where it owns property. Thus, in computing the total income of an insurance company the profits and gains of the business have to be calculated in accordance with the rules in the schedule but, besides the income from such business, the company has also to pay income-tax on all other sources of income mentioned in Section 6, whether such source be securities or property or

some other source, though, as already pointed out, if the interest accrues on securities of the Central Government, which are free from income-tax, no income-tax is payable on it. Section 16 directs that in computing the total income of an assessee any sums exempted under proviso 2 to Section 8 shall be included. It is, therefore, evident that in computing the total income of an assessee, whether it be a company carrying on insurance business or not the interest received on any security of the Central Government which is income-tax free must be included; and since under Section 55 super-tax has to be levied on the total income, it is obvious that interest on securities of the Central Government which are free from income-tax are subject to the incidence of super-tax. This is made further clear by Section 58 according to which in the application of the Act to super-tax all provisions of the Act relating to assessment shall apply but that the concession referred to in proviso 2 to Section 8 shall not apply. As the Appellate Tribunal has pointed out, the rules in the schedule have nothing to do with any exemption and have been framed merely with a view to computing the profits and gains of insurance business for the purposes of Section 10. Such profits and gains, however, are merely one head of income, and besides income from business an assessee may have other heads of income, as for instance, interest on securities, income from property, and income from other sources. In computing the total taxable income, income under all these heads has got to be added. Where the assessee also carries on the business of insurance its profits and gains from that business have to be calculated in accordance with the rules in the sche-

dule though by reason of proviso 2 to Section 8 it is not liable to pay income-tax on the securities of the Central Government which are free from income-tax. But when total amount has to be computed, whether for purposes of income-tax or for purposes of super tax the sum exempted under proviso 2 to Section 8 must be included. This can only mean that in computing the total income of an assessee that is carrying on the business of insur-

ance and has also other sources of income, the income from the latter sources including interest on securities must be added to the amount of profits and gains of insurance business. We are, therefore, of the view that the sum of Rs. 19,708 was rightly assessed to super-tax and that the answer to the question referred must be in the affirmative." (Lakshmi Insurance Co., Ltd. v. Commissioner of Income-tax, Punjab, Delhi and N. W. F. P.)

Indian Policy-Holder

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News

Benefits of Co-operation in General Insurance.

Inauguration of The All India Co-operative Insurance Society Ltd.

Address of
Sri. Keshavprasad C. Desai, B.A.L.L.B.

It was in the year 1944 that the 18th Provincial Co-operative Conference presided over by Sir T. Vijayaraghavacharya appointed a Committee consisting of (1) Sjt. Keshavprasad Desai, (2) Sjt. V. L. Mehta, (3) Sjt. R. N. Trivedi, (4) Sjt. P. B. Yadvadkar and (5) Sjt. G. H. Thakore to investigate into the possibility of organising a Co-operative Fire and General Insurance Society. The Executive Committee of the Bombay Provincial Co-operative Institute on receiving the favourable report of the Desai Committee abovementioned appointed another Sub-Committee consisting of (1) Sjt. H. L. Kaji, (2) Sjt. Keshavprasad Desai, (3) Sjt. B. D. Deshmukh, (4) Sjt. R. N. Desai, (5) Sjt. M. P. Nadaguda and (6) Sjt. G. H. Thakore, to take steps for the formation of a Co-operative Fire and General Insurance Society.

In the meantime the report of the All India Co-operative Planning Committee appointed by the Government of India and presided over by Sjt. R. G. Saraiya was published and one of its recommendations was to establish an All India Co-operative Fire and General Insurance Society.

Consequently this Society was registered in 1949. Collection of the necessary

Capital took some time but the same was achieved with the help of a Special Officer, Sri Dinkar Desai, placed at the disposal of the Society by the Government of Bombay entirely at their cost. The Society is thankful to the Government of Bombay and particularly to the Minister of Finance and Co-operation for thus giving a tangible shape to their sympathy.

Our thanks are also due to the Bombay Provincial Co-operative Bank and the Bombay Co-operative Insurance Society for subscribing Rs. 50,000/- each to the Share Capital of this Society. The Bombay Co-operative Insurance Society is further giving all sorts of other assistance to this Society as if it were a part of itself.

I have to thank Sjt. B. P. Patel, ex-Registrar and Sjt. Chinmulgud, the present Registrar of Co-operative Societies, Bombay State, for rendering all possible assistance in the formation of this Society.

Insurance is recognized as one of the key trading services in every progressive community and forms an important arm of a planned economy. As an economic institution Insurance involves activities and services that are intimately connected with all the time-honoured economic classifications viz. "Production", "Exchange", "Distribution", and "Consumption". The outstanding and distinctive mission of insurance however, is risk-bearing and risk-elimination in our

economic affairs. Insurance is particularly concerned with three fundamental services—(1) indemnification of the loss values, (2) the scientific treatment of risk-bearing and equitable distribution of the cost, and (3) avoidance of loss altogether through systematic efforts at prevention and conservation.

India has also recognized the importance of insurance in its several branches. Indian Companies for fire and general insurance are, however, comparatively of recent origin. The first of such Companies was established in 1907 as a result perhaps of the Swadeshi agitation in consequence of the partition of Bengal. Five other Companies came into existence after 1919 and other Companies came into existence thereafter. Total number of Indian Insurance Companies writing general insurance is at present 64. In spite of there being such a large number of Indian Companies, there are about 77 non-Indian Companies working in India. The distribution of the net premium income between Indian and non-Indian Companies is as follows:

	Indian Companies	Non-Indian Companies	Total
Nett Fire Premium in 1948	5,02,06,000	2,37,35,000	7,39,41,000

(Note:—Portion of the business of Indian Companies is from outside India).

Thus about one-third of the premium income available in India goes to non-Indian Companies. Practically similar position prevails in Marine and Miscellaneous Insurance business.

I may here mention that notwithstanding the existence of so many Indian and

non-Indian Fire Insurance Companies in India, it was absolutely necessary that a Society like ours be established on Co-operative lines because Co-operative Insurance differs from others in as much as the aims and ideals inspiring its formation are entirely distinct from those which prompt the formation of Joint Stock Companies. In a Co-operative Society the ideal of service, the zeal of the social worker, and the underlying motive to make available its services to the persons on the lowest rung of the ladder, are manifest. Unlike Joint Stock Companies it has no profit motive nor are there any vested interests. The temptation of handling the accumulated funds for the personal benefit of people having control is also absent here, because the Co-operative Act lays down that all the funds of a Co-operative Society are to be treated as trust monies and are to be invested in accordance with the Trust Act.

It is also necessary to distinguish a Co-operative Society from a Mutual Insurance Company. Fundamentally the ideals of communitive service inspire the establishment of a Co-operative Society. Co-operative Insurance creates a new path, a new enterprise which represents something more than the individual efforts of its members; it accumulates many separate risks in one joint risk and transforms them into something different in quality to the sum of separate risks which the members of the Co-operative Societies seek to avoid. A Co-operative Insurance Society is built on equality, common interest and collective management. Above all a *Co-operative Insurance Society will always be ready and anxious to link itself with Co-operative Movement in the Country, thereby giving it a fillip,*

at the same time obtaining handsome reward in the shape of the extension of its own beneficial activities through the instrumentality and good will of sister co-operative organisations.

Thus a Co-operative Society is not a Mutual Society and in spite of the fact that a Co-operative Society has Share Capital, it is not a joint stock company nor a proprietary concern. I would draw the attention of the Government of India to the impropriety of lumping mutual companies and co-operative societies in one group in Part IV of the Insurance Act. The fact of a Co-operative Society having share capital should not make it a joint stock company to be treated on par with other Joint Stock concerns doing insurance business. A Co-operative Insurance Society should be differently and specially treated.

The first Co-operative Insurance Society in the British Empire was founded in England. The year 1867 saw the beginning of Co-operative Insurance there, but as the then prevailing law did not enable the promoters to get it registered as a Co-operative Society, it had to be registered as an ordinary Company and because of that it was not very successful. In the year 1899, it was re-constructed purely as a Co-operative Insurance Society and in 1912, it was taken over by the Wholesale Societies acting together. It has since made very rapid progress.

The First Co-operative Fire Insurance Society in India was established at Madras in the year 1941, and it has been making a fair progress, but it has so far confined its activities in the Madras State only. There are a couple of other local Fire Insurance Societies working in some

parts of the Union of India. Our Society is established with the definite idea of spreading over all the parts of the Indian Union, which are not being served by any other Co-operative Fire Insurance Society.

Today Co-operative Insurance has been recognised as an integral and important part of the Co-operative Movement in almost all the Countries of the World and nearly all forms of Insurance covers are now obtainable through Co-operative Insurance Organisations.

The World today is experiencing conflict between the ideals of communist economy and those of free enterprise. The fact to note, however, is that in the post-war period the Co-operative Movement recorded considerable progress in Countries with a predominantly communist economy as well as in those with a capitalist or mixed economy. Co-operation is considered by many as a bridge between individualist and fully socialised economy. In the United States of America, it has been resorted to as an example of free enterprise and bulwark against State Intervention and communism.

The ideal of the Co-operative Commonwealth has been officially accepted in the Constitution of the Union of India. This Society, therefore, is rightfully entitled to the fullest co-operation and support not only from Co-operative Organisations but also from the Union Government as well as the States. In the absence of a Government or State Controller Insurance Corporation, this Insurance Society ought to be the official Insurers for the respective Governments. With the distribution of grain and cloth and several other articles by Government Agencies and the establishment of Corporations like the

State Transport etc., and with the municipalisation of local transport services in Bombay and Ahmedabad, **The All India Co-operative Fire and General Insurance Society Ltd.**, which rightfully claims their support, has a bright future.

Election to executive committee of Insurance Councils

To regulate the first elections to the Executive Committees of the Life Insurance Council and the General Insurance Council of the Insurance Association of India to be constituted under Section 64F of the Insurance Act 1938, the Central Government have made by a notification in an extraordinary issue of the Gazette of India, dated January 12, 1951, an order called **The Insurance Councils (Removal of Difficulties) Order No. II, of 1950.**

A summary of the said Order, is given below:—

1. Nomination of candidates

(a) The Controller of Insurance shall call for nomination of candidates on the 22nd January, 1951 from Constituencies of insurers for elections to the Executive Committees of the Insurance Councils.

(b) No candidate shall be nominated who is not eligible to stand as a candidate under rule 12B of the Insurance Rules, 1939.

(c) Every nomination of a candidate shall be in a prescribed form duly signed by the candidate and by a proposer and a seconder both of whom shall be insurers eligible to vote in the same Constituency for which the candidate is nominated.

(d) Every such nomination paper shall

be sent by registered post to the Controller so as to reach him before 5 p.m. on the 5th February, 1951.

(e) Every such nomination paper shall be accompanied by a receipt indicating that a sum of rupees one hundred has been deposited to the credit of the Central Government.

The sum of money shall be paid into the Reserve Bank of India or where there is no office of such bank at the place where the deposit is made into the Imperial Bank of India acting as an agent of the Reserve Bank or into any Government Treasury for credit under the head "XXXVI-Miscellaneous Departments—Miscellaneous—Fees realised under the Insurance Act, 1938—Election to the Insurance Councils".

2. Withdrawal of candidature

(a) Any candidate may withdraw his candidature by notice in writing signed by him and delivered to the Controller before 3 p.m. on the 9th February 1951. The cancellation of such withdrawal shall not be permitted.

(b) Any candidate who withdraws his candidature shall on application to the Controller be entitled to the refund of half the amount deposited by him.

3. Number of candidates

(a) If the number of candidates nominated by insurers in any Constituency does not exceed the number of members to be elected from that Constituency the candidates so nominated shall be declared elected and their names shall be notified in the Gazette of India.

(b) If the number of candidates nominated by insurers in any Constituency exceeds the number of members to be elected from that Constituency, an election shall be conducted in the following manner.

4. Procedure for election

(a) On or before the 13th February, 1951 the Controller shall send by registered post to the address of every voter in the Constituency a voting paper together with necessary instructions as to how to fill in the voting paper and specifying the date and hour by which it shall reach the Controller.

(b) Every voting paper shall bear the seal of the Department of Insurance and shall contain a list of candidates for election from the Constituency.

(c) Every voter shall have one vote only.

(d) Every voter while giving his vote:-

(i) shall place on his voting paper the figure 1 in the square opposite the name of the candidate for whom he votes;

(ii) may, in addition, place on his voting paper the figure 2 or the figures 2 and 3, or 2, 3 and 4 and so on, in the squares opposite the names of other candidates in the order of his preference.

(e) A vote shall be deemed as invalid if it does not satisfy the aforementioned conditions.

5. Sending of voting papers

Every voter after duly filling his voting paper shall send it by registered post to the Controller so as to reach him not later than 3 p.m. on the 27th February, 1951.

6. Counting of votes

The counting of votes shall take place on the basis of single transferable vote at 11 A.M. on the 5th March, 1951 in the office of the Controller of Insurance at Simla.

7. Presence of candidates or their representatives at the time of counting of votes

Any candidate standing for election shall be entitled to be present in person or to appoint a representative to be present on his behalf at the time of the counting of votes.

8. Names to be published in the Official Gazette

The names of all candidates declared elected shall be notified by the Controller in the official Gazette.

9. Disputes

Any doubt or dispute regarding the interpretation of the provisions of this Order or regarding the validity of any election held thereunder shall be referred to the Controller whose decision thereon shall be final.

General Insurance Council.

Regional Councils and Sectional Committees

The following gentlemen were elected members of the Calcutta Regional Council of the General Insurance Council, recently formed under the Insurance Amendment Act:—

- (1) Mr. B. R. Mody, Chairman. (New India Assurance Company)
- (2) Mr. U. N. Chatterjee (Standard General Assurance Company)

(3) Mr. S. S. Kothari (Ruby General Insurance Company)

(4) Mr. S. D. Srinivasan (National & National Fire & General Insce. Co.)

(5) Mr. C. W. Harrold (Alliance Assce.)

(6) Mr. R. H. McLeod (New Zealand Insurance Company)

(7) Mr. H. B. Scott (Royal Insce. Co.)

According to new Insurance Rules, Calcutta Regional Council will have 3 Committees under it—One for Fire, another for Marine and the third for Miscellaneous business.

The following gentlemen have been duly elected to serve on the First Fire, Marine and Miscellaneous Sectional Committees:—

Representatives of Members.

FIRE	MARINE	MISCELLANEOUS
1. Mr. S. D. Ghosal	1. Mr. P. Balan	1. Mr. D. Das Gupta
2. Mr. P. P. Ginwalla	2. Mr. J. P. Bhargava	2. Mr. M. L. Khatri
3. Mr. B. R. Mody	3. Mr. A. N. Sarkar	3. Mr. N. M. Medora
4. Mr. A. S. Rege	4. Mr. P. C. Sekhar	4. Mr. B. C. Raksbit

Representatives of Associate Members.

FIRE	MARINE	MISCELLANEOUS
1. Mr. D. W. Francis	1. Mr. E. S. Brooks	1. Mr. F. L. Middleton
2. Mr. D. H. Gilei	2. Mr. H. N. Laver	2. Mr. D. A. L. Thomas
3. Mr. A. Mabb	3. Mr. A. Mabb	3. Mr. H. B. Trinder

The First Sectional Committees will shortly be holding their First Meetings to elect their Chairman and Dy. Chairman and Members and Associate Members will be advised of the result as soon as possible.

The following gentlemen have been elected Members of the Regional Council, Delhi, under the provisions of the Insurance Amendment Act:—

- (1) Mr. M. N. Seth (Sterling General)
- (2) Mr. J. B. Hoon (New India)
- (3) Mr. N. K. Roye (Hindusthan Genl.)
- (4) Mr. P. P. Gupta (Bharat Fire & General)
- (5) Mr. P. K. Gupta (London & Lancashire)

(6) Mr. K. S. Duggal (Guardian)

(7) Mr. S. N. Gupta (New Zealand).

Liability for Postal Insurance Policies

It has been agreed that the liability for postal life insurance policies should be allocated on the basis of the residence of insurance on March 31, 1948, at a recent Indo-Pakistan Conference held at New Delhi

Indian Insurance Institute

The President and Members of the Council of the Indian Insurance Institute Calcutta met the President and Members of the Executive Committee of the Indian Life Assurance Offices Association at an Afternoon Party on Tuesday, the 30th January, 1951 at the Hall of the Bengal National Chamber of Commerce (P-11 Mission Row Extension, Calcutta). The

function was attended by a large number of guests and prominent among these were Sri L. S. Vaidyanathan, Sri S. C. Roy, Sri D. S. Subramanyam, Sri K. Balasubramanyam, Sri A. B. Chatterjee, Sri T. C. Kapur, Sri K. Y. Joshi, Sri S. D. Srinivasan, Sri P. K. Sen, Sri S. P. Bose, Sri T. R. A. Pai, Mr. A. J. Steeda, Sri D. N. Bhattacharjee, Sri H. K. Sen, Actuary, Sri S. P. Guha, Sri Sachin Bagchi, Sri P. R. Gupta, Sri R. Roy, Sri S. R. Biswas (Secretary, Bengal National Chamber of Commerce), Sri B. M. Sen, Sri H. C. Chakraverty, Sri S. K. Acharya Choudhury, Mr. C. M. Allibhoy, Sri B. L. Banerjee, Sri N. C. Ghosh, Sri B. B. Mukherjee, Sri B. N. Chowdhury, Sri J. N. Banerjee and others.

Sri S. N. Roy Choudhury and Sri H. C. Naug, President and General Secretary of the Institute respectively with Sri S. Sarkhel were all attention to the guests.

Insurance Club (Kodarma)

A Club under the name of "Insurance Club, (Kodarma)", has been started by the local Insurance Fieldworkers.

The under-noted persons have been elected Office-bearers and the Executive Committee of the Club:—

President: Mr. M. R. Thakur (New India); **Vice-President:** Mr. B. K. Banerjee (New Asiatic); **Secretary & Treasurer:** Mr. C. R. Mukherji (New Asiatic).

Committee Members: Mrs. B. P. Sen (New Asiatic), Mr. N. N. Banerji, (National) and Mr. N. N. Mazumder (Oriental)

Madura Insurance Association, Madhurai

At the Social gathering of the Members

of the Association held at 5 P.M. on 2-1-1951 at 'Bharat Buildings', Madhurai, Mr. AL. A. Shenbaga Nadar, Patron of the Madura Insurance Association and the Chairman of the Mother India Insurance Co. Ltd., presided. Mr. N. Govindarajulu Vice-President of the Association, welcomed the guests.

Mr. S. N. K. Sundaram, Managing Director, Pandiyan Bank Ltd., Madura, recounted his experience and the Social Welfare and National Insurance and Savings Programmes obtaining in England and other Western Countries in Europe like Switzerland, Germany, Sweden and France.

He was full of admiration for the disinterested work carried on there by the Ministers of the States and found that there was willing public Co-operation which helped very remarkably the development of National Insurance Schemes to a great success. The benefits according to these countries by the scheme of National Insurance, were enormous as they provided cash payments during sickness, injury and widowhood. Payments were made at child birth and at death and pensions for disablements and at retirements. He also pointed out that the Office of Employment Exchange played a great role in England for the successful operation of this scheme. He wondered at the selfless spirit observed by the people in helping reconstructions after the devastating effect of the War. He concluded with these words: "While businessmen enjoy great prestige and their views are respected by Governments in other countries, you can imagine what the type of consideration and treatment the business community gets here. But I must say one thing, that

the average integrity of the business community in our country requires great deal of lifting up. I feel that only Free Trade and competition will eliminate unscrupulous people from the market and make them realise that only right methods and fair dealings would pay and bring success in business and prosperity to the country. I am sure your Association is doing everything possible to maintain the integrity of the Insurance Trade. I wish it all success."

Then Mr. M. T. Sundaram of Madura Insurance Co., Ltd., Madura, narrated his experience in Europe and pleaded for a change in the outlook on economic problems of this country.

Mr. AR. A. Shenbaga Nadar, who presided over the meeting appreciated the selfless spirit with which the people are working in Western countries, for example, which the people of this country can follow with advantage and common good of all.

The Meeting ended with a vote of thanks by Mr. P. Ganesan, Hony. Secretary of the Association.

There was a Meeting of the Madura Insurance Association, at 4 P.M., on 14-1-1951 at the Bharat Insurance Building, Madhurai, for which Mr. R. G. Vijayakar, Managing Director, Viswabhathi Insurance Co., Ltd., and Member of the Regional Council, Bombay, Mr. K. G. Merchant of Standard General Insurance Co., Ltd., Member, All India Tariff Board, and Member, Regional Council, Bombay, and Mr. S. R. Idgunji of Alco Insurance Co., Ltd., Bombay were invited as guests.

They discussed with the Members the conditions and experiences of Insurance workers in the south and in the north of India. Some Members of General Insurance business, pointed out to Mr. K. G.

Merchant, the various handicaps the Insurance Agents in the south are suffering from. Particular attention was drawn to the unfair competition involved by the Banks forcing certain of their constituents to insure their articles only with a particular Company selected by them.

Mr. Merchant felt that the Insurance-consciousness in the south was not much in evidence and most of the General Insurance business is a result of the compulsion by financiers to safeguard the latter's interests, which safeguard those industries.

Mr. S. Vinayakam, Vice-President, was in the chair, and the guests appreciated the useful work that is being done by the Madura Insurance Association.

With a Vote of thanks by Mr. P. Ganesan the Hony. Secretary, the function terminated.

Indian Insurance Institute

The Council of the Indian Insurance Institute, Calcutta, met Sri K. Balasubramanyam, Hony. Secretary, Indian Life Offices Association on Tuesday, the 5th December, 1950, at the office premises of the Institute (P-11, Mission Row Extension, Calcutta) for an informal discussion regarding the provisions of the new Insurance Law. Sri Balasubramanyam spoke on various aspects of the Insurance Law. A lively discussion was followed in which many of the members present participated, Sri S. D. Srinivasan, Senior Vice-President of the Institute presided over the meeting. Amongst those present were Sri S. P. Bose (National Indian), Sri S. C. Roy (Aryasthan), Sri H. K. Sen, Actuary, Sri H. C. Naug (Palladium), Sri U. S. Barua (Lakshmi), Sri A. C. Neogi (East India), Sri B. N. Choudhury (Hindusthan) and others.

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THE INDIAN POLICY-HOLDER.

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Progress of Insurance Business in India.

Indian Insurance Year Book, 1950.

II

IN 1949, the Indian Insurers issued annuities for a net amount of Rs. 3,25,000. The total net amount of annuities in force at the end of 1949 (p.a.) was Rs. 34,22,000. Non-Indian Insurers issued in India annuities for Rs. 7,58,000 in 1949 and the net amount in force at the end of the year (p.a.) was Rs. 39,03,000. These particulars are enough to show the very poor annuity business done in India. It is not that the insuring public has not realised the value of annuity contracts that is responsible for such a slow progress, but more has to be said about the Insurers and their representatives. Firstly, the financial resources of most of the Indian Insurers are not adequate to issue annuity contracts in large numbers. Secondly, poor insurance salesmanship does not appeal to the prospective policyholders. Canvassing and particularly Insurance canvassing requires not only a great deal of personal tact and skill, but also special training to present to the public the advantages of Annuity contracts in a most appealing form. Though Insurance Companies generally involve themselves in a competitive struggle to secure business irrespective of cost, it is only a few that care for bringing into vogue a field organisation consisting of trained salesmen. Indiscriminate recruiting of raw, illiterate and good-for-nothing men, for insurance selling which means counselling plans for future financial equipment results in not only heavy management expense but also in heavy lapses. This will be evident from the fact that during each of the past five or six years, the number of fresh licences and renewal licences issued has been increasing, but the percentage of licences not renewed has also been going up. In 1949, 85,389 fresh licences and 95,348 renewal licences were issued, and the percentage of licences not renewed to total number of licences issued during the year 1948, was as much as 43.9. Thus, the irresistible conclusion to be drawn from this as the Controller of Insurance himself has put it, is that "due care is not exercised by companies in the selection of their agents and that the entry of casual agents in business is encouraged."

"Experience", he adds, "proves that the larger the number of agents, the lesser is the output of work." Agencies should be granted only to those persons who satisfy certain standards of conduct, and educational and technical attainments in all aspects of the business. Non-observance of any specified code or convention by any of the insurers, their branch officers and chief agents, ultimately undermine the inherent strength of the business. The table showing the percentage of lapses (in sum insured) according to mean duration, out of the new business written in the years 1946, 1947, 1948 and 1949, published in pp. 76-85 of the year book, is revealing. Out of the new business completed every year, not less than 50 per cent. lapsed in the case of majority of companies within the first three years. In a large number of companies, the percentage has been as high as 75 or 80. The colossal waste of public money due to uneconomic management and heavy lapses are well portrayed by the valuation results of the various Insurers. Of the 47 Indian Insurance Companies' valuation results received by the Controller of Insurance, six valuations had to be questioned on the ground that they did not properly indicate the condition of affairs of the insurers concerned by reason of the faulty bases adopted. In four cases, the expense provision made and in one case, the rate of interest assumed by the actuary was considered inadequate. In another case, both the rate of interest as well as expense provision made were considered inadequate. Apart from this difference of opinion between the Actuaries who conducted the valuations and the Controller of Insurance, it was only 11 Insurers that disclosed a surplus sufficient enough to declare a bonus to the policyholders and a dividend to the shareholders. The valuations of 15 Insurers disclosed only a nominal surplus that had to be carried forward unappropriated. 9 Companies disclosed a deficit that was covered by free paid-up capital and 12 companies disclosed deficits that could not be covered by free paid-up capital. Thus, out of 47 companies only 11 i.e. roughly 25% of the Companies could return to their policyholders anything as bonus though all the Companies have provided in their premiums under with profit schemes for payment of a Bonus. Thus in the case of 75% of the companies, the policyholders under with-profit plans, though have paid an extra in anticipation of the receipt of a Bonus, have not received anything, because of inefficient management and top heavy expenses. How long are the policyholders going to tolerate this state of affairs knowing full well that their interests are affected?

Multiple Line Underwriting and Inland Marine Insurance

BY WILLIAM H-RODDA.

(Secretary, Transportation Insurance Rating Bureau, Chicago)

WILL the next depression again find the fire insurance and casualty insurance companies fighting over the inland marine business?

It was during the lean years from 1929 to 1933 that the inland marine departments of the fire insurance companies reached out and took business from the casualty insurance companies as well as from their own fire departments. During this period the inland marine underwriters expanded their writings to include many risks which had not previously been considered transit risks. There were many complaints that broad inland marine coverages were being provided at rates far below those that the fire and casualty departments were charging for more restricted coverage.

The complaints and the discussions resulted eventually in formulation of the Nation-Wide Definition of the Insuring Powers of Marine and Transportation Underwriters. This document was adopted by most of the state insurance departments and also was subscribed to by most insurance companies. It limited the risks which could be covered under inland marine policies to those which had some relation to transportation, or which by long custom of the business had been written under inland marine forms.

During the fourteen years which have passed since the adoption of the Nation-Wide Definition, there have been relatively

few extensions of the insuring powers of inland marine underwriters.

Several state insurance departments have taken specific action permitting casualty insurance companies to write the personal property floater. Apparently this was done on the theory that the personal property floater provides some casualty coverages, as well as fire coverages so it seemed reasonable that casualty as well as fire companies should be permitted to write the business. This development is independent of the gradual extension of multiple line underwriting.

A survey of multiple line underwriting powers indicates that more than half of the states now permit full multiple line underwriting, and there are at least eight additional states where casualty insurance companies may write the personal property floater.

Up to the present time there has been no general extension by the casualty companies into the inland marine or fire fields. This may be accounted for partly by the fact that most insurance companies today are writing as much premium volume as they can absorb comfortably, and most casualty companies at the moment have no desire to enter new fields. This situation may change rapidly when there is a change in business conditions and insurance companies experience a drop in premium income.

There are several reasons why the inland marine field probably will be first to feel the entry of the casualty companies into the domain of the fire companies. Many inland marine policies give burglary or theft protection, which independently is considered a casualty coverage. Several casualty companies are already writing personal property floaters in modest volume. The extent of the casualty company writing of the personal property floater cannot be determined because it has not yet reached a point where it is shown separately on the consolidation of premiums.

It is likely that many casualty companies will attempt to convert their burglary policies into personal property floaters. This is following the lead of the fire companies that have converted many house-hold furniture fire policies to personal property floaters. Many companies have felt that their contact with the policyholder with the small premium policies should lead to an attempt to sell the larger premium.

It also is likely that the casualty companies will enter the motor truck cargo and contractor's equipment fields. The casualty business already is closely related to these two inland marine coverages, and there is a tendency for truckers and contractors to try placing all their insurance in one agency or company.

One factor which undoubtedly is discouraging the casualty companies from entering the inland marine field at the present time is that it would add to their unearned premium reserve problem. The casualty companies have been in a relatively favourable position as compared with the fire companies. Most casualty business is on a one-year basis, and the

casualty companies are not required to set up nearly the proportion of reserve required of the fire companies on three and five year business. About 85% of the personal property floater business is written for three years and some other types of inland marine coverage are written on a term basis. Probably few casualty companies would look with favor upon entering fields which would require the setting up of large unearned premium reserves under present conditions.

Multiple line underwriting may open some new avenues toward additional premium income for the fire companies as well as the casualty companies. The Nation-Wide Definition of Inland Marine Insurance stopped the writing of "all risks" policies on building and structures. There has been some discussion of writing "all risks" policies on buildings, but none of the companies has been fit to provide such a policy. It is possible that the fire companies will see a broad form building policy as a possible answer to a threat of loss of premiums through casualty company competition. While this might not be considered an inland marine form because it would not involve property in transit, the principles of underwriting would be similar.

The expansion of multiple line underwriting powers also may lead fire companies to entering the personal liability field of the casualty companies. Here again, it is likely that the inland marine departments will be the first to attempt such expansion because they are already familiar with some liability principles. Many inland marine forms are legal liability policies, and the inland marine underwriter has had to become familiar with liability principles, which have remained strangers to his fire underwriting brothers.

Inflation and the Lure of Term Insurance

By M. ALBERT LINTON

President of the Provident Mutual Life Insurance Company of Philadelphia.

From an Address to the recent Million Dollar Round Table.

THERE is no doubt that term insurance has its place in many life insurance programs. Properly adjusted to appropriate situations it performs a real service. On the other hand there are all too many instances where term insurance, because it appears to be inexpensive, is sold when the policyholder's interest would have been far better served by some form of life or endowment insurance—"cash-value" insurance, as it is appropriately called.

Two sets of economic conditions appear to stimulate the sale of term insurance. One is that of severe depression when incomes are greatly reduced and people do not have the money to buy adequate amounts of life or endowment insurance. We witnessed that in the 1930's. The rigors of the depression produced a large number of so-called life insurance "counsellors" who developed to a high degree a long list of spurious arguments extolling the use of term insurance as the only sound basis for a permanent life insurance program. Many policyholders were hoodwinked and persuaded to throw overboard soundly conceived programs which could have been salvaged by temporary emergency measures. Others were sold term insurance when cash-value insurance would have served them far better.

The other set of economic conditions stimulating to the advocates of term insurance is that existing when fears of inflation are widespread. Then the term insurance counsellors reappear offering their spurious arguments to the effect that the only sound program of long-range protection is term insurance, supplemented by the separate investment year by year of sums corresponding to the additional amounts that would otherwise have been invested under a program based on cash-value insurance.

True to form, with the current fears of growing inflation, the advocates of term insurance have reappeared preaching their unsound doctrines. Having the welfare of policyholders at heart, it is our business to separate the wheat from the chaff, and to avoid being drawn by the prevailing mood into paths likely in the long run to lead to serious loss to our clients. The lure of term insurance can be made to appear very attractive.

•The Proper Role of Term Insurance

When reviewing the merits of term, as compared with cash-value insurance I am sure you will agree that term insurance, as its name implies, is designed to cover temporary situations. For example, a young man with a wife and young children may not have sufficient income to

purchase enough cash-value insurance to provide adequate protection in the event of early death. The sound course then is to buy term insurance and carry it until his income increases to the point where he has the money to exercise his right of converting the term to permanent forms of protection in the form of life or endowment insurance.

Again, a person may fear a period of high prices and wish to protect his family against the consequences if he should be called away during such a time. In that event temporary protection will be in order, provided the money is not available to purchase life insurance on a permanent plan. One of the pit falls in a situation like this is the tendency to concentrate attention so strongly on the period immediately ahead that the long-run future is likely to be overlooked, forgetting that the probability of survival greatly exceeds that of early death. Because term insurance costs so much less per thousand than cash-value insurance, it is easy to rationalize and buy term, arguing that the budget will not stand a larger outlay, when as a matter of fact it would do so with reasonable readjustment, putting first things first.

To get a line on what can be done with an ordinary life policy, we have taken the current net cost schedules of ten mutual life insurance companies to determine a reasonable average cost for the insurance.

Suppose a man aged 35 takes an ordinary life policy. If he should die within a year after his policy was issued it would provide his family with 40.9 times the premiums he had paid. Had he been aged 45 the figure would have been 28.9. Figures for

three other durations for ages 35 and 45 are shown below:

Years in Force	Relation of Face of Policy to Total Net Costs Paid	
	Age 35	Age 45
1	40.9 times	28.9 times
2	20.7 "	14.6 "
5	8.4 "	6.0 "
10	4.4 "	3.1 "

A glance at these figures reveals the effective provision that can be made by an ordinary life policy against the consequences of early death in a period of high prices. Is it likely that stocks, real estate, or commodities purchased in small amounts over the next few years would experience any such appreciation within this period? Is it not more likely that within ten years they would show either no appreciation or possibly a loss?

Had the above figures been computed for term insurance they would, of course, have been larger because the premiums would have been smaller. However, at the end of the time there would be nothing to show for the premiums paid. The program would have placed all the emphasis on dying and not enough on living. As for supplementing the term policy with separate investment, that will be considered later.

Renewable Term Insurance

Renewable term insurance is a type of insurance for a limited period that can be renewed at the end of each period for an increased premium. The period may be one year, five years, or ten years. Renewals may be permitted to carry the protection up to age 65.

This type of insurance illustrates the effects of what is known as adverse selection. At the successive renewal periods when the premium increases become effective, policyholders in good health are likely to switch over to cash-value insurance under which the premiums do not increase. After a number of years those still retaining their term insurance are likely to be below average in health, and experiencing a higher mortality than those in a corresponding position owning level premium insurance.

An extremely unsatisfactory aspect of renewable term insurance is that the money paid in does not build up any equities, which would provide emergency values which can be of such importance in times of adversity. Furthermore, if the insurance is continued to advanced years, say to age 65, the comparison between what was paid under the term insurance, with nothing in the end to show for it, and what would have been paid over the same period on an ordinary life policy, is likely to be highly disturbing to the policyholder.

To make a comparison between ordinary life and renewable term policies carried to age 65 presents problems, as relatively few life insurance companies issue renewable term insurance that may be continued to that age. The most satisfactory method of illustrating relative costs appeared to be by using non-participating premiums for those companies issuing the two kinds of insurance. One of the companies had one-year and the other two, five-year renewable term contracts. There is relatively little difference in costs, and to give a wider base for the comparison the three sets of figures have been averaged to obtain

the results shown in the following table. The figures are based upon \$10,000 of insurance and rounded to the nearest dollar.

Age at Issue of Policy	Ordinary Life Premium	Premium for First Term Period
25	\$160	\$ 69
35	218	79
45	321	124

Roughly speaking, the term premiums at the outset are about 40 per cent of the ordinary life premiums. That is what makes term insurance look so deceptively cheap. Therein lies its lure.

Now let us see how the costs compare in the successive decades from the starting age to age 65. Again, we have used the average figures for the three companies based upon \$10,000 of insurance.

Decade	Age 25 at Issue Cost of:		Age 35 at Issue Cost of:		Age 45 at Issue Cost of:	
	O. L.	Term	O. L.	Term	O. L.	Term
First	\$1,599	\$ 705	\$2,182	\$ 891	\$3,213	\$1,561
Second	1,593	891	2,182	1,561	3,213	3,295
Third	1,599	1,561	2,182	3,295	—	—
Fourth	1,599	3,295	—	—	—	—
Total Cost to 65	\$6,396	\$6,452	\$8,546	\$5,747	\$6,426	\$4,856
Cash Value at 65	\$5,962	Zero	\$5,359	Zero	\$4,381	Zero
Excess of Ordinary Life	\$56	+ \$799	+ \$1,570			

It is figures like these which in the end cause dissatisfaction among those who have relied upon term insurance. Take, for example, age 35 at issue. Over the thirty-year period the term would have cost \$5,747; the ordinary life \$6,546. For the difference of \$799 the ordinary life policy would have a guaranteed cash value of \$5,359, as compared with zero

for the term. Furthermore, if the policyholder desired to continue his protection, \$10,000 of ordinary life at that age would cost over \$800 a year, as compared with the continuing \$218 for the ordinary life taken at age 35. The relative data for the other two illustrative ages speak for themselves—especially at age 25 where the ordinary life actually costs less than the term and has \$5,962 to show for it.

When a renewable term policyholder reaches his sixties and looks back over the past he is likely to criticize strongly the company which collected so much money as compared with ordinary life and refuses to pay him a cash value. Arguments about compound interest on the extra amounts he would have had to pay for the ordinary life policy in the earlier years fall on deaf ears. The policyholder is emotionally upset and rational arguments fail to prevent an adverse reaction to the company—frequently expressed in strong language to his circle of friends.

A similar type of reaction is likely to be encountered among those who are forced to drop their insurance as the premiums mount with the successive renewal dates. When they see what they could have done with ordinary life, the premiums of which would not have increased, they, too, are likely to entertain unfavorable opinions of the company whose representatives got them into such an unsatisfactory position. They will regret having succumbed to the lure of term insurance with its deceptively low initial cost.

Enough has been said to indicate the pitfalls and dangers of renewable term in-

surance from the cost angle and to point out that it is likely in the end to prove to be a snare and a delusion to the policyholder. Because policyholder's dissatisfaction is likely to be encountered over the years a great many companies are unwilling to issue this form of insurance.

Term Insurance Plus Separate Investment

Frequently in the 1930's you heard, and even today you sometimes hear the siren song, "buy renewable term insurance and invest the difference independently." Thus, if a man were planning to put, say \$1,000 a year into life insurance, it would be suggested that \$400 or \$500 be used to purchase renewable term insurance and the balance be invested separately, as in stocks, bonds, or an investment trust. Elaborate calculations would be prepared showing how much better off the policyholder would be under such a program, as compared with putting the \$1,000 a year into an ordinary life policy. The comparison may be made to look very good and many a policyholder, to his sorrow, has been misled by it.

We have already discussed some of the characteristics of renewable term insurance. We shall, therefore, devote attention to the sums that would be diverted to separate investment instead of to the building up of cash value equities under the ordinary life policy.

Probably in periods of favorable economic conditions, or in the event of no family financial stringency, the differences would not be significant. If the market value of the separate investment were relatively high it probably would not be significant. If the market value of the

separate investment were relatively high it probably would not be disturbed. If death should occur then there would be a gain if the separate investment were sold. It is in time of emergency that marked differences between the two programs become so apparent. There may be some who believe that no emergency such as occurred in the 1930's will ever again be experienced. I wonder. In any event, would it not be much wiser to be in position to weather storms than to have to count indefinitely on clear skies?

The problem then has largely to do with the security of principal and its availability in times of financial adversity, since under any program of lifetime protection it is of the utmost importance that these two problems be satisfactorily solved. That is why cash-value insurance is of such value to its owners. It not only provides instant cash at death, as does term insurance, but it also furnishes invaluable additional protection at times when it is greatly needed.

One of the reasons why a well managed life insurance company is so secure is that its policyholders are protected by the law of average as applied to investments. A gentleman of middle age had an endowment policy about to mature. A life insurance representative found him studying the list of bonds owned by his life insurance company. To the question "In which one of these bonds shall I invest my endowment money?" the insurance man replied, "Why not buy the whole list? Take a single premium policy." In essence that is what a man does when he entrusts his money to a life insurance company. He invests in its entire list of securities.

Have you ever had a prospect say to you, "I do not need the help of your investment department to invest my money?" Whether he does or not need not be argued. The point is, can he obtain the security afforded by the law of average? Suppose he has a \$10,000 cash value under a policy issued by a life insurance company which has a thousand different investments. He would then have the equivalent of a very small sum invested through each of these thousand conservative channels. Losses will overtake some. Gains will accrue to others. To a remarkable degree the law of average will stabilize the entire group. For this reason, the life insurance company affords far greater security than can be achieved by the individual who invests directly in the usual investments—stocks, bonds, mortgages, or real estate.

The purposes to be served by investment in life insurance are so important that security should be a first consideration. Life insurance relates to the well-being of a man and his family many years hence. If the investment is in channels other than life insurance, he runs a much greater chance that something will befall his program and leave him disappointed and disillusioned in the later years of life when it is too late to retrieve mistakes. How trivial then, in retrospect, will appear the difference of a per cent or so in interest return as compared with the possession of an unimpaired principal.

Another extremely important feature of the life insurance policy is the guaranteed basis upon which the policy proceeds may be translated into a life income. This a separate investment program does not provide. The life income under such a

program must be purchased at rate prevailing at the time the income is needed. The life insurance policy guarantees that the income provided by a given capital sum shall not be less than a specific amount for each age attained. If the open market rate is more favorable, well and good. If not, the guaranteed rate in the policy will perform a most acceptable service. It is doing so today on policies issued in the past. Who knows but that it will continue to do so on policies issued in the years to come.

The most important consideration, however, is whether principal will be intact and available, 100 cents on the dollar, when needed. Before the Great Depression of the 1930's we life insurance men, arguing from theory and from limited experience, predicted that life insurance values would have those characteristics. The prediction came true. The successful weathering of the financial cyclone of the 1930's gives us a confidence resulting from superb performance. The disaster that befell vast numbers of separate investment projects, and the depreciation that occurred in the values of stocks and bonds are too well known to need recounting here. The lure of term insurance plus separate investment caused many tragic losses. Let us beware lest it do so again.

Another valuable feature of having one's equities in life insurance as compared with a separate fund is that the policy monies payable to a named beneficiary go directly to the beneficiary instead of passing through the estate of the policyholder. In most instances it is a matter of days only before the money

from the life insurance company reaches its destination and starts to perform the service it was designed to perform. In the case of the separate investment fund the money may be tied up until the estate has been closed out. This may take a year or longer. Furthermore, the settling of an estate involves court costs, lawyers' fees, and other expenses not incurred in the settlement of the policy.

Again in the case of the estate there is always the possibility that someone may institute a will contest and either delay the settlement or divert the money from its intended destination. Finally, life insurance payable to a named beneficiary is free from the claims of creditors—an invaluable protection to the widow and children.

Life Insurance in Depression Periods

Why is it that the life insurance companies are able to guarantee the cash and loan values in their policies? The answer is twofold. First, the nature of the investments that support life insurance contracts, and, second, the well-maintained flow of premium income.

When investing a life insurance company's funds the first consideration is security of principal. This means that there must be an adequate margin of safety, with speculative elements reduced to an absolute minimum. The investment is likely to be a direct mortgage upon valuable property with a wide spread between the amount loaned and a conservative value of the property. While losses were, of course, sustained during the depression, the conservative nature of life insurance investments resulted in their being affected to a relatively small extent

by the storms which brought such devastating losses to stocks and inadequately secured bonds. The investment policies of the life insurance companies were magnificently sustained by the test to which they were subjected.

The second element that has accounted for the impressive record of the life insurance companies was the regular flow of premium and interest income that was maintained throughout the depression. If the life insurance contract involved only a savings function it is doubtful if this remarkable flow of premium payments would have been experienced. It is relatively easy under stress to give up a mere savings program and to divert the money to other uses. The combination of protection and savings features in the life insurance contract on the other hand causes the premiums to be paid faithfully. As premiums are paid, the protection of dependents is assured, and the savings accumulation is further increased to be available in case of emergency.

This continued flow of income made it possible for the companies to meet the heavy cash demands made upon them without having to liquidate any large amounts of securities under depression conditions. Had the companies not had this large income and been forced to sell their bonds in the depressed markets, the story would have been very different. No matter how sound a long-term bond, there were times when it was impossible to sell except at a heavy loss. In fact there were times when no bids would be received at all where the amount offered was substantial.

Performance in Emergency

Reference has already been made to the unusually large demands for cash made upon the companies at various times during the depression. From the point of view of the individual, the contract right to obtain money from his policy in the form either of a loan or a surrender value was a godsend. The man who had his money in a separate investment fund was in an entirely different position. When he tried to sell, he frequently found that there were no purchasers except at ruinous prices. When he tried to borrow on his assets, he may or may not have been able to do so. When he could obtain the loan, it was frequently for but a small fraction of the original value of the collateral and then on terms that were harsh. Furthermore, the loan could be called, and if the market value of the collateral declined, the borrower either had to reduce the loan, put up more collateral, or be sold out. Many a man who had pinned his hopes upon a separate investment fund found himself in a most uncomfortable position.

The man, however, who had a life insurance cash value was in a far better situation. His policy guaranteed both the amount he could borrow and the rate of interest he would be called upon to pay. After the loan had been made it could not be called. As premiums and interest continued to be paid, the cash value increased from year to year exactly as guaranteed in the policy. No investment during the depression was as liquid or as available in an emergency as was the life insurance cash value. Those who had relied upon term insurance and separate investment were in an unenviable position.

Return on the Investment Element

Next to security and availability in the event of need, a most important consideration is the rate of interest returned on an investment. In the present instance we are interested in the rate of interest that would have to be realised upon the investment part of a separate investment—separate term insurance program—in order to duplicate the performance of the life insurance policy. To obtain this rate of interest, we must separate the two elements, protection and savings, and concentrate upon the latter.

To obtain a representative basis for purposes of illustration, the 1949 net cost schedules of ten representative mutual life insurance companies were averaged. From the average net cost figures thus obtained were deducted the successive costs of one-year term insurance that would have to be purchased each year to cover the difference between the accumulation of the savings fund element and the full face of the policy. The costs are based upon the lowest one-year renewable term insurance rates we were able to locate among all the companies in the country.

To understand the problem we are seeking to solve, consider the case of a man aged 35. He proposes until he reaches age 65 to apply each year to a separate investment—separate insurance program—a sum of money exactly equal to that called for under an ordinary life policy issued at age 35, according to the average of the net cost schedules of ten companies. What net rate of compound interest, taking all losses into account, would the separate

investment fund have to yield over the entire thirty-year period to duplicate the guaranteed cash value of the ordinary life policy at age 65?

Twice before we have made similar calculations. In 1927 the calculation was based on the average net costs, on their then current scales, of a representative group of six life insurance companies. The calculation was made again in 1936 for a group of ten life insurance companies. It was found in 1927 that for the period from age 35 to age 65 it would be necessary for the separate investment fund to yield a net compound interest return of 5.36 per cent in order to duplicate the ordinary life cash value at age 65. In 1936 the figure was 4.35 per cent.

In 1927, having in mind a possible decline in future dividend scales because of declining interest rates, this statement was made: "If, however, current dividend scales eventually do have to be reduced because of a lowered interest rate, the return upon securities in which a separate investment fund could appropriately be placed will also decline so that approximately the same relation between the return of the two programs is likely to be maintained."

This is exactly what has happened. Interest rates have declined and net cost schedules have been increased. They have been increased still further since 1936. When the calculations were made for ten companies using 1949 net cost schedules, the net compound interest return which the separate fund must yield to duplicate

the ordinary life cash value at age 65 was found to be 3.34 per cent.

Let us now compare these yields with those on high-grade corporation bonds. In 1927 the average return on such bonds computed by the Standard and Poor's Corporation was 4.65 per cent; that on the life insurance policy was 71 points or 15 per cent greater. In 1949 the bond yield was about 2.70 per cent, so that the 3.34 per cent on the life insurance policy was 64 points or 23 per cent greater. The life insurance yield therefore compared even more favourably with that on high-grade corporation bonds than did the 1927 yield in its day. (Both in 1927 and 1936 corresponding percentage returns were also computed for ages 25, 45 and 55—the computations for age 55 being carried through for twenty years. In no case in either year were the returns at these three ages less than the return at age 35. In 1949 there was a slight difference in that the lowest figure for the four ages occurs at age 45 and was 3.30 per cent.

These results are most gratifying and should be of help to life insurance representatives when presenting their product to multitudes of people needing a balanced program of protection and saving. Where can they find any other means of duplicating the life insurance contract that approaches life insurance in combining security of principal, availability in emergency, and net return on the investment?

One question needs to be answered. "How is it that the return based upon the net cost schedules in effect at any given time exceeds the return that the life insurance companies are earning upon their assets?" The answer is twofold. First, by combining the term insurance element with the savings element there is an expense saving as compared with the issuance of separate term insurance.

Secondly, renewable term insurance, as we have already seen, is likely to be subject over the years to higher than normal mortality rates. As a consequence, in computing renewable term insurance premiums, margins must be included to provide for the excess mortality. Yearly renewable term insurance is likely, therefore, to be relatively the most expensive type of protection a man can buy. To obtain bargain protection rates combine the protection and savings elements in one contract.

Long-Term Considerations

One advantage already alluded to of combining the two functions in one contract should be developed further. It involves psychology. Under a separate investment program providing for periodic payments into an accumulating fund, extending over a long period of years, one of the easiest things to do is to yield to the temptation to omit a payment now and then. Something requiring money may turn up which temporarily seems attractive—a new car, an expensive vacation, a television set, a fur coat. "Why not postpone the saving for a while and use the money for what now appeals?"

is only as at 31st December that the detailed and complete statements under the several forms IV-A are required. For the subsequent three quarters only the changes in the assets are to be entered in the two Forms IV-B, one as regards purchases and the other as regards the sales.

All the assets also of the controlled Fund namely the entire assets of life department are to be kept in approved investments provided that 15 % may be invested otherwise than in an approved investment if such investments are consented to by all directors present at a meeting and eligible to vote special notice of which has been given to all the directors and all such investments including those in which any director is interested are reported to the Controller without delay etc. Where then is the place of other assets of an insurer which are not included within the definition of approved investments such as outstanding premiums, agents' balances, branch balances, amount due from reinsurers, sundry debtors, deposits, advances, prepaid expenses etc? These are essential and unavoidable assets which are a concomitant to any life insurance business. Are then these assets also to be subject of a special Directors' meeting? Or are they not expected to exist if they cannot be aptly referred to as 'investments made'. If we refer to schedule to the Insurance Rules under Form IV-A part B wherein forms are prescribed in respect of Section 27A(2) which refers to the said 15 %, we find that the investments relating to the 15 % are to be shares, debentures etc. which contravene Section 27(A) or are in excess of the limits fixed under sections 27A (3) and 27A (4) etc. vide Part C and Part D. Clearly then assets like outstanding premiums, agents' balances etc. though forming an integral part of the assets of the controlled Fund are outside the scope of investment requirements of Section

27(A) although similar assets which cannot be considered as investments such as Furniture, Motor cars, Stationery in-stock, Income-tax recoverable and stamps in hand, interest etc. are treated as approved investments. It may be mentioned that in the statement of the assets of the controlled Fund forwarded by the Controller of Insurance in February 1950 under the Insurance Ordinance, the items of balances due from Chief, Special and Licenced agents also appeared. If, however, the 15 % is to include both the unapproved investments and other assets such as outstanding premium etc. which is likely because of the words in Section 27(A) (2) "invest or keep invested any part of his controlled Fund otherwise than in an approved investment", then similar allowance of 15 % for the investments under Section 27(1) also is understandable. The controlled Fund is far greater than the sum referred to in Section 27(1) to the extent of the other liabilities besides policy-liabilities and outstanding claims, plus policy-liabilities and outstanding claims on business outside India, surplus that is included in the Life Fund, besides outstanding premium and policy-loans which are deducted to arrive at the sum under Section 27(1).

If the full margin of 15 % in the case of investments under Section 27(1) is made up by other than approved investments then the entire excess being the difference between the controlled fund and the sum under Section 27(1) should be invested in approved investments. If so, 27(1) investments are likely to be on the whole fully 'approved'; but this is not possible in the nature of things. For an unknown reason, outstanding premiums are not treated as 'approved investment' and among the assets of the controlled fund, outstanding premium is an inevitable asset which is not approved, although

it is an approved investment for purposes of Section 27(1) by the method of arriving at the sum referred to in that section. This apparent anomaly in applying Section 27A(2) both alike to Section 27(1) and 27(A) investments and basing 15 % on the sum referred to in Section 27(1) in both cases needs to be clarified. Section 27(10) permits 10 % of the assets of the controlled fund to be subjected to a charge for purposes of investment. Rule 10D of the Insurance Rules precludes all the "securities" kept under Section 27(1) from such charge. Perhaps by securities are meant "approved securities" only and other approved investments can be subjected to a charge. This interpretation alone, besides being in conformity with Section 27A(10) can explain Section 28 (2B) which requires a statement of investments subjected to a charge to accompany the Section 28(1) statement relating to Section 27(1) investments. But then in the sections 27 and 28 the words 'assets' 'investments' and 'securities' are interchangeable and to take 'securities' to mean 'approved securities' is a narrow interpretation.

Besides the above confusion it is not quite understood why at all the statement containing the certificates from the Bank and management as regards the assets of the controlled fund including assets subject to a charge should accompany Section 28(1) statement relating to Section 27(1) investments. It may be because for the first 3 Quarters of a year complete

statement of assets of the controlled fund are not sent but only the charges since the previous statement. But then as stated above the investments of the controlled fund need not necessarily be the same as those under Section 27(1) and the provision becomes more anomalous if not part of Section 27(1) investments could be subject to a charge. But if the entire investments under Section 27 are excluded, only other investments can be subjected to a charge etc. and this does not seem to be the intention of the Department.

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News

The Madura Insurance Association.

The Madura Insurance Association was started in 1948 by a band of enthusiastic workers for the purpose of

(a) To promote closer co-operation between Insurance men working in the districts of Madura, Ramnad, Tinnevely and Trichinopoly (including Pudukottah).

(b) To advance the interests of Insurance men working in the districts mentioned above.

(c) To arrange social and educational activities for the benefit of the members.

(d) To Maintain a Library for the benefit of members.

(e) To educate the public on Insurance matters.

(f) To do all and any other acts conducive of the above objects.

Mr. E. Annamalai, Managing Director, Mother India Insurance Co., Ltd., was its first President. With the unstinted support and co-operation of the members of the Executive Committee it has completed two years of useful service to the Officers engaged in Insurance activities in the Districts of Madhurai, Ramnad, Trichy and Tinnevely. It has now become such a useful institution that no Insurance Officer in Madhurai can claim any status if he is not associated with it.

During the first two years, the Association has kept itself in touch with the

important persons in the insurance business in India, and has secured certain rights and privileges from Government and outside. It has managed to have Madurai recognised as a centre for Insurance Examinations. It wants to destroy all those tendencies which injuriously affect the Insurance business and profession. For this purpose a programme committee has been set up for devising ways and means of educating the Field-workers and developing a code of conduct. This Committee will also explore the possibility of recruiting and training suitable men for insurance work. There is a proposal to start an Insurance journal in the regional language to carry to every Tamil Home the message of insurance and make every earning member in the Society Insurance conscious. If anybody facing any problem which defies solution, they are welcome to share in the Association's experience for the common good of all.

It is a democratic organisation and the work of the Association is carried on by an Executive Committee elected by the Members once in a year. Any Officer engaged in Insurance work, other than an Agent, can enrol himself as a Member by paying an entrance fee of Rs. 5/- and half-yearly subscription of Rs. 12-8-0. The Members meet on the 2nd of every month and discuss various problems which face every day and exchange views. To add glamour to the gathering, some member has been volunteering to treat the members for some light refreshments or a dinner.

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This affords every one the opportunity to enlarge his knowledge of men and things. There is also a library of choice books attached to the Association, and those who want to be enlightened can freely make use of this facility. The Library fund of the Association amounts to Rs. 800-0-0 and steps are being taken to enrich the Library with useful books. Members and outsiders are welcome to offer suggestions to further improve this service of the Association.

The following resolution was passed by the Executive Committee of the Madurai Insurance Association, Madura, at a meeting held on 14.1.1951.

"The Committee having considered representations from agents that the Penalty levied under Cl.16-A of Insurance Amendment Act Rules, for renewing lapsed licences is heavy, agrees that the grievance is reasonable and a reduction there in is desirable in the interests of the business. The Committee is also of the opinion that the calling of explanations and proofs may be waived as it is felt that they cannot be helpful."

Indravadan C. Mehta Esqr.,

B.A., (Hons.) LL.B.,

Branch Secretary,

Oriental Government Security Life Assurance Co., Ltd., Ahmedabad.

A distinguished gathering consisting of Citizens, Policyholders, Insurance Representatives, Medical Examiners, Officers, Agents and the members of the Staff was entertained at a farewell function held on 10th February 1951 at 4 p. m. at the Branch Office of the Oriental Government Security Life Assurance Co., Ltd., in the honour of Shri. Indravadan G. Mehta, B.A., (Hons) LL.B., Branch

Secretary on his transfer as the Branch Secretary at the New Delhi Branch of the Company. At the function which was a grand success messages of good wishes received from mofussil agents were read over and high tributes were paid to Shri. Mehta by several speakers including the President Dr. H. M. Desai F.R.C.S., himself a leading citizen of Ahmedabad for his amiable nature, business acumen, pleasing demeanour and for his successful career as a Branch Secretary at Ahmedabad for the last 11 years. An address was also presented to Shri. Mehta who thanked all for their good feelings and wished a bright future to his successor Mr. K. L. Desai, B.A., who was known to them all. The meeting terminated after vote of thanks to the Chair and the guests who attended the function were then entertained with tea and light refreshments.

South India Insurance Association.

We are informed that the Fourth Annual Conference of the Association will be held on Saturday, the 3rd March, 1951 at the "United India Life Buildings" Esplanade, Madras at 3 P.M.

Shri S. K. Vaidyapuri, M.A., (Oxon.), Bar-at-Law, F.I.A., will open the Conference.

Sterling General Insurance Co., Madras Office

Messrs. A. P. Sarathy of the General Department and T. N. A. Lingam of the Life Department of the Sterling General Insurance Co., Ltd., Madras Office, have been promoted as Superintendents of Branches from 1st January 1951 in recognition of their able services to the company. Mr. Sarathy and Mr. Lingam are connected with the Institution for over 5 years.

Mr. M. S. Sastry.

Mr. M. S. Sastry, formerly connected with 'All India General' as their Secretary for Andhra Office at Rajahmundry has joined "EMPIRE OF INDIA" as Ag. Branch Secretary for Kakinada Branch on 12th January 1951.

All India Insurance Policy-holders' and Workers' League, Mysore

Recently a few prominent gentlemen have organised the All India policy-holders' and workers' League in the Mysore State with the following main objects.

1. To secure the amalgamation of all the Indian Insurance Companies and to bring the amalgamated body under the control of the Council of policy-holders.
2. To get the premium rates reduced substantially, the benefits to apply to existing as well as future policies.
3. To secure equitable policy contracts.
4. To render complete service to policy-holders and
5. To give expert advice on all Insurance matters to its members, or to the insuring public.

We congratulate the gentlemen for their efforts to serve the vast body of policy-holders in this country whose stake in the insurance companies is enormous, and who by themselves cannot easily have their voice heard by men in power in the absence of any such organised body. We wish the League every success.

Calcutta Dock on Fire

On February 17th the Calcutta Dock caught fire and raged for over 20 hours. The fire was first noticed at 1-30 p. m. and by 4-30 p. m. it was isolated. It was brought under control at 9-30 p. m. The cause of fire is not yet known. The total loss in terms of money property, and goods as a result of the fire is estimated at over Rs. 1½ crores. The original value of the shed at Garden Reach jetty and the cranes, lifts, and equipment destroyed was Rs. 36 lakhs but the replacement value would be double the amount. The value of goods destroyed is estimated at Rs. 60 lakhs. No loss of life has been reported and no one has been injured.

An Inquiry Committee consisting of the Traffic Manager, the Chief Engineer, and the Chief Mechanical Engineer of the Calcutta Port Commissioners had been appointed, to which had been coopted the Deputy Commissioner of Port Police. The report of the committee is awaited.

Insurance Company Secretary prosecuted for alleged Criminal Breach of Trust

It is reported that Mr. Bhagwan Swarup Bisnial, Secretary of the Empire of India Life Assurance Company was produced before a Presidency Magistrate on February 26 on a charge of criminal breach of trust. He was ordered to be released on bail of Rs. 50,000

The Police stated that Bhagwan Swarup Bisnial had disposed of securities held by the firm to advance loans to the extent of Rs. 71,00,000 to "unsecured, and fictitious parties."

The disposal of securities, the police alleged, was believed to have been done to cover up the "misappropriation" of the funds of the Jupiter General Insurance Co., Ltd., reported in our last issue.

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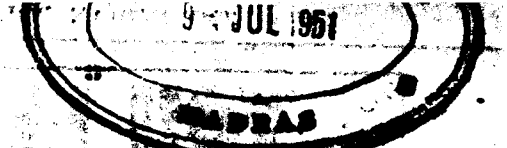
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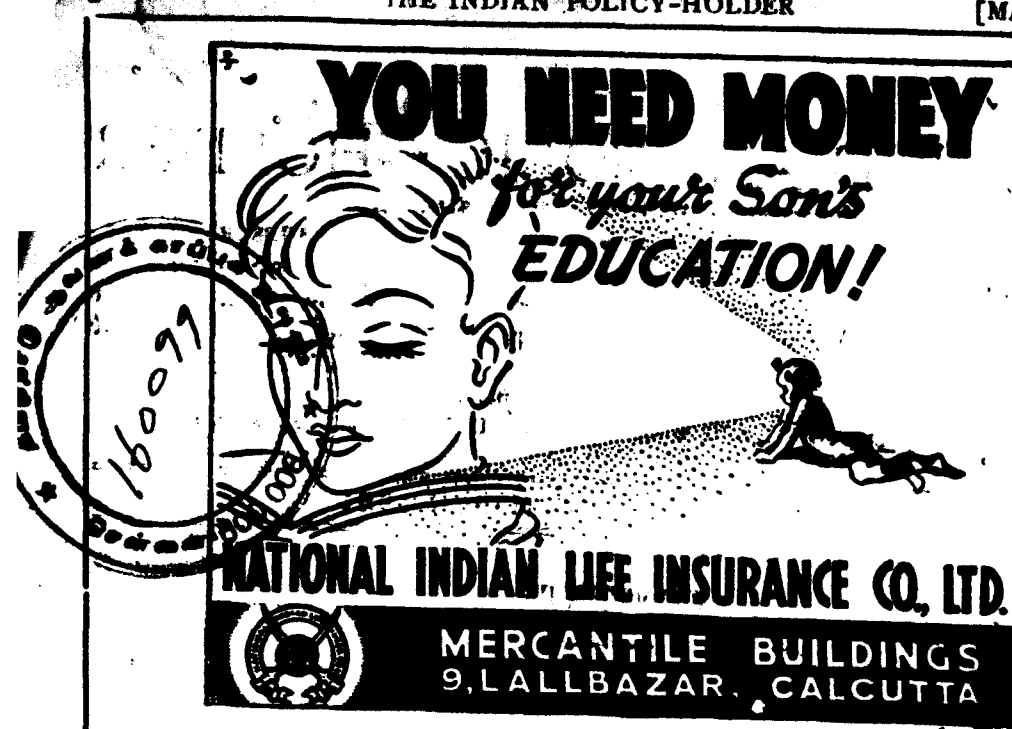
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THE INDIAN POLICY-HOLDER

VOL XVI

MARCH 1951

NO. 11

“Insurance Companies Should Make Insurance an Attractive And Profitable Proposition to the Policyholder”

THE Life Insurance Policyholders in this Country should be grateful to the Chief Minister of the Madras State, Mr. P. S. Kumaraswamy Raja, and the Assistant Controller of Insurance, Mr. S.K. Viyapuri, M.A., F.I.A., for their sound advice to the Insurance Companies transacting business in India at the recent Insurance Conferences held at Madras. Indian Insurance Companies have made good progress in recent years, but they are lacking in many respects. Mr. Kumaraswamy Raja inaugurating the Fifth Insurance Conference under the auspices of the Indian Life Assurance Offices' Association, observed in the course of his address, that Insurance Concerns have a duty and responsibility cast on them to discharge the sacred trust vested in them by the policyholders and depositors and that those in charge of the administration of insurance companies should realise that they are but trustees who have to be guided in their day-to-day transactions by the considerations of safeguarding the interests of the beneficiaries whose assets they are handling. The reasons that should have prompted the Chief Minister to impart an advice of the kind directly to the Insurance Companies' executives are obvious. As at present, the Life Insurance Policyholders of Indian Insurers are not getting the full value for their monies. The rates of premium charged are very high as compared to the returns promised. Their monies are not taken proper care of by many Companies. In their craze for increased new business every year, many companies spend lavishly at the cost of the existing policyholders' interests. Mr. Kumaraswamy Raja has very wisely suggested that Insurance Companies should make insurance an attractive and profitable proposition to the policyholder. That could be done, he continued, by running the business on sound lines with the utmost prudence and economy and by avoiding all unnecessary items of expenditure and top-heavy administration. In short, “Business integrity”, he stressed, should be the guiding factor. But, to most of the Indian Insurers, all this has no meaning. It is only that kind of indifference and gross negligence of their responsibilities to the policyholders that drove the

Government of India in collaboration with a handful of efficiently conducted Insurers to amend the Insurance Act and introduce new regulations. But it is now clear, as Mr. Parthasarathy, Managing Director of The Prithvi Insurance Company, Ltd., pointed out in his speech, that there is a tendency on the part of many insurers to get round them. In his opinion, if the majority of insurance institutions in the country are not going to observe the new legislation in their transactions and affairs, then no Government could enforce such a legislation effectively. Unfortunately, in our Country, undesirable tendencies persist to grow in spite of strenuous efforts to prevent them. For instance, recently a great deal of unrest has been created amongst the insuring public in general on account of the proceedings that have been instituted against some of the well-known top-ranking insurance companies. Mr. T. S. Swaminathan, M.A., F.I.A., in his welcome address delivered at the Fourth Annual Conference of the South India Insurance Association held at Madras, has drawn special attention to this fact and observed "It seems now fairly clear that the normal measures of control exercised by the authorities have not been successful in preventing either the frequent changes in the management of insurance companies or the mismanagement of the funds of insurance companies although elaborate sections were introduced in the Act and additional powers vested in the authorities just for these purposes." The thousands of Policyholders who have a considerable stake in these Insurance Companies and who are scattered all over the Country, will be really disturbed a great deal to know from such responsible gentlemen as Insurance Company Managers and Managing Directors themselves that Insurance Companies in India are not efficiently managed. Mr. Swaminathan is emphatic when he observes "that it is apparent that whatever undesirable tendencies were sought to be prevented, still continue in some form or other and unless all the interests concerned take immediate steps in the matter and set things right, insurance business perhaps *would be in a far, far worse position than it was ever before.*" (italics ours) If the policyholders in this country should give any credence to the opinion of Mr. Swaminathan, contained in these words (italics) it would be only a bad day for Insurance Business. It is a pity that so many thousands of policyholders in this country should have no effective voice in the administration of the insurance companies and remain passive in the hope that everything will be done by the Government. Mr. S.K. Viyapuri, the Assistant Controller of Insurance, Government of India, who inaugurated the Fourth Annual Conference of the South India Insurance Association, has done a great service to the policyholders when he attempted seriously to open their eyes in the following words. "You will perhaps

agree with me when I say that the whole industry is built up on the policyholders' monies. Now, have these policyholders got any effective voice in the running of the business? At present, it is not the case. Different sections of the industry—the Insurance Manager, Chief Agents, Special Agents, and Staff, all fight for their rights, but the policyholder does not fight for his rights. When the recent Amending Bill was considered, there was somebody or other to put forward the case of these different sections, but there was no one to speak for the policyholder, who, I feel, deserves to be heard first. I suggest, therefore, that attempts should be made to form genuine Policyholders' Association. Insurance Managers etc., should promote such Associations. Regional Associations consisting of all the policyholders of various Companies can be formed. However, if this is not found practicable, at least each company should have a policyholders' Association of its own and thus give them a chance to play their part in the running of the industry". We endorse entirely and wholeheartedly Mr. Viyapuri's advice to the policyholders and suggestions to the Insurance Company Managers. Similar suggestions and advice, made times without number in the past through these columns, have fallen on deaf ears. But, at least this time, when the necessity and utility of a Policyholders' Association is stressed in no unmistakable terms by a gentleman of the position of Mr. S.K. Viyapuri, who is not only an authority on insurance, but also one of the important and responsible officers of the Government of India, and in whom the heavy burden of policing the policyholders' interests is partly placed, the Policyholders, we trust, will realise the gravity of the situation, lose no time in organising themselves and succeed in safeguarding their interests.

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Underaverage Risks and Their Assessment

By SRI H. K. SEN, M.Sc., A.C.I.I., F.F.A., Calcutta.

THE subject which I propose to deal with does not represent a problem capable of immediate solution, but it is nevertheless of vital importance from the point of life assurance planning of this country. It is desirable no doubt that life offices should try to extend its scope beyond those acceptable at ordinary rates. Any industry or service which has to be organised on a large scale should preferably be put to standardisation for determination of the price of its products or rates and the elements that go to constitute the structure of price or rate should be subject to specifications carefully worked out. Life assurance as an industry or service is no exception. Specifications in the matter of rate making with regard to normal risks though not perfect have more or less been standardised. With regard to substandard risk, however, the subject in our country has not yet come out of the empirical field being still within the pale of guess work based on impressions. I have, therefore, more or less confined myself within the province of stock-taking of the position now obtaining in our country in this behalf forming as it were a preliminary ground for future researches with the object of carefully working out the specifications for rate making of substandard risks in Indian Life Assurance.

I have already used the word substandard without any attempt at any definition of the term. It is difficult to exactly define it having regard to the denotation and the connotation of the term. For all practi-

cal purposes it will be sufficient if I say that substandard or underaverage risks are those which are not generally acceptable by the life offices at the ordinary tabular rates of premiums or on terms as proposed. The reason is obvious. These risks are subject to mortality higher than that likely to be experienced amongst those risks accepted at ordinary rates of premiums. It should not be forgotten that in practice the line of demarcation is not well-marked since those risks that are generally acceptable at ordinary rates are themselves by no means homogeneous. Naturally therefore standard risks are taken to be those in such conditions that their mortality rates are considered as following a standard mortality table used in the calculation of the tabular office premiums while the substandard risks are those that are amenable to higher mortality than those deemed as standard risks.

From what has been said above it is quite obvious that there is a scope for variation between the practices of different life offices as to their treatment of choice of normal or standard risks. This variation in their treatment depends upon the classes amongst whom the particular life office works, the mortality table which is employed in premium calculations and also subjectively on the opinion of the management as to the scope of the class or classes to be assumed as acceptable at ordinary rates.

But this being so, even allowing for the scope of variations as between the

practices of different life offices it is, however, observed that the force of competition in the market tends more or less to a standardisation in the tabular rates of premiums of the different offices. Likewise does the practice as regards treatment of extra risks in underaverage cases operate under competition within very narrow range, although there exists slight variations in this regard amongst offices of the same type.

In India the assessment of underaverage risks may be said to be in its infancy. There has not yet developed any objective standard of measurement of such risks. A Statistical study of the cases under each type of impairment single as well as multiple, with specifications is required to be jointly pursued by medical men and actuaries. The medical referees in many cases consider their duties to be confined in spotting only those cases which are acceptable at ordinary rates. If the purpose of life assurance is to be justified and fulfilled its benefits should be extended to cases where it is most needed, namely, those unacceptable at ordinary rates of premiums. In extending its scope beyond the standard risks the office should have in hand materials enabling them to forecast with reasonable accuracy the mortality amongst the substandard lives. When they will have these materials they can ascertain by periodical investigations as to how far the extra premiums charged conform to the extra mortality in these cases. The position which now obtains in India in this regard as already indicated has not gone beyond the empirical field remaining more or less a matter of subjective judgment of the underwriter.

It will not be out of place, I believe,

if I can cover the general grounds of assessment of life risks in this connection so as to make my point clear to show how delicate is this line of demarcation between the standard and substandard risks so much so that in certain cases it almost imperceptibly vanishes with the result that what is considered by one office as standard is likely to be considered by another as substandard.

In the measurement of risks for life assurance the following points should deserve consideration and be kept in view:—

(a) The physical condition of the proposed life. On an analysis of the medical examination report of the life proposed an estimate can be made as to the actual physical condition of the proponent having regard to constitution, heredity, past history including former illness, age and sex.

Constitution of the applicant is an important factor as can be sized up from outer configuration or build having regard to his bodily measurements. It is a good index to his general health conditions and gives an indication of his proneness to certain illness. For example, by studying the constitution matters relating to under-nourishment having tendency to tubercular affections or overweight and obesity showing a bias to heart diseases can be discerned.

Heredity plays quite an important part in life assurance under-writing. Statistical investigations have proved that predisposition to certain types of diseases or power of resistance to some is inherited from parents or ancestry. It is also generally found that persons from short-lived families are greater risks than those from long-lived ones. The study of heredity is

of course, far from complete. With the larger collection of statistics the older ideas regarding the heredity and its influence upon susceptibility to different diseases are no doubt undergoing changes.

The past history of the proponent including his previous illness, if any, is a very significant factor in the assessment of risk. Sometimes it may confirm the surmises formed from an analysis of the medical examination report or it may give indication as to some diseases likely to be developed in future. There are many apparently harmless diseases which may have occurred in early life but which leave stamps to flare up in later life in the forms of different diseases.

The functions of the several organic systems, their exact conditions and the degree of impairment, if any, have bearing in the selection of lives for life assurance. So too age and sex play important parts in the evaluation of risks.

Besides, there are other points also worth considering in this connection. They are (b) moral hazard, (c) habit and environment, (d) occupation and residence of the proponent.

(b) Moral hazard bearing the character of the person or that of his family as to whether there is any possibility of speculative use of insurance resulting in a disparity between the amount of insurance and his capacity to purchase it, is a point to be kept in view. Similarly (c) the proponent's habits, mode of living, his environment etc, if unfavourable may increase the risk and cannot be ignored.

(d) Occupation by itself gives a measure whether any extra risk is involved in it. The extra risk involved in occupation

may be divided broadly into two classes viz., those which are subject to chances of accident and those which are subject to susceptibility to certain diseases. The former class includes railway workers, builders, electricians, etc. The latter class includes stone-masons, stone grinders, potters, earthenware manufacturers, etc. There are again some classes of occupation in which both the factors, namely, the chance of accident and proneness to diseases operate as in the case of miners who are subject to accident from explosion, flooding, fire and roof fall as also they are susceptible to diseases such as miner's nystagmus involving oscillation of eye-balls, tremor and vertigo. So far as I am aware steps have already been taken to standardise the ratings for extra risks due to occupation and I hope that an investigation will be made in due course to measure the extent of approximation to the actual experience.

The main problem before us in connection with underaverage risks is the problem of assessment. The question can broadly be considered from three main aspects. First, there is the question of incidence of extra risk and the adequacy of the premium for the same. The extra premium to be charged should not only be adequate but should also be equitable. Any method of charging extra should, in the first place, take into account the incidence of the extra risk so that the amount of the extra premium charged should not only cover the extra risk over the whole duration of the contract in individual cases but should also be such that upto any point of time of the policy contract the total extra premium received should be higher than or at least equal to the total risk covered. The point is that there

should not be loss from any withdrawal from assurance."

Secondly, the reserve value attached to a policy plays an important part as it indicates and determines the amount at risk, which is the difference between the sum assured and the reserve held. Thirdly the profit element in the extra premium should not be lost sight of. It is necessary, to keep in view the profit-bearing capacity of this class of business. The policies issued on substandard basis should produce a profit reasonably consistent with that likely to be realised on the remainder of the business.

From the point of view of incidence i.e., how the extra mortality is likely to be distributed, the extra risks may be divided into three broad groups. viz. Risks (a) which are constant, (b) which are increasing, (c) which are decreasing.

Constant risks are those that are assumed to remain more or less uniform or even throughout the entire duration of the risk carrying period. Most of the occupational risks and certain impairments such as deafness belong to this type. Increasing risks are those which increase with the advancement of age of the life assured for example, cases with albuminuria or organic heart murmur. Decreasing risks are those which are heavy at the commencement but decreases with the advancement of age and duration of the policies. These include most of the post-operative cases, cases of underweight, etc.

In addition to the above three types there are of course of other variations to be found in the distribution of the extra risk. There are certain types of impairment where the extra hazard increases for

sometime and then commences to diminish. For practical purposes however such refinements in the incidents may be ignored.

Now the question comes as to how the rates for substandard risks are to be fixed. There are various methods of doing so. Since these cases are subject to higher mortality the fixing of rates may be done either by charging a premium higher than the normal premium or by allowing a lower cover for the same amount of premium. There are several ways in which this can be achieved. The following are some of the normal methods.

(1) By an increase over the tabular premium. This increase may be effected either (a) by an addition of a certain number of years to the age and charging premiums for the higher age or (b) by using a special mortality table based on the experience of mortality of similar underaverage lives; or (c) by calculating premiums with hypothetical tables using mortality curves with increasing constant or decreasing additions to mortality or (d) by a flat addition to tabular premiums.

(2) By way of deduction from death benefit. This is effected by making the sum assured subject to a constant or decreasing debt in case of death during the period the extra risk is considered to be operative. In this case tabular premiums are charged but the policy as said is issued subject to a lien constant or decreasing.

(3) By making a special condition as to bonus additions for with profit policies.

(4) By an alteration in the plan, for example allowing Endowment or Double Endowment policies for shorter terms.

(5) By a suitable combination of one or more of the above.

The methods (3) and (4) are seldom used in practice but they may be suitable only where the extra risk is very likely to occur late in life or where there is any hereditary tendency to early death. Under (1) the methods under (a) and (d), which is a variation of (a), are often used in our country. (b) and (c) are rarely used although scientifically with proper statistics regarding extra mortality these methods deserve greater consideration.

The method described under (2) above, namely, the decreasing lien method of assessment of extra risk has been rather severely criticised mainly on the ground that this method deprives the life assured of the needed cover. Against this it may be said that the initial cover may suitably be increased so as to meet the requirement of the proponent. If the extra risk be decreasing this method of assessment seems to be the only practical method for adoption. In the case of decreasing risk if a level extra premium is charged, the extra premium in the early years of a policy is much less than what is required to cover the risk. Further with years when the extra risk practically disappears the policy may be dropped and a new policy at ordinary rates may be taken instead. The office thereby does not get any opportunity to be reimbursed for the loss incurred in the early years of the policy. So in the case of a decreasing risk either a heavy initial extra premium decreasing gradually should be charged or as I have said the decreasing debt plan appears to be the only reasonable method of assessment suitable for adoption in practice. From the point of view of

equity the method cannot be said to be unfair if the party agrees and accepts this offer. The only difficulty appears to be that for a given extra risk the initial debt may be fairly heavy and if the initial death benefit is below Rs. 1,000 it may conflict with the Insurance Act 1938. In such cases the only feasible method would perhaps be to charge extra premium for a period shorter than the term of the original contract.

As regards the method of approach to the problem of objective measurement of the extra risk, it may be said that on a general survey three methods are found to be obtaining in this field. The first is the empirical method based on enlightened guess work drawn from the subjective impressions of the individual offices or their traditions. This is a method now generally prevailing in India. It is obvious that since this method has no scientific background it is inconsistent and open to criticism. As it fails to give any statistical measurement of the extra risk it leads to different assessment by different offices of the same impairment and thus creates confusion amongst the field staff and the insurance public. It is, therefore, as a method far from satisfactory and is not amenable standardisation. The only force which tends to submit it to uniform treatment is the force of competition, as I have said before, but for the purpose of standardisation for universal application this force is neither reliable nor dependable.

The second method largely used in the continent of Europe consists in reassuring all cases of extra risk with a central pool. Based on larger statistics, handled and made use of by a central organisation the result obtained and disseminated furnish

dependable data for forecast with closer approximations to the actual experience in case of new proposals. The method has decidedly the advantage of consistency and can keep abreast of time with growing experience and hence it is undoubtedly more scientific than the first. In India where the treatment of extra risk is still in its infancy the method is admirably suited for Indian conditions.

The third method, which is of American origin, is perhaps the most popular commonly known as the numerical system of rating. The system is based upon the Medico Actuarial investigations conducted in that country. These investigations prepared a series of mortality ratios for different impairments. The procedure consists in taking a group of lives showing the same impairment. At each age the expected deaths according to a normal mortality table are ascertained and compared with the actual deaths. These would give the ratio of the actual to expected deaths at each age and by combining the results for the different ages, an average ratio of actual to expected deaths for all ages is worked out. If the average ratio for the whole group be say 150 % it would imply that for the particular impairment the extra mortality would be 50 %

The method of underwriting in this system is a matter of simple accounting debiting with the bad features or impairments and crediting with the good feature disclosed on an examination of the proposal papers submitted for life assurance. The proponent is considered substandard if the net results show a mortality ratio of over 125. A comprehensive list of unfavorable features have been drawn up against which are given the upper and the

lower limits of the debit points. It is, of course, left to the underwriter to allot a debit depending upon the degree of severity of the unfavorable feature.

The next point in this system is to convert the extra mortality into corresponding extra premium. It is, of course known that the amount of difference between the annual premium resulting from a table showing double the mortality and the annual premium deduced from a standard table would give the extra net premium for an impairment showing a mortality ratio of 200 or an excess mortality of 100%. Similarly the extra net premium for unimpairment showing 150% can be obtained. Ratings for percentages intermediate between the above can be obtained by interpolation, a procedure though not exact may nevertheless be used for all practical purposes. It would, however, be desirable to use not the net loading but the office extra for charging premiums. To obviate this difficulty of reducing the extra mortality to extra office premium for general use it is often the practice to convert the extra mortality into equivalent addition to the age in the normal or standard table corresponding to the increased premium. For the purposes of routine work the additions to age for all ages, plans and terms corresponding to the various mortality ratios are tabulated and used for assessment.

The principle underlying this method of assessment, which at once appeals to reason, is the scientific approach to the problem. Being based on statistical data it is free from bias or personal judgment or opinion of the underwriter, and so it is not liable to be inconsistent. The main advantage of this method is that by its use

underwriting becomes simplified, systematised and with the extension of its application it becomes more or less standardised. Simple in practice, the work of assessment under this method can be entrusted to less technical men. If prompt and efficient service to the policyholders even covering those who are below the standard be the core of underwriting life risks this is a method which at once commends itself for adoption. Further this system will faithfully record the nature and degree of individual impairments and will render any subsequent mortality investigation of substandard lives a simpler affair.

The method is not, of course, without limitation or drawback. One of the main objections to this method is that it takes no account of the incidence of the extra mortality at different ages. It tacitly assumes that all or any unfavourable features can be reduced or represented by a flat percentage of normal mortality. The important class of extra risk which does not usually admit of adequate treatment by this system constitutes those which disclose decreasing extra risk. These decreasing extra risks may be effectively treated by charging a larger extra premium for a shorter period. An alternative expedient would be to convert the extra mortality into a decreasing lien by the use of the formula $\frac{100c}{1+c}$ (where 100c is the extra percentage mortality). Thus if the mortality ratio is 250 or it shows 150 % excess mortality the initial debt attached to the policy would be $\frac{15}{25} \times 100$ or 60 % decreasing over the whole period. This formula assumes that the percentage extra mortality remains the same throughout the duration of the assurance.

Though the formula is not mathematically exact nor the assumption regarding extra mortality strictly correct, the actual deviation from the theory is not sufficiently large and it can therefore be used as a good working formula.

There is again another danger in applying the system blindly without modification. I refer to those cases where there are indications of combinations of impairments. In many of these cases the sum total of the extra mortality for individual impairments may not often sufficiently measure the actual degree of the extra risk involved by such combinations. The Association of two or more impairments may increase the risk enormously, the resulting mortality being much higher than that indicated by the total. It should, however, be noted that the advancement in statistical research has already been achieved to find out the exact ratings for such multiple impairments.

There is no doubt that the system just mentioned is a definitely improved method as compared with the random impression or empirical method as followed by our life offices. This method is gaining recognition in other countries and is gradually replacing their corresponding systems. I believe that it will ultimately lead to its general acceptance in our country as well in near future. Frankly speaking, I feel that the present-day assessment in our country is rather in a state of confusion, if I am permitted to say so, without having any scientific background or basis for uniform treatment. It relies more than anything else on the respective impressions and experience of the chief medical officers of the different companies.

It is high time now, therefore, that our Association should take up in right earnest this responsible task of consolidation in this field and find out ways and means for collection of such statistics as would help our insurers in extending the benefit of life assurance to substandard groups in a more equitable manner. This method promises to be of great assistance in decentralising the work of assessment which, although it does not present any immediate problem, is yet an important question to be looked ahead in the field of Indian Life Insurance. It will, of course, take a pretty long time before statistics of any reasonably workable dimensions on different impairments can be collected and made use of for application. Meanwhile I should like to suggest that our insurers would do well

to use the American experience in this regard with suitable modifications in the same way as they have been using the British Offices' Experience for normal or standard risks. The American way of handling economic affairs is taking the leading part in the present-day world and it would not, perhaps, be unwise to tentatively adopt their Numerical method of assessment in the sphere of substandard risks. So far as I am aware finality has already been reached for systematising the ratings for occupational extras and I wish and hope that similar steps of concerted action should be taken before long in the field of underaverage risks other than occupational.

Paper read at the 5th Indian Insurance Conference held on 23rd March 51 at Madras.

A Case for State Monopoly in Life Insurance

By S. RENGARAJAN, M.A., F.I.A.

LIFE Insurance is essentially a "Social Service", the main object of which is an even distribution of the burden of maintaining the dependants of the earning members of the community who are cut off by death during the term of their active service. Such a service should not in the nature of things be left to be organized for private profit.

"Freedom from want" is one of the main plans of all post-war schemes of planning and development and is assured by means of social insurance schemes for providing sickness, unemployment, old age, and widow's pension benefits etc. These social insurance schemes are generally compulsory and are granted by the State on a contributory system and in view of this compulsory nature and the state providing the same, the benefits that are granted can only be small and individuals have to supplement their benefits by savings out of their earnings such as investments in stocks and shares, securities and life insurance. Life insurance has an added attraction in as much as it combines in itself the risk element with the savings element. The Governments of the various countries have recognized the importance of life insurance and thought fit to encourage the life insurance habit by allowing incometax rebates on life insurance premia. Life Insurance, therefore, plays a very important part in ensuring a satisfactory provision for old age and for the dependant of the insured. The question of making provision for old age or for one's dependants is applicable to every one whether he is poor, middle class or rich class. When the political complexion of

the world is changing to a socialist order and when there is heavy taxation pressing the higher income groups, there is naturally an incentive for the rich to insure their lives with a view to get tax relief. The poor and middle class people, of course, need insurance protection. Life Insurance business should therefore be considered as much a public utility enterprise as railways, post & telegraph etc., and run by Government for the benefit of the community.

There are two special features of life insurance which distinguish it from other commercial enterprises. Firstly, in an enterprise like a textile mill, the shareholder's capital is actually utilized in erecting the machinery etc., and the profits realized from the sale of the textile product has been actually earned by the machinery-capital invested-which helped in realizing the profit. In life insurance business, the part played by the capital is in a different sense. The shareholder's capital in a life insurance company is used to finance the heavy initial expenses of the organization, which initial expenses are gradually written off over a certain number of years. The expenses are provided for in the premium and the capital helps in leveling out the incidence of expenses. It may be 'deemed' to be a loan capital entitled to a certain fixed rate of interest till the initial capitalised expenses are written off. In this sense, the part played by the shareholder's capital in the formation and development of life insurance companies is meagre. By mere efflux of time, the life insurance fund accumulates and grows far out of all proportion

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to the capital. In the long run, the shareholder's capital is only a drop in the ocean and the argument that the "life insurance contracts has the backing of the shareholder's capital" becomes an anachronism. If at all capital has played any 'part', it is only that of redeemable loan, for a certain number of years. Secondly, the technique of life insurance business is based on certain assumptions as to rates of mortality likely to be experienced by the policyholders, a reasonable rate of interest to be earned on the funds of the company and a reasonable provision for expenses. Further, the "With profits" contracts contain a loading—an addition—deliberately provided for to be returned in the shape of bonus to the participating policyholders. If the actual experience of the insurer regarding rate of mortality, interest or expenses are different from those assumed in the premium basis, a profit or loss arises. If there is a profit, it only shows that our original assumptions are not correct, but are to be varied. "Profits" are disclosed as a result of a valuation by comparing the present value of the obligations of the company to settle its claims on the various contracts entered into with the present value of the premiums it receives after making due allowance for the cost of running the business—on certain assumed basis called the "Valuation Basis" which takes into account of the experience of the company. The "profits" are, therefore, disclosed according to the valuation basis adopted. In addition, the excess amounts collected from "With profit" policyholders—the bonus loadings—are released as surplus. The periodical profits of life insurance companies are no more than the "amounts"—I won't call it "profit"—deliberately provided for in the premiums payable by the policyholders and are also "disclosed" because our

original estimates regarding mortality, interest and expenses are not borne out by facts—and which therefore need revision.

Hence, in the sense that capital is not playing its part, as in other enterprises, the life insurance business should not be under private enterprise. In other words, the business should be state-managed.

Life Insurance is the means by which the earnings of the community are collected together and canalysed into enterprises which benefit the community. The Life Insurance Fund is thus intended to be maintained, invested and reproduced for the benefit of that body. The control of life insurance companies leads to a certain amount of concentration in a few hands of the responsibility for certain commercial activities which is inconsistent with the "principle" on which "insurance" is based. The principle of insurance is the spreading of risks—including investment—and if a large portion of the funds of companies are invested in one type of investment, the benefit arising out of diversification of the investments is lost. In the state monopoly of insurance, the entire fund can be at their disposal and they can use it for nation-building activities which will help in raising the standard of living of the common man.

The life insurance business belongs to that class of enterprises where competition does not bring any of the beneficial effects anticipated by economic theories and leads to the enjoyment of the monopoly of a few of the companies who transact business on right lines. The weaker links fall out in the long run being unable to cope up with competition. Our plea is only an extension of the monopolist principle. Competition among private enterprise instead of ensuring a better service to the insuring public has

only enabled companies to cut down rates, increase agency commission etc., which are detrimental to the interests of policyholders, though it enables a small body of intermediaries to benefit owing to the stimulating effects of competition among private companies. An average policyholder is not discriminating enough to choose the best company and in view of the inherent nature of the contract-long term—he can withdraw from the contract only at a heavy cost to himself. If he makes a wrong choice of the company, it is only too late in the day that he realises it and he therefore gets stuck to it. In other words, he is not sure of the security afforded by insurance. By state management of the business, unnecessary and wasteful competition is avoided and there is saving in expenses on account of large-scale planning. These must help in fixing lower premium rates. All these constitute to give a better return to the policyholder and he is assured of cent per cent security and better service on account of absence of profit-motive.

The level of income of the villagers has gone up and the "savings potential" of the village folk is more now than what it was previously. These people can afford to insure for small policies on the lines of the Industrial Assurance Business in England. It is only by tapping this source that insurance can be made broad-based. The Provident Societies have not been able to make any headway in tapping this source mostly on account of the excessive cost and the natural antipathy of the conservative and illiterate villager. To create confidence in the villager and make him cultivate the habit of insurance, it is necessary, to propagate the usefulness of insurance and as private enterprise has failed to do this service, it is only Governmental agencies that can do so with the command of the various village officers of the Government on account of the

saving in expenses on the proposed "set up" for state management of life insurance business.

All the above arguments lend strong support to the view that life insurance business should be run on the basis of public ownership and conducted by a public corporation responsible to the state.

Insurance should be the monopoly of the Provincial Governments rather than of the Central Government. Every Province can set up a Provincial Insurance Corporation which can take over the existing business within the province of all the companies operating therein. In order to meet the possible defects of a nationalised system, the "set up" of the organisation may be on the following lines:—

(a) **A Central Insurance Bureau:** This will be mainly concerned with the direction of the principal actuarial work and mortality research and will generally assist in effecting co-ordination between the various provincial bodies. They will set down standard premium rates, policy conditions, rates of commission etc., and the minimum standard of education for the agency personnel. They will be entrusted with the task of publicising insurance as a service. The Bureau can keep a continuous watch on undeveloped areas and give proper directions to the provincial bodies to propagate the message of insurance in these areas.

(b) **Provincial Insurance Corporation** There will be one Corporation for every province which will have full and autonomous powers for selection of lives, settlement of claims, surrenders, business management and the training and control of field force. They will work under the control and guidance of the Central Insurance Bureau.

(c) The existing army of agents will be attached to the various Provincial Corporations and will canvass business for that unit.

The usual objections to a state monopoly for life insurance relate to inefficiency and the excessive cost of Government management as opposed to private enterprise acting under the stimulus of competition. *Prima facie* there is no need to believe that a public utility corporation having a monopoly of insurance business should necessarily be inefficient or indulge in unnecessary or excessive expenditure. The Corporation will have the advantage of a large-scale planning, elimination of expenditure which are duplicated and avoidance of wasteful competition endangering the security of policyholders. This economic management will be reflected in charging lower rates for the same benefits.

The Corporation will be able to save the profits distributed to shareholders, which amounts will be passed on to policyholders. Even if the Provincial Corporations are established with a nominal capital, the return on the capital may be a nominal amount instead of the varying high rates of dividends declared to shareholders.

The other objection that may be levelled against is that agents will be thrown out of employment. The "set up" put forward makes provision for the agents to be absorbed. On account of monopolist tendency there may be some re-arrangements on their emoluments and commission. There are two benefits accruing on account of this. Because of lack of competition, the agents and others will be in a position to do better and larger business than would be the case if private insurers are operating. As already pointed out, competition has only enabled rates to be cut, commission rates pushed

up, and this has not enabled the policyholder to get better service. Hence, the increase in business will counter balance any possible reduction in remuneration.

It is stated that the Post Office Insurance Scheme is not very successfully run. This is because no canvassers are appointed and the business is run departmentally. Hence, there is no impetus for business and the defects of red tape is apparent in a departmentally controlled system without any autonomous powers. The Mysore State Insurance Department is running a Public Branch with what are called "Helpers" as the agents. The system is working very satisfactorily and if a certain amount of autonomy, as is envisaged in a statutory corporation, is possible, the business may run more efficiently. Another objection that is levelled is that business will suffer as compared to existing figures. As already mentioned, on account of the avoidance of the evils of competition, it is expected that a better, and a healthier type of business will be forthcoming. A large amount of business is now secured more out of pressure than out of necessity and definite need for insurance and the number of policies so secured tend to lapse, the only persons benefitting by such transaction being the agents who secured the business. The "set up" does not suffer from the rigidity of red tape and is flexible in adopting to the need of the business. The business will be run just like a commercial concern except that the Corporation has a monopoly for the business.

There is another objection levelled against the system, i.e. that a number of existing technical and other personnel will not be needed. It is possible that there may be a superfluity, but majority of them will be absorbed in the various units

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The South India Insurance Association Fourth Annual Conference

WELCOME ADDRESS OF Mr. T. S. SWAMINATHAN, M.A., F.C.I.I., F.I.A.,

WHEN the South India Insurance Association was formed in 1946 it had set before itself a very ambitious programme of work in several directions. In course of time, two or three aspects of the programme have received greater attention and emphasis. The provision of suitable educational facilities to persons employed in the business of insurance and the creation of a common platform for discussion and exchange of views have been foremost among the activities of the Association. Further, the Association has striven to establish closer contacts with the public and other persons having something or other to do with insurance business through its Journal which is published once in three months and through these Annual Conferences. Things have changed since 1946 and it now appears that the other objects of the Association may well recede into the background.

The educational facilities provided by the Association have so far been limited to the preparation of candidates for the examinations conducted by the Indian Life Assurance Offices Association. An attempt was made to provide a suitable course of instruction for life insurance agents and it was very regrettable to find that sufficient response from neither the Insurance Companies nor the agents was forthcoming. The foundation for the successful development of insurance companies into sound and strong financial institutions can only be laid on a corps of trained executives who can establish and set up healthy traditions in the

methods and practices of insurance business and a band of trained field workers who know that they are selling, and who understand the insurance needs of the public and how best to satisfy those needs. It would be a step in the right direction if arrangements are made for a course of apprenticeship and training and a qualifying examination before a person is entitled to act as an insurance agent. It is not necessary, however, that such things should be done by legislation or rules made under an Act of Parliament. Greater co-operation among the Insurance Companies and greater understanding amongst the insurance executives of the real needs of the situation would be enough to induce a sufficient number of persons to seek the training which an organisation like the South Indian Insurance Association can provide.

On the Life Insurance side, we have been having an examination for insurance employees and fieldworkers which is conducted by the Indian Life Offices Association and tuition classes have been made available by this Association. The Association is also anxious to develop a system of study and training for persons who are employed in general insurance business. A fairly good number of candidates appear from insurance offices in India for the examinations held by the Chartered Insurance Institute of London. But they have to rely entirely on the postal tuition services provided by the institutions in England. It would perhaps be desirable to devise a system of examination and

study which would lay greater emphasis on conditions of business and methods and principles as they obtain in this country in the various branches of general insurance, and this is one of the directions in which it may be necessary for the South India Insurance Association to exert itself in the interests of the insurance business of this country.

Professional education does not stop in the early stages of a man's career. It has to be brought up-to-date and in order to give his best, a professional man must be in touch with the latest developments in his profession. Not only this, he must also devote, wherever possible, some time and attention for furthering the stock of common professional knowledge by, what may be called, research work. Frequent meetings and discussions on this aspect of our business are of a great advantage to insurance people and in the past, the South India Insurance Association has provided many opportunities for meetings of insurance men for discussions on such topics. Recently, the Association has acquired a good reference library which will provide material for study and improvement. It will, I hope, be the object of this Association to expand these facilities and opportunities so that ultimately, the Association might be able to place at the disposal of the members and their employees a good, well-packed library containing the latest literature on all aspects of knowledge important to insurance-men, and enough accommodation for holding classes, lectures, meetings and social functions.

There are various associations which take care of the interests of insurance companies as companies and it seems, therefore, right and proper that this Association should have been concerned more with the business of insurance and with persons engaged in the business. I

hope that this special characteristic of this Association will continue and that in due course, the Association will attract to itself all activities of this type connected with insurance in these areas.

One of the most important events in the history of insurance in this country was the introduction of new amendments to the Insurance Act, in 1950 and I beg to be excused for making a brief reference to this in the course of this welcome address. For the last 5 or 6 years amendments of a far-reaching character to the Insurance Act were being discussed at various levels and the insurance business was rather unsettled on account of the uncertainty as to the final form in which these proposals would be given effect to. It was, therefore, with a great deal of relief that the insurance companies welcomed the passing of the Act in April, 1950. There was also one feature of these new amendments which was of special interest to insurance companies, and that was that at almost all stages the insurance companies through their representatives and top-ranking insurance executives in their individual capacities were associated with the drafting of the provisions to such an extent that one might almost say that these new regulations were drafted by insurance executives. As the new regulations were intended to rectify a number of undesirable tendencies which had crept into the insurance business, it was but natural that the new Act contained elaborate regulations on a number of matters affecting the internal working of the insurance companies. The Act also required more detailed information regarding the transaction of insurance companies being disclosed to the authorities in the form of Returns and gave more powers to the Government for intervention in the internal management of insurance companies. Whatever was wrong with the insurance

companies in the past, the new Act seemed to bring in a revolution and one was tempted to believe that everything would be set right as soon as the new Act came into force.

Although it is only a few months since the new regulations have been completely brought into effect, it has become obvious that there is somewhere something which prevents the full benefits to the insurance business of these very carefully devised regulations being realised. It is also becoming apparent that whatever undesirable tendencies were sought to be prevented, still continue in some form or other and, unless all the interests concerned take immediate steps in the matter and set things right, insurance business perhaps would be in a far, far worse position than it was ever before.

One reason why the results, consequent on the introduction of the Act, have not come up to our expectation is perhaps the difficulty in understanding and appreciating the full significance of the various provisions, and secondly, in understanding the reasons that have made any particular provision necessary. Although I have studied the various sections of the Act a number of times with the idea of understanding the full implications of every provision and adjusting the day to day practice in order to accord with the provisions of the Act, I must confess that every time I discussed certain sections of the Act with other persons in similar circumstances who had studied the Act equally carefully, there had always been some new aspects which had escaped my attention in the past. In so many cases it was found difficult to arrive at some definite interpretation of the meaning and scope of the words in the Act. One can imagine, therefore, the amount of confusion that can be caused in matters which are the subject of regulations of the Act

if different persons adopt different interpretations in their actual day to day dealings. Although it is no part of the duties of the authorities charged with the administration of the Act to give any ruling on the interpretation of any statute, it is necessary in the interests of a proper working of this Act that an insurer or other person affected by the act should have available to him an authoritative ruling on matters covered by any of the sections of the Act in respect of which he may require such a ruling and that such rulings should be published in a form available to all insurers. Although these may not have the authority of a decision of a Court, one would know that in guiding his conduct by these rulings, he is in no serious danger of his bona fides being questioned at a later date and any person infringing the rulings given by the authorities is aware that he is acting in a manner not considered proper by the authorities enforcing the Act.

There are also a very large number of provisions, particularly those relating to the appointment of agents, special agents, principal agents etc., and the payment of remuneration to persons employed by the insurers, making of loans, etc., which cannot be properly enforced by the authorities in the ordinary course of their duties. All these regulations relate to the details of day to day management and may not be apparent from the returns or other information given to the authorities in the normal course of business. Nor is it possible for an outsider to draw the attention of the authorities to the irregularities in these matters. This seems to me the reason for the confidence with which even after the coming into force of these new provisions a large number of insurers appear to be indulging in payment of rebates, excessive commission etc., The only possible manner in which a healthier

situation in these respects can be brought about is to undertake periodically a systematic investigation of the affairs of all the insurers just as the Reserve Bank of India is undertaking an inspection of all the banks. It is perhaps too much to expect that such investigation would be considered within the realm of practical politics. But if one were not prepared to undertake this trouble, one need not have taken the trouble of making elaborate regulations on these matters which only hamper those who wish to observe them.

There is one more reason which perhaps might justify such a measure being taken at the present juncture. A great deal of unrest must have been created amongst the insuring public in general on account of the proceedings that have been started recently against some well-known top-ranking insurance companies. It seems now fairly clear that the normal measures of control exercised by the authorities have not been successful in preventing either the frequent changes in the management of insurance companies or the mismanagement of the funds of insurance companies although elaborate sections were introduced in the Act and additional powers vested in the authorities just for these purposes. The fact that Government have instituted a systematic periodic investigation into the affairs of the insurance companies can go a great way towards restoring confidence in the insurance business generally.

Another new feature in the insurance business introduced by the new Act was the opportunity afforded to the insurers to set their houses in order through their own organisations. Two new bodies called the Executive Committees of the Life Insurance Council and the General Insurance Council have been formed and one of the most important functions entrusted to them is "to aid and advise insurers in the

matter of setting up standards of conduct and sound practice and in the matter of rendering efficient service to holders of policies". These Executive Committees are just now in the process of formation and I do hope that they will consider this as the most immediate and urgent function allotted to them. They can discharge this service most effectively by drawing up immediately a code of right conduct in all matters of day-to-day practice. And if this code should have the approval of the Controller and the authorities, it may be possible to rely on breaches of this code, disclosed during periodical investigations, as grounds for presuming that the affairs are not being managed in the proper manner. The executive committees can also set up and prepare a standard of efficient service to policyholders which all insurers must attain.

(Continued from page 18)

and the technical personnel will have ample scope for utilization of their knowledge and experience in research work proposed to be undertaken by the Central Insurance Bureau. The Provincial bodies can be entrusted with the task of training the agents and other field personnel and these technical personnel can prescribe satisfactory qualifications and train them up in the law, theory and practice of life insurance. More often than not the average agent is absolutely ignorant of the rudiments of the service which he is trying to sell and private enterprise is able to train him very little or is not able to train at all these carriers of the message of insurance because of the heavy cost. In a large-scale Corporation training on uniform lines can more easily be imparted, than would be the case if private insurers are operating.

Paper read at the South India Insurance Association Fourth Annual Conference held on 3rd March, 51

Excerpts from the Presidential Address

of Mr. L. S. VAIDYANATHAN, M.A., F.I.A., J.P.,

At the Twenty-third Annual General Meeting of the Indian Life Assurance Offices Association held at Madras on 21st March 1951.

THE statement made by the Hon'ble the Finance Minister, Sir C. D. Deshmukh, in October last before a Conference of Income-tax Commissioners from various States called for the purpose of discussing technical and administrative problems of the Income-tax Department to the effect that a Bill on the lines of the recommendations made by the Income-tax Investigation Commission is to be introduced in parliament shortly and that the Legislature would see to it that the administrative machinery is tightened up allowing no loophole or mercy to tax-evaders inspires the hope that something will be done although this has been delayed for quite a few years. While no one will disagree with the determination of Government that tax evasion should be put down without mercy, it equally behoves Government to rectify bases of taxation as affecting certain interests where taxation presses on them violating the principles of equity. As you are all aware, we do not agree with the recommendation of the Investigation Commission that to the extent that bonus to policyholders emerges from sources other than the specific loading added in the premiums to provide bonuses, it is taxable. The theme is one which has been discussed threadbare and I do not propose to take up your time today in stressing what is obvious and what has been explained in detail in the past.

In his budget proposals that have just been unfolded before Parliament the Finance Minister has displayed a partisan outlook so far as Life Insurance Companies are concerned. He has acted on that part of the recommendations of the Income-tax Investigation Commission which is favourable to Government in that he has placed the liability for income-tax on the dividends paid to shareholders of a Life Insurance Company on a par with that pertaining to dividends distributed by other Joint Stock Companies thereby eliminating a slight preference that used to operate in favour of the former class of Companies. Since almost invariably dividends are declared free of tax, the additional burden falls on the Life Insurance Business. No one questions the equity of this move.

The finance Minister, however, has chosen to turn a Nelson's eye on the recommendations of the Commission pertaining to that part of the surplus distributed to Policy-holders, extremely conservative though they be and which are to the effect that the portion arising out of loadings for bonuses contributed by Policyholders should be free of tax. On the contrary, he has increased the tax payable by life Insurance Companies by 5.4 pies in the Rupee thereby imposing a further tax burden on a business already groaning under an inequitable basis of Taxation. I am sure his sense of fairness and justice which

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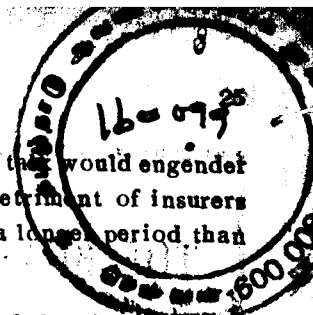
Is acclaimed by one and all that have come into contact with him will impel him ere long to direct his flair for critical and independent analysis on this burning question of taxation of Life Insurance Companies so very essential for their rendering efficient service to policyholders if not for their very existence.

As stated earlier, the outstanding event of the period under review is the passing by Parliament of the Insurance (Amendment) Act, 1950, certain Sections of which came into force on 1st June 1950 and others on 1st September 1950. While joining in the chorus of praise which the Act has received that it would eliminate abuses that have militated to the detriment of the interests of policyholders, to which Sir Cowasjee Jehangir Committee drew pointed attention, if those Sections designed to achieve this end or administered with strictness, it would seem also an act of no small temerity on my part to attempt to criticise some other Sections which either as a result of defective drafting that has inadvertently crept in or due to over-pressure from particular interests, have placed insurers in an illogical and even embarrassing position vis-a-vis their staff or their agents as the case may be. I do hope that the criticism of some sections which I make hereunder would be taken in the spirit in which it is offered, namely, to provide a basis for attention being focussed on these Sections with a view to eliminating the defects to which attention is drawn. This duty is certainly cast on the person who occupies the position to which you have elevated me and whose address is the first to be delivered after the Amendment Act was placed on the Statute Book. Otherwise, the feeling of complacency which

the lack of such frankness would engender would inure to the detriment of insurers and their business to a longer period than could be avoided.

Section 44 (1) (b) of the Act in terms of which an insurance agent leaving one company and joining another is to be given renewal commission at a very slightly reduced rate on his past business provided he satisfied certain conditions on the date of leaving which are by no means onerous, is one that would retard, create discord and spoil the morale in the business of life insurance by not only removing the deterrent against but by actually putting a premium on disloyalty. One can understand payment of hereditary commission to loyal agents—this, according to legal opinion, as I shall presently explain, is prohibited by the Act—but such payment in respect of those agents who have transferred their affiliation to a competing insurer cannot be defended by any canons of sound business. Co-operation, which is quite compatible with healthy competition, is essential for progress in any line of activity. While the truth of this will be easily conceded in regard to all academic lines of activity, a little reflection will make it clear that it is even more true in the business of life insurance which has reached the present state of scientific perfection by harnessing to the full for its evolution the skill and breadth of vision imparted by academic and professional training of great brains for quite a few generations in the past.

Co-operation in the field of atomic research in jealously guarded national groups of scientists working in isolation has so far yielded results demonstrating the power of the product of such research for inflicting enormous misery on humanity. It



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will require as much and perhaps much more research under the co-operative action of even better brains selected on international basis for discovering ways by which the colossal energy liberated by the breaking of the atom can be harnessed for the good of humanity. If it is conceded that co-operation amongst those engaged in any line of activity is essential for progress in the line, that mental attitude fostered by the Section in the Act I have drawn attention to by which one company is always on the look-out to entice away good business producers of others is not in the least conducive to such co-operation. Even so far as the seceding agent is concerned, it gives him a training in wearing his loyalty on his sleeves for daws to peck at. The provision is bad on the whole for the business, for the company that has lost the agent, for the company that has acquired the agent in that it has secured an agent with questionable loyalty and for the agent himself.

This provision is seriously assailable from other angles also one of which goes counter to the very definition of the term "insurance agent." When the granting of an even lesser privilege to Insurance agents was mooted by a Member in the Assembly at the time when the Bill which ultimately became the Insurance Act, 1938 was under consideration, the great Sir N. N. Sircar strongly opposed even the suggestion on the ground that it shook to the foundations the fundamental basis on which payment of renewal commission to agents can be justified, namely, the continuance of service to the policyholder and by implication to the company. He argued that it would be obnoxious to pay renewal commission when no service

is rendered and, if anything, human nature being what it is, only disservice. Let us take a little pause here and consider the views expressed by Sir N. N. Sircar with reference to the definition of Insurance agent as appearing in the Bill then considered. This definition runs as follows:—

" 'Insurance agent' means an insurance agent licensed under Section 42 being an individual who receives or agrees to receive payment by way of commission or other remuneration in consideration of his soliciting or procuring insurance business."

The point to consider is that no mention whatsoever is made in this definition of duties in relation to continuance, renewal or revival of policies. But the existence of such duties was taken for granted which alone would justify the payment of renewal commission and no one objected to this stand being taken.

The definition of Insurance Agent in the recently amended Act is—

" 'Insurance agent' means an insurance agent licensed under Section 42 being an individual who receives or agrees to receive payment by way of commission or other remuneration in consideration of his soliciting or procuring insurance business including business relating to the continuance, renewal or revival of policies of insurance."

In spite of the fact that renewal service is specifically mentioned in this new definition, the framers of the Amendment Act have by inserting the Section under scrutiny given such renewal service scant weight measured, as if by a golden pair of

scales, by only a fifth of the commission payable on renewals.

This provision is also out of tune with one of the basic principles underlying the Act, viz., that renewal commission payable on the fourth and subsequent premiums should not exceed 5%. On the lapsing of a policy introduced by Agent A who has subsequently joined another insurer but is eligible for the benefits conferred by Section 44 (1) (b), so that he and his heirs would be entitled to future renewal commission at 4%, it would obviously be futile to expect him to make any effort to have the policy revived. As a matter of fact, as the Agent would come to know that the policy has lapsed, the natural tendency on his part would be to twist the business by inducing the Assured not to revive the policy but to take out a new one with the insurer whom he is now serving. The insurer, therefore, has to choose between two hard alternatives. He can either take advantage of Section 40 (2A) and induce an Agent other than A to get the policy revived and pay him 2½ % renewal commission as provided in this Section over and above which he would have to pay 4 % to Agent A or his heirs making in all a total renewal commission of 6½ %, or, in view of the fact that the above course of action would necessitate payment of renewal commission at more than 5 %, not take advantage of section 40 (2A), but allow the policy to go off the books and thus lose the renewal premium income thereon. The latter course would be like cutting one's nose to spite one's face. The principle already accepted and underlying Section 40 (2A) is that for the specific work of renewing a policy the Agent putting forth the requisite effort is entitled to 2½ % commission and it

logically follows that the maximum renewal commission which can be allowed in the contingencies visualised by Section 44 (1) (b) and (c) is 2½ % to the Agent and his heirs. Further, the same has to be the limit of maximum renewal commission that can be paid even to heirs of loyal Agents who continue to serve the insurer until their death if at a later date such a provision is incorporated in the Act the absence of which, as pointed out earlier, is a serious lacuna in the Act.

This provision will also have an adverse effect on the expenses of management. The company would naturally like to replace the agents lost through enticement by fresh ones so that its new business production might not suffer. This would inevitably lead to duplication of work in respect of such agents to a certain extent for, whereas only the new agent would be bringing in new business, the Company would have to deal with two agents for the purpose of commission payments and other aspects of agency administration.

I think that this provision, subject as it is to fire from several vulnerable points, can hardly justify itself. When the payment of renewal commission even at 4 % in the cases in point is open to criticism, the arguments advanced apply with even greater force against payment of hereditary commission for this category of agents.

I shall now take up the case of agents contemplated in Section 44 (1) (c), i.e., those who have served an insurer continuously and exclusively for at least 10 years and who after ceasing to act as agent do not directly or indirectly solicit or procure insurance business for any other insurer and for whom sub-section

(2) grants the continuance of the renewal commission to heirs after death. Theoretically speaking, since there would be no renewal service rendered the payment of renewal commission would be governed by the same considerations, yet this could be justified on humanitarian grounds except where the heirs who receive commission in their capacity as heirs from one company function as agents of another company.

The argument advanced, however, that insurance companies do provide in their premium calculations for commission being paid as long as the policies subsist and that, therefore, companies benefit financially to the extent of the renewal commission lapsing to the benefit of the company on the death of an agent is not correct. What happens in the case of an old established company is that it goes on varying its premium rates on the basis of the changing experience as to the three factors influencing premium, viz., interest, mortality and expense. The play of these factors is ascertained from the past experience of the company extending over a few years prior to the date when the alteration of premium rates is taken on hand. We are here concerned with the play of the expense factor and particularly that relating to commission to agents. What the company does is to analyse its commission outgo under the heads of first year's commission and renewal commission separately and by suitably combining these with the other factors to evolve its new premium formula. In this analysis the fact that some agents die while functioning as agents and that in consequence the renewal commission on the policies of their introduction subsisting as on the date of death

lapses to the benefit of the company is duly taken into account. In other words, the premium formulae adopted by old established companies do not provide for payment of commission after the death of the agent. This does not mean that I am questioning the equity of payment of commission to heirs after the death of an agent who answers to the description contained in Section 44(1) (c). As stated earlier, this can be justified on humanitarian grounds, but the premiums are not loaded to stand the strain and companies will have to take sooner or later on hand the question of recalculating their premiums on the basis that renewal commission will continue to be paid so long as the policies subsist on the books of the company. In other words, the effect on the expenses of management will to that extent be adverse and this will be one of the contributing factors making it difficult for companies to conform to the percentage representing limit of expenses as contemplated by the Act and the Rules.

There is also another lacuna in Section 44 of the Act. This Section provides for payment of commission to the heirs of only those agents who sever their connections with their insurer and not to the heirs of loyal workers who continue to serve the company and who may die while in such service. I am sure it was not the intention of the framers of the Act that this entirely untenable and unwholesome situation should have been created and this should be remedied forthwith; otherwise it will have the disastrous consequence of undermining the stability of the agency force by provoking them to sever their connection with the company in spite of their strong feeling of loyalty to it purely in their legitimate self-interest

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as soon as they can take advantage of Section 44 and thus ensure continuance of commission to their heirs. Legal opinion in this behalf is relentlessly firm and the rigid manner in which the Controller's Office has—on the basis of the experience gathered during the short period the amended Act has been in force—been administering the Act in a practically wooden manner does not encourage one much in the hope that action taken by companies with a view to avoid placing themselves in an illogical position vis-a-vis their staff and agents by not conforming to the very letter of certain Sections will be overlooked by that Office even where such action is necessary for the smooth and efficient conduct of the insurer's business and the transgression is purely of a technical nature due, for instance, to defect in drafting which should have excluded certain categories of people engaged in the business, and does not in the least impinge adversely on the interests of the policyholders.

In illustration of my point, I have to refer to Section 29(3) (a). This prohibits loans, *inter alia* to clerical and other staff even in extraordinary circumstances, e.g., foodstuff advance during famines, evacuation and/or rehabilitation advance to displaced employees, and the like. An insurer in common with other employers has at least the same obligation to his employees to lend them a helping hand in times of acute distress but by prohibiting such loans, the Act in fact compels an insurer to default in the discharge of this obligation to his employees. If such an advance is taken as a sympathetic and humanitarian gesture on the part of other employers, surely it cannot be a sin on

the part of an insurer. It is in the interests of the insurer to render assistance to his employees in times of distress for the employees have to keep body and soul together before they could discharge their duties to the insurer. It is, therefore, much in the interests of the business itself, putting it on a cold commercial basis leaving aside sympathy, to render such help. As a matter of fact, Section 29(3)(b) permits grant of loans to Chief Agents, Special Agents and Insurance Agents for the avowed purpose of facilitating the carrying out of their functions. A lenient view could be taken of advances to staff, taking the cue from the fact that advances to all categories of agents are allowed by the Act. On the contrary, the Insurance Department has questioned an insurer who made advances to his staff to relieve distress and has asked the insurer to call back these advances as early as possible. These advances incidentally are not at all uncovered. The insurer in question has a Pension Fund and a Provident Fund and the advances are recoverable from the amounts to the credit of the employees concerned even on the worst happening. The Act was considered by several committees. In none of these was the remotest suggestions made to the effect that advances to staff to relieve distress should be prohibited. If that has crept in at all, it should have been entirely due to the fact that the draftsman was not instructed to specifically exclude this type of advances.

I shall now take up Section 31B(2). A perusal of sub-section (1) of the above Section will show that the object in view is to set right any case where excessive remuneration is being paid to Executives or other employees who are remunerated

certainly every right to play the role of the mentor of the business of Insurance. He, on his part, by not insisting upon unnecessary details which serve no useful purpose, the collection and preparation of which bear ultimately on the Expenses of Management, can substantially help insurers in achieving the very laudable objective of keeping their Expenses of Management under control.

The amending Act has made statutory provision for limitation of expenses and the Insurance Rules prescribe specific figures in this respect, the allowable expenses being broadly expressed as a percentage of the premium income distinguishing between first year's and renewal. Limitation of expenses postulates stabilisation if not reduction of the price level, a task which, judging from the experience of the past Government is patently powerless to accomplish. In the context of the ever-rising spiral of prices, which it is needless to add is beyond the power of insurers to check, excessive expenditure cannot be necessarily ascribed to extravagance and may to a large extent be the result merely of high prices and the repercussions thereof. Though, so far as commission of Insurance Agents and Special Agents is concerned, a statutory ceiling has been put, there are other items of expenditure which a Life Office has to incur whereunder the impact of the present price level has tended to push up expenses. Remuneration to staff, comprising not only salaries but also dearness allowance, is no longer a factor which is wholly under the control of the insurer because employer-employee disputes on this head have become more or less chronic and every Adjudication generally results in an upward revision of salary and dearness scales. The scales of travelling allowances, similarly, have perforce to be raised in the face of higher transport and hotel charges.

As for postage, since some time back the postage on envelopes was raised from As. 1½ to As. 2, on first thought it may appear that there is one effective way by which the total expenditure on postage can still be kept within the previous limit, i.e., where, say, 1,000 letters from policyholders call for reply, to answer only 750 of them and leave the other 250 unreplied. But can this solution appeal to any insurer and, moreover, will it really achieve the object? The reply is obvious.

It may be argued that to offset the effect of rising prices and other factors which, in a particular year, may tend to raise the expenses, the Act empowers the Controller after consultation with the Executive Committee of the Life Insurance Council, to fix in respect of each year the limit by which the expenses may be allowed to exceed the percentages prescribed by the Rules. In the very nature of things, such additional expense provision can be fixed by the Controller only after the expiry of the year in question and since no insurer who is zealous of his reputation would care to risk having to answer a charge of violation of the statutory provisions relating to limitation of expenses, he would perforce have to play safe by keeping the expenses within the limits laid down in the Rules, reluctantly allowing the quality of his service to policyholders to deteriorate if necessary, and not bank upon any possible additional expense allowance which the Controller may grant after the year is over.

The vital role played by Life Insurance in the economic life of the country will be evident from the fact that as at 31st December 1949 the assets of Life Insurance Companies domiciled in the Indian Union amounted to Rs. 173 Crores. These represent over 51 per cent of the present annual income of the Union Government and 6.8 per cent of its National Debt. In 1949 the per capita insurance in India

was Rs. 21. This would appear insignificant for a country of the size of the Indian Union particularly as compared with the U.S.A. where the per capita insurance is as much as Rs. 3,300/-. In comparing these two countries, we are comparing unlike things, one in which industrial and consequent economic development has been going on for nearly three centuries and the other on the threshold of such development. Yet the silver lining to the cloud is that the per capita life insurance in this country has been increasing, although at a slow pace, along with the progressive industrial development of the past and inspires the hope that it will continue to do so in the future. The per capita life insurance which was only Rs. 4 in 1929 increased to Rs. 7 in 1939 and in 1949 it has risen to the above quoted figure of Rs. 21. The very low per capita insurance in this country bearing in mind the important role in economic stability played by life insurance, should make one and all alive to the supreme necessity of doing nothing which will in any way retard its progress in this country. It is a truism to say that the prosperity of life insurance follows the ebb and flow of the prosperity of industries generally. The stimulus to production given by Government by liberalized commercial policy, equitable basis of taxation and, more than all, rational Labour Laws that would provide security to both the limbs engaged in production, viz., employees and employers will influence to a substantial extent this prosperity both of industries and, as a corollary, life insurance.

When our leaders undertook the responsibility of the government of this country on its securing Independence they inherited as a legacy left by the British regime an acute economic malaise in the shape of highly inflationary situation combined with shortage of essential consumer goods. Industrial production also

was very low as the transition from production of war time needs to civilian requirements had not taken place. Along with Independence came also the partition and it created for the two partitioned nations problems that had no parallel in history. Apart from the horrors perpetrated on the innocent population in their exodus, the partition itself left a truncated economy for each Dominion—surplus food and raw materials without machinery on one side, food deficit and machinery without raw materials on the other. This greatly aggravated the economic malaise above referred to, more so for this country than for the other, in view of the enormously larger immigration than emigration of population. By the very nature of the circumstances in which partition came to be made, it could hardly be expected that cordiality between the two nations would subsist, and the events that followed the partition made a free flow of commodities between the two countries very difficult, if not impossible. The international situation also led to a general scramble for raw materials which placed this country at a particular disadvantage inasmuch as it was not able to get raw materials required by it from countries outside Pakistan either. The country thus suffered both on the food front and the industrial front.

Under such difficult conditions, the only remedy would ordinarily lie in enormously increasing the production of goods and services per capita which by creating better employment would raise the standard of living. Without such increased production, the mere redistribution of the existing material resources amongst a population which has increased both by natural causes and by partition would only lead to our adding from the class who were not ill-fed to the class partially under-fed. Instead of driving home this position, most attractive pictures of prosperity unwarranted by the realities of the situation

were placed before the public and movements for "less work, more pay and no responsibility" were not discouraged, giving the illiterate factory worker an idea that, with the advent of Independence, it was not necessary to work even as hard as before. At the same time, laws were passed which made it difficult for employers and managements of businesses and industries to take disciplinary action even in cases of gross indiscipline. Realisation of this difficulty of employers and managements fostered in labour a policy of going slow with impunity. To these were added the difficulties resulting from policies of control on raw materials and manufactured goods which were inconsistent with each other. Unfortunately, Government failed to recognise that the national standard of living would ultimately be affected more by the production index rather than the cost of living index and that unless conditions making it possible for the community to save were established and maintained, thrift would be discouraged and incentive to start new enterprises or to extend existing ones would disappear with the consequence that unemployment would grow and the standard of living would go down further. The go-slow policy of labour already referred to would bring about a fall in production both in quality and quantity and as such decreased production would have to serve the needs of an ever-increasing population, further scarcity and increase in prices would ensue. If, under such circumstances, prices are controlled to check their rise, the natural result is the creation of black-markets. This state of affairs would easily spread dissatisfaction among the middle and lower-middle classes mostly affected by such plight as their emoluments could not obviously be increased in proportion to the price level. That in fact is what had happened to this country during recent years and this dissatisfaction has exhibited itself in strikes and industrial disputes.

When the leaders of these classes make their usual fiery speeches against the employer, they fail to appreciate that their real grievance is not low wages, but the fall in the purchasing power of their wages, and that it is neither the responsibility nor a matter within the power of the employer to maintain the purchasing power of their money wages at a reasonable level. That is the responsibility of Government and Government only. Government have often given vocal expression to their sympathy for this class and have equally often given promises to do their best to ameliorate their sufferings by bringing down prices to a reasonable level. Unfortunately, these have remained promises on paper only, and their repetition by people in high positions in Government without any tangible result has only added fuel to the fire of dissatisfaction. This, in short, is the reason for the present rather cordial relationship of the employers and managements with the salary-earning middle class composed, so far as Banks and Insurance Companies are concerned, of clerical labour.

Industrialists generally meet such a situation by granting to their employees increased wages and/or dearness allowances. As a result of such further rise in the wage bill, when the industrialist finds that his cost of production has gone up, he makes suitable adjustments in the selling price unless these are controlled illogically, so that he not only does not incur a loss but actually makes a profit. If the margin allowed for profit is determined by adding a suitable percentage to the cost price, then the larger the cost price, the larger is the amount of his profits. Industrialists are, therefore, not only able, generally speaking, to escape the ill-effects of a rise in prices, but such increase in price level may sometimes actually result in swelling their profits.

In the case of life insurance companies, however, the very nature of their contracts makes it quite impossible for them to escape the effects of a rise in prices. An industrial concern manufactures the commodity traded in first and by the time it is ready for marketing, the proprietor is able to ascertain his cost of manufacture and quote normally a selling price so that he would not only avoid a loss but would make a reasonable profit. In a life insurance company, however, the position is quite the reverse. Here, the commodity, which is the life insurance policy, is sold first and the selling price fixed at the time such sale is effected whereas the cost to the insurance company is incurred later. The price fixed when the policy is sold is based on an estimate of the probable future experience with regard to the three main factors that influence the cost price, viz., mortality, interest and expense. If the future experience under these three heads is less favourable than the assumptions made when the premiums were calculated, the company, not being in a position to increase its premiums and adjust its selling price in accordance with the increase in its cost price, incurs a loss. On the other hand, if the future experience turns out to be more satisfactory than was anticipated, then a surplus would result and that surplus, together with the surplus resulting from the specific addition made in the premiums for the right to participate in the profits of the company, is almost entirely distributed amongst the company's policyholders.

So far as the factor of mortality is concerned, it has been showing a steady improvement over the past few years and unless something in the nature of a catastrophe takes place, there would not be much likelihood of insurance companies incurring losses under this head. As regards rate of interest, there has been a

steady decline in the rates of interest since 1932 which was accentuated by the redemption of 3½ % Government Paper. New investment of life insurance companies' funds have shown a tendency to stabilise round about 3% gross yield basis. The premiums in respect of a large portion of the total business now in force were calculated in the past at rates very much above 3% gross, and insurance companies have suffered great loss due to their having been required to invest their funds at rates very much below those at which the premiums had been calculated. In regard to expenses of management, the premium rates charged in respect of all business that was secured prior to the last two or three years provide for rates of expenses very much below those that are now being experienced due to steady and steep rise in cost of materials and increased emoluments to staff which have been in evidence for the past few years and which are much beyond what anyone could have reasonably anticipated in the past when the premiums on the bulk of the business of old-established life insurance companies were calculated.

If this fundamental distinction between the business of life insurance and other classes of business is kept in mind, it will be easy to appreciate the practically unbearable strain that any increase in their expenses as a result of a rise in prices and wages on the scale we have witnessed in recent years will impose on life insurance companies as it is clear that it is not possible for them to ask their existing policyholders to pay premiums at a higher rate so as to enable them to meet the additional and unexpected increase in the cost of conducting the business. This special feature of the inability of life insurance companies to adjust their selling price in respect of past business according to the current conditions of expenses has to be borne in mind and given its full

weight in deciding the salary structure, dearness allowances and service conditions of employees of life insurance companies. These companies cannot obviously afford to be as liberal as concerns engaged in industrial production or businesses that enter into only short term contracts that are able to adjust their selling prices in accordance with a change in their cost price.

It is against this background of the peculiar conditions affecting the business of life insurance that your Committee submitted a Memorandum to Government as regards the Labour Relations Bill, 1950, incorporating its views by drawing particular attention to the above special features. It was pointed out that the Bill as drafted could not be made to apply without considerable modification to credit institutions, particularly life insurance companies, and a suggestion was, therefore, made that another Bill that will suit the peculiar features of their business should be brought up. If this is considered by Government as not possible, suggestions have been made as to the manner in which the provisions of the Bill should be altered to suit life insurance business.

The avowed object of the Labour Relations Bill is that of smoothening employer-employee relations and eliminating the diversity in Labour Laws in the different States in the Republic. This object is extremely laudable and if attained would go a long way, by fostering industrial peace, towards increasing production so very necessary for the economic rehabilitation of this country. The object also underlines the extremely impartial attitude that Government propose to take which will promote goodwill on both sides so very essential at the present juncture. While a few hard facts have to be told to the employers that they should

give up their old ideas and recognise the class consciousness that has been aroused amongst the middle and lower-middle classes as a result of the impact of various ideologies during the war and the immediate post-war period and, therefore, give better treatment and emoluments to labour, the employees, whether in factories or business houses, have in their turn to be told by Government in unequivocal terms that there is no justification whatsoever for their per capita output to go down, which has been a definite feature for a good few years in the past. On the contrary, the Hon'ble the Minister for Labour is reported to have complained that lower production is really a capitalist ruse and that there was no machinery to verify the truth or otherwise of the alleged steady decline in the productivity of labour in recent years. The correct measure is the per capita output and not the total output which latter can be augmented by employing a far larger number of hands than what should ordinarily be needed. That the per capita output has enormously diminished both in factories and business houses is so evident that he who runs can read.

In this respect the statement of the Hon'ble Mr. Jagjivan Ram runs counter to what his own colleague, the Hon'ble Minister for Transport, said from the floor of the House in February 1950 while presenting the Railway Budget, viz., that the productivity of Railway labour measured by the yardstick of train miles and vehicle miles has substantially fallen from 100 in 1938-39 to 69.38 in 1949-50. He also gave advice to labour that not only must this decline be arrested but an active effort must be made by it to reach, if not exceed, the pre-war level of per capita productivity. A year later, in his speech last month, the same Minister struck a slightly more optimistic note in disclosing that the productivity of labour

increased to 78.1 in 1950-51. Even at this increased figure it is far below the pre-war basic figure of 100.

Even outside the fold of Government, the Tata Iron and Steel Company, whose scientific analysis of the situation cannot be questioned, has demonstrated graphically that the average output of finished steel per employee at Jamshedpur which was 24.36 tons in 1939-40 had fallen to as low as 16.30 tons in 1948-49 which only showed a slight improvement to 17.66 tons in 1949-50.

This will surely indicate that action at Government level both by advice and other means at their command is required to make labour realise its responsibilities and come up to the level of production in pre-war years if not actually exceed it. So far as our business of life insurance is concerned, unless clerical labour plays the game, it will not be possible for companies to return to those years when they could give a return to policyholders in the shape of handsome bonus.

Having by your indulgence taken up so much of your time in referring to matters which according to me are of paramount importance at the present time, I shall now briefly refer to a few others which bear on our activities as an Association.

Actuaries of some prominent Insurance Companies met in Bombay a few months back with a view to adopting a common formulae for charging extra premiums for hazardous occupations and prepared a schedule of such extras. Their principal Officers also agreed to adopting the schedule drawn up. The Actuaries were good enough to advise the Association of their unanimous decision and they suggested to the Association that other Member Companies might be approached with a view to securing further

unanimity in regard to this matter. The Memorandum prepared by them was, therefore, circulated amongst Member Companies and comments thereon were invited. A Sub-Committee was also appointed to examine the question in the light of the comments received from Member Companies. This Sub-Committee, composed mostly of those very Actuaries who originally considered the question, has completed its deliberations and its Report has been circulated amongst Member Companies and the subject will come up for consideration before the Annual General Meeting. I trust as a result of our deliberations now it will be possible for Member Companies to agree to charging a uniform scale of occupation extras.

Once it is agreed that a uniform scale is to be charged, it would be necessary to adhere strictly to the agreed scale, and companies must not allow themselves to be persuaded to agree to a lesser extra than what is provided in the schedule on a hearsay report that another company is charging a lower rate of extra. It is my experience that, when investigated into, such reports more often than not prove to be without foundation. If, however, it is proved that a company, after having agreed to adopt the schedule of extra, later on decides to follow a separate course it should be open to the other Members of the Association to consider whether such delinquent member deserves to be allowed to continue to draw the benefits of goodwill and co-operation from others who decide to stand united.

Any business or profession will become moribund unless its ranks are continuously reinforced by qualified youngsters. Realisation of this dictum induced the Association to provide for the education and examination of young men in subjects relating to the business of life insurance

and grant them Diplomas. Our examinations are held throughout India spread over nine centres at present and the entire course which combined with practical experience would give a reasonable equipment for senior assistant in a life insurance company is spread over three Parts. In the examinations held in the first week of June 1950 the number of candidates appearing for Parts I, II and III were 93, 80 and 6 respectively and the percentage of pass was 28, 28 and 33 in the respective Parts. The comparatively low pass-percentage should not cause any discouragement as mostly all young men appearing for the examinations are assistants in insurance companies and could afford to devote the time for studies only their spare time outside office hours. They have, however, an advantage over those who appear without being associated with or employed in a life insurance company in that the work they do as assistants otherwise or would help them substantially in answering the questions bearing on the practical side of life insurance business. Our Association is not merely confining itself to holding examinations but is also imparting education by correspondence course for the examinations in Parts I and II. During the year the Executive Committee framed bye-laws as regards the activities of the Board of Education and also framed rules for recognizing commercial training institutions for sending up students to the Association's examinations.

There are two more aspects of our activities to which I would like to make brief reference before closing. The first is the combined Mortality Investigation to which reference has been made in detail by my predecessors. Some difference of opinion amongst Actuaries attached to companies at the various centres as to the period the experience of which is to be analysed due presumably to difficulties in compiling the requisite data has practically put a stop to our progress. This should be ironed out as early as possible and efforts made to secure agreement as regards the period, however short it be, relating to the immediate past so that we can straightaway proceed to collect the data and take in hand the

analysis thereof and a new Mortality Table may be made available without undue delay.

The next point to consider is as regards starting of non-medical business for policies of Rs. 1,000 to begin with. This was taken up for consideration some time back and given up as difficulties were anticipated as regards all Member Companies agreeing to a uniform procedure. The provision regarding limitation of expenses appearing in the new amendment Act may perhaps force Member Companies to give further consideration to this matter. I shall leave it at that for the time being.

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Controlling Office:

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One of the Leading and Largest Capitalised Composite Indian Insurance Companies.

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K. S. Ramamurthi, M. A.
DEPUTY GENERAL MANAGER.

Late Mr. J. C. Setalvad As I Knew him

By P. RAMASWAMI, B. A.,

(Branch Manager, Industrial & Prudential Assce., Co., Ltd., Madras.)

It is highly creditable to the late lamented Mr. J. C. Setalvad that he had built up two good and decent institutions like the Industrial & Prudential Life Assurance Co., Ltd and The Vulcan Insurance Co., Ltd with a strong and influential directorate. Even though born with a silver spoon and had the command of all luxuries and conveniences in the house of his illustrious father, Sir Chimanlal Setalvad, he preferred the career of a business man in the city of Bombay to his father's profession as a lawyer. Having watched and carefully studied the successful growth of Indian Life Assurance Companies like the Oriental, The Empire of India and the Bharat who got full support from the then politically conscious Indians, Mr. Jivanlal saw great possibilities for Indian Life Assurance. In the year 1913 he organised the Industrial & Prudential Assurance Company with an influential and prominent Board of Directors and with Sir Pheroza Shah Mehta as the first chairman. His conservative and able management made the solid foundations secure.

At the end of the first World War, though the progress of Indian Life Offices was gaining ground to some extent, General business was virtually a monopoly of the foreign companies. In 1919, the slow industrialisation of the country was gaining support as a result of the

war and this was really an encouraging factor for Indian interests to enter the general field. When companies like New India, Jupiter, British India General and Universal were being promoted for general business, Mr. Jivanlal with his characteristic zeal and energy organised the Vulcan Insurance Company Ltd., with great foresight. By his hard work and perseverance the "Vulcan" has attained conspicuous success in the general field.



Late Mr. J. C. SETALVAD,
Chairman.

Industrial & prudential Assce., Co., Ltd.
and Vulcan Insurance Co., Ltd

In the earlier years when Indian Insurance was not faced so much by our own nationals as it is being done to-day, pioneers in the field like Mr. Jivanlal had to labour very much to instil confidence in the insuring public. As a matter of fact, he mentioned to me that he was fed and clothed by Sir Chimanlal, his father, and without any remuneration from these infant companies he used to hire a Victoria and go round and meet the prominent businessmen of Bombay almost everyday to influence business for the two companies. He has built up great integrity and high standard of service in these two firms.

He was very popular with the commercial community of Bombay who used to seek his advice very often on many knotty problems. He always unreservedly obliged them to the best of his ability. He was twice President of the Indian Merchants Chamber of Bombay and President of the Federation of the Indian Chambers of Commerce and Industry. He also served in the Food Advisory Council and Port Trust, Bombay. He was the founder and the President of the Indian Insurance Companies Association, Bombay, for a number of years. He served in the committees appointed to advise the Government to change or modify insurance legislation. When the Insurance Amending bill containing provisions for limitations of expenses, capital structure etc., was held over for some years during the advent of the National Government he pleaded for its early introduction in the Indian Parliament so that the prestige of Indian Insurance and its security may be irreproachable. He played a prominent

part in the agitation that the Indian Government should meet the major claims for losses incurred in the 1944 Bombay Explosion and thus saved the Indian Insurers from the calamity that otherwise would have threatened them.

Mr. Jivanlal was every inch a gentleman. He was very generous to his friends, relatives and employees. They were all very much attached to him and "Jivanlal" was a very endearing name to them. Almost daily he loved to share lunch and tea with his several friends, cracking jokes and keeping them all cheerful. As an employer, he kept strict discipline but at the same time realised the needs and difficulties of his staff. He was very kind to his staff and gave recognition for merit and hard work. He jovially mentioned once that the old must give place to the young to occupy high positions in life when they are fit to discharge such duties. He was a man with indomitable will power. Though he was ailing with sickness for the last two years and virtually bed ridden, he was enthusiastically carrying on all important work of the two institutions in his charge. He attended important meetings, having been carried to the places on a chair by lift.

He died in harness but in great glory. He was the founder of the two institutions which he built from strength to strength and attained the highest positions in both as Chairman. He always championed the cause of Indian Insurance to the last day of his death and his loss has left a great void in Indian Insurance.

News

Mr. K. Y. Joshi entertained.

Well-deserved tributes were paid to Mr. Joshi B.A., F.I.A., Manager, Western India Life Insurance Co., Ltd., Satara on 23-3-51 at a party got up by Mr. V. H. Khadilkar, Madras Branch Manager at the office premises. Mr. Joshi who is a Committee Member of the Indian Life Offices Association came on a visit to Madras to attend the Conference of Indian Life Offices held on the 22nd and 23rd March. The party was well attended.

Speaking first, Mr. R. Raghupathy, Editor, Indian Policy-holder, pointed out the sound financial position of the company almost from the very beginning and praised the management for the efficient conduct of its affairs. He said the Company is one of the very few Life Offices in the country that did not fail to declare bonus to the policyholders, war or no war. He also referred to the comparatively low rates of premium charged by the company and to the decent bonus returns to the policyholders. Finally he appealed to those present to extend to the company their hearty support in their efforts to organise this province more effectively. Mr. S. Venkatachari of the "Easterns" speaking next said that some twenty years back when he was a stranger to insurance business, he glanced through the Indian Insurance Year Book and was struck by its very low expense ratio and most economical management. He felt happy to find that the company continued to be managed on the same sound lines even to-day. In recognition of this special merit of this company, he said, that Non-gazetted Officers' Association, Madras has preferred this company for their members for Life Insurance.

Mr. Joshi, in his speech, outlined the more important sections of the recently amended Insurance Act and said that those provisions would, if properly worked out, amply safeguard the interests of the

policyholders in the country. These provisions, he said, would not impose any strain on the working of "Western India" which is already within the healthy limits envisaged in the Act whereas many changes and readjustments had to be made by various companies, big and small, to comply with the requirements of the law. Mr. Joshi also referred to the large development that has taken place in the company's organisation in this province and appealed to the field workers to help the public in choosing such Policies that would really suit their needs and purse. He dwelt at length on the duties of the field workers in rendering effective service to the policyholders. Service to policyholders, Mr. Joshi said, meant offering timely advice in respect of revival of lapsed policies, in getting loan from the company on their policies, when the need arises and in assisting them in the settlement of



Mr. K. Y. JOSHI B.A., F.I.A.,
Manager,
Western India Life Insurance Co., Ltd.

of claims. In conclusion, he exhorted the representatives not to rest on their past achievements but to continue to do better still so that the Madras Branch may occupy the foremost position in the organisation.

Mr. Khadilkar, thanking the guests who responded to his invitation, mentioned that the Madras Branch has considerably developed in the last few years and in the matter of new business in 1950, the Branch occupied the second position among the various Offices of the company outside the Bombay Province where the Head Office is situated. He said that the discerning public were not slow in their choice of "Western India" for their insurance needs and appealed to those present to patronise the company more and more.

Hindusthan Co-operative Insurance Society Ltd.

Mr. B. C. Ray Entertained.

The Senior Assistant Secretary of the Hindusthan Co-operative Insurance Society Ltd., Mr. B. C. Ray, M.A., A.C.I.I. (Lond) visited the Divisional Superintendent's Office of the Society at Coimbatore on 1st April, 1951. In honour of his visit a pleasant party was got up by the Divisional Manager, Madras and staff which was attended by prominent citizens of Coimbatore. Introducing the distinguished guest to the gathering Mr. T. Anantachariar, B.A., Divisional Manager spoke a few words on the benefits of life insurance in general, the growing insurance consciousness among the public which needs keeping up and being improved upon and the pioneer work that the Hindusthan Co-operative has been doing in this direction for the last 44 years. He also introduced to the gathering Mr. B. C. Dev, their new Divisional Superintendent of the Coimbatore Office and hoped that their agents, constituents and prospects will give him their whole-hearted co-operation and enable him to serve their interests in an ever-increasing measure.

After tea Mr. B. C. Ray was introduced to the Society's agents, doctors,

policy-holders and other prominent members of the public present with whom he spent a pleasant half hour. The function was a grand success.

Hindusthan Ideal Insurance Co., Ltd.

A Branch Office of the Hindusthan Ideal Insurance Co., Ltd., has been opened at Mahalakshmi Mansions, James Street, Secunderabad. Mr. P. V. Ramanih has been appointed as their Branch Secretary.

Mr. Ramakrishna Dass Gupta till recently Chief Agent of the Hindusthan Ideal Insurance Co., Ltd., has now been appointed as their Branch Secretary at New Delhi.

At an extraordinary special meeting of the shareholders of the Hindusthan Ideal Insurance Co., Ltd., held on 25th March 1951, Sree K. Subba Rao Naidu, Vice-Chairman, Andhra Bank Ltd., was appointed Director-in-charge, General Department of the Company.

Insurance Association of India

In pursuance of the provisions of Rule 12-A of the Insurance Rules, the Controller of Insurance has notified a complete list of members of the Life Insurance Council and the General Insurance Council of the Insurance Association of India.

Life Insurance Council:

Members	...	185
Associate Members	...	20

General Insurance Council:

Members	...	101
Associate Members	...	101

Out of 185 Members and 20 Associate Members in the Life Insurance Council 41 and 9 respectively are from Calcutta. Out of 101 Members and 101 Associate Members in the General Insurance Council 18 and 72 respectively are from Calcutta.

General Insurance Council Madras Regional Council and Sectional Committees

The following persons were elected Members of the Madras Regional Council of the General Insurance Council:

Mr. N. Rama Rau, Chairman
Mr. C. N. Reed, Deputy Chairman
Mr. B. S. Badradri
Mr. R. E. McLellan
Mr. T. S. Muthuswami
Mr. E. Natesan
Mr. G. Venugopal

The following gentlemen have been duly elected to serve on the Fire, Marine and Miscellaneous Sectional Committees:

FIRE

Mr. T. S. Muthuswami, Chairman.
Mr. G. B. Veeraswami, Dy. Chairman.
Mr. R. E. McLellan,
Mr. C. N. Reed.
Mr. M. Sadashiv Rao.
Mr. P. V. K. Shanmugam.
Mr. G. Venugopal.

MARINE

Mr. C. N. Reed, Chairman.
Mr. S. R. Mandlam, Dy. Chairman.
Mr. E. Natesan.
Mr. S. P. Puri
Mr. A. M. Soundararajan.
Mr. M. N. Talwar.
Mr. G. B. Veeraswami.

MISCELLANEOUS

Mr. M. Sadashiv Rao, Chairman.
Mr. G. B. Veeraswami, Dy. Chairman.
Mr. B. S. Badradri.
Mr. Dwarakadas Narayandas.
Mr. T. S. Muthuswami.
Mr. R. R. Naik.
Mr. A. R. Srinivasan.

Insurance Placed under Finance Department

The Department of Insurance has been placed from February 1 last under the Ministry of Finance of the Government of India. It had hitherto been dealt with by the Ministry of Commerce and Industry.

We understand that Mr. P. C. Bhaftaricharjee, Jr. Secretary, Finance Department, has been given the charge of Insurance. He will be assisted by Mr. B. K. Kaul, I.C.S., who will deal directly and solely with the Insurance Department.

Empire of India Life Assurance Co., Ltd.

Mr. M. S. Sastry, Branch Secretary of the Kakinada office of the Empire of India Life Assurance Co., Ltd., entertained Shri Duvvuri Ramakrishna Rao Garu of Rajahmundry at a Tea Party on 25th March 1951 at 4 P.M. in his Office Premises on the occasion of his great sacrifice of his complete wealth worth about Rs. 5,00,000/- to Sri Ramakrishna Mutt and Mission. Shri Nityabodhananda Swamiji, the President in-charge of Sri Ramakrishna Mutt, Rajahmundry presided over the function. A large gathering of Officials, Non-officials and businessmen attended the function including local Municipal Chairman, Commissioner, Engineers etc. etc. M/S. B. Sanjayasirao, T. Kutumbasastry, P. Brundavanam, and Dr. P. Ch. Subrahmanyam and many others spoke on the occasion praising the Tyagam done by Shri Duvvuri Ramakrishna Rao Garu for such noble and sacred purpose. Sri D. Ramakrishna Rao suitably replied describing the management of the Gift given by him. The President Shri Nityabodhananda Swamiji narrated the functions and duties of the Mutt as well as the administration of the trust fund.

The host, Mr. M. S. Sastry thanked all the guests who attended the function, which ended in grand success.

Shri Pydah Sriramakrishnaiah, Jamindar, Kakinada entertained the party at Dinner the same night.

All India Insurance Field Workers Association.

The Council of the All India Insurance Field Workers Association, Calcutta met the Controller of Insurance, Government of India at a Conference held on Wednesday, the 21st March, 1951 in the Committee Room of the Bengal National

Chamber of Commerce, Calcutta. In course of discussion, Sri B. D. Mukherjee, President of the Association referred to certain sections of the Insurance Act relating to Insurance Field Workers and emphasised the fact that those particular sections of the Act would be detrimental to the interest of the Insurance Field Workers in their day-to-day practical working. The Controller of Insurance gave a very patient hearing.

Many of the members present joined the discussion and mention may be made of Sri B. N. Mukherjee, General Secretary, Sri B. N. Choudhury, Ex-Vice-President and Sri Dukhamay Sarkhol.

Prominent amongst these present were: Sri S. Kahali, Sri A. R. Das, Sri B. B. Bose, Bhadev Mukherjee, Sri M. N. Khasnobis, Sri N. Chakraborty (Oriental) Sri R. C. Basu and others.

Indian Insurance Institute

The President and members of the Council of the Indian Insurance Institute, Calcutta met Mr. M. A. Aziz Ansari, Controller of Insurance, Government of India at a Tea Party held on 18th March, 1951 in the Committee Room of the Bengal National Chamber of Commerce (P-11, Mission Row Extension, Calcutta)

Sri S. N. Roy Choudhury, President of the Institute placed before the Controller a Memorandum of subjects for discussion which contained :-

- (1) Section 27 — Provisions regarding Investments
- (2) Statement under Section 28(1) & (2); 21A(1) & (2)
- (3) Section 31A (1)(v) — Provisions relating to Managers etc.
- (4) Section 10(2) — Separation of A/cs, & Funds.
- (5) Regulation of Employment of Special agents.

(6) Clause B of Section 44 — Prohibition of cessation of payments of Commission.

(7) Section 28 — Statement of Investment of Assets.

In course of discussion Sri Roy Choudhury apprised the Controller of Insurance of the administrative difficulties that are being experienced by the Insurers in complying with the aforementioned Provisions of the Insurance Act. The Controller gave a very patient hearing and assured the Institute that he would examine the issues raised by them.

Prominent amongst those present were:-

- Sri N. Dutta (Secretary, Hindusthan Co-op)
 „ S. P. Bose (Manager, National Indian)
 „ S. C. Roy (Mg. Director, Aryasthan)
 „ Brahma Dutta (Manager, General Ass)
 „ H. K. Sen, Actuary,
 „ A. B. Chatterjee (Secretary, Metropolitan)
 „ S. Bagchi (Bombay Mutual)
 „ H. C. Naug (Mg Director, Palladium)
 „ T. Ghose, Actuary
 „ S. K. Acharyya Choudhury (Bangalakhshmi)
 „ U. N. Pal (Indian Economic)
 „ B. B. Mukherjee
 „ B. N. Mukherjee
 „ N. C. Ghosh
 „ A. C. Niyogi

Sri B. N. Choudhury, Jt Secretary and Sri S. Sarkshi were all attention to the Guests.

Oriental Life Office - Madras.

Mr. L. S. Vaidyanathan, M.A., F.I.A., I.P. Manager of the Oriental Life Office, during his visit to Madras to preside over the annual General Meeting of the Indian Life Offices - Association, unveiled on 22-3-1951 the portrait of Mr. F. E. Vaid, the first Indian Branch Secretary of the Madras Branch and the first Indian Deputy Agency Manager at Head Office, presented to the Office by Mr. S. S. Giri, the Senior Inspector under the Branch and who had served under Mr. Vaid. Mr.

Vaidyanathan spoke highly of the qualities, head and heart, of Mr. Vaid especially as the great man who paved the way for the Indianisation of the Company being the first Indian to occupy the aforesaid high offices both in Branch and at the Head Office.

Mr. N. Swaminathan, B.A. J.P., Branch Secretary who started his career under Mr. Vaid three decades ago accepted the portrait with thanks paying warm tributes to the great qualities of Mr. Vaid.

Party to Mr. S. D. Srinivasan

Mr. R. Parthasarathy, Branch Secretary, National Insurance Company, Ltd., Madras Branch, with his Staff Members and team of field-workers had the privilege of meeting Mr. S. D. Srinivasan, the Company's Manager, when the latter paid a visit to the City recently in connection with the Annual Conference of the Indian Life Assurance Offices Association. During Mr. Srinivasan's visit, many problems connected with the company's business and extending organisation were discussed, and conclusions arrived at.

Mr. S. D. Srinivasan's readiness to meet the Company's workers and discuss their difficulties face to face, his cheerful disposition, alert mind and rich experience made a deep impression on all those who had the privilege to meet him. Before his departure to Calcutta, a grand party was arranged by Mr. R. Parthasarathy, the Madras Branch Secretary, in which the Company's workers and the Branch Staff participated. Old memories were refreshed, and cordial words exchanged.

Mr. S. D. Srinivasan left for Calcutta leaving the branch richer by his presence and Mr. R. Parthasarathy and his able team of workers more enthused by his visit.

Completed New Business figures during 1950 of some of the Indian Insurers are given below.

	Rs.
Oriental Govt. Security Life	20,51,50,303
Hindusthan Co-operative	13,75,00,000
Bombay Mutual	4,10,10,950

Bharat Insurance Co.,	3,50,77,750
National Indian Insurance	3,06,90,000
Eastern Federal Union	1,21,36,900
Central Mercantile Assurance	38,48,000
Sabyadri Insurance Co., Ltd.	36,61,750

The popular Insurance Co., Ltd.,

We note with pleasure that the Madras Branch of the Popular Insurance Co., Ltd. has completed the largest amount of new business during 1950 in the entire organisation of the company. We congratulate Mr. P. R. Krishnan, the Branch Secretary, on his fine performance and have no doubt that his tenacity of purpose and determined efforts to organise the area in his charge will help introduce greater volume of business in the years to come.

A new appointment

Mr. M. Madhava Rao, who was formerly connected with The General Assurance Society, Ltd., for a long time has been appointed as Manager, Madras Branch of the Free India General Insurance Co., Ltd. Mr. Madhava Rao commands good experience in the profession and trust the business prospects of the company will improve a great deal under him.

Annual General Meeting of Life Offices' Association

The twenty-third Annual General Meeting of the Indian Life Assurance Offices Association was held in Madras on 21st March, 1951.

The Executive Committee of the Association met on March 20 at 11 A.M., at "United India Life Building". Mr. L. S. Vaidyanathan, President, was in the chair. The following members of the Committee attended the meeting :-

Mr. S. C. Roy, Mr. D. S. Subramanyam, Mr. K. Balasubramanyam, Mr. S. K. Desai, Mr. K. Y. Joshi, Mr. T. C. Kapur, Mr. N. V. Nayudu, Mr. T. R. A. Pal, Mr. K. R. Puri, Mr. S. D. Srinivasan, Mr. G. H. Thakore and Mr. V. H. Vora.

The Annual General Meeting which came off on the 21st with Mr. L. S. Vaidya-

nathan in the chair was fairly attended, more than thirty companies being represented. Some of the glaring defects of the Insurance Amendment Act came up for sharp criticism in the presidential address delivered by Mr. L. S. Vaidyanathan. The text of this address is published elsewhere in this issue.

The following members were elected to the Executive Committee: Messrs. T. R. A. Pai (Canara Mutual), D. S. Subramanyam (Andhra), K. L. Gupta (Bharat), J. N. Heredia (Asian), V. H. Vora (New India) and K. Y. Joshi (Western India). The Executive Committee includes also Messrs. L. S. Vaidyanathan (Oriental), S. C. Roy (Aryasthan), N. K. Bhartia (Free India), A. B. Chatterjee (Metropolitan), L. P. Goculdas (Jayabharat), T. C. Kapur (Bombay Mutual), M. N. Seth (Sterling General), B. K. Setalvad (Universal), S. D. Srinivasan (National) and G. H. Thakore (Bombay Co-operative).

At the first meeting of the Executive Committee the following members were co-opted:—Pt. Brahma Datta (General Assurance), Mr. S. K. Desai (Devkaran Nanjee) and Mr. S. P. Bose (National Indian).

The Committee elected the following office-bearers:—

President: Mr. S. C. Roy (Aryasthan); *Deputy Presidents:* Mr. D. S. Subramanyam (Andhra) and Mr. T. C. Kapur (Bombay Mutual); *Honorary Secretary:* Mr. V. H. Vora (New India).

The report of the Sub-Committee which made recommendations regarding extra premiums chargeable for covering occupational risks was accepted with slight modifications at the Annual General Meeting and the Executive Committee was authorised to review scales of extra from time to time. The Sub-Committee was composed of the following actuaries:

Messrs. S. N. Vaidya, V. H. Vora, M. V. Sohoni, D. D. Markan, R. Cubie, S. D. Srinivasan and K. Balasubramanyam.

It may be noted in this connection that endeavours are thus being made for the

first time to introduce uniform occupational-extra throughout India.

There were some proposals for amending the constitution but these were not passed at the Annual General Meeting as required by the Articles.

It was decided to hold next annual general meeting in Calcutta area.

The Executive Committee met on the 23rd and discussed the recent proposals regarding income-tax on Life Insurance. It was decided to move the Government so that proposals for increase of income-tax in regard to Life Insurance might be abandoned.

THE Industrial & Prudential Assurance Company Ltd.

(ESTABLISHED: 1913)

PROGRESSIVE FEATURES:

New Business Completed	in 1950	Over	2,36,90,000
Total Business in force	..	18,00,00,000	
Total Assets	..	5,00,00,000	

Applications are invited in unrepresented Districts for Special Agents and Licenced Agents.

HEAD OFFICE: MADRAS BRANCH:
Industrial Assce. Building 10, Lingha Chetty St.
FORT, BOMBAY. G. T. MADRAS.

The Fifth Indian Insurance Conference.

Mr. P. S. Kumaraswamy Raja, the Chief Minister of Madras inaugurated the Fifth Insurance Conference at Rajaji Hall held under the auspices of the Indian Life Assce. Offices Association on March 22, Mr S. C. Roy presiding. There was a representative gathering of insurance men from all parts of the country including members of the public. Mr. M. Ct. M. Chidambaram Chettiar of the United India Life Assurance Co., Ltd., Mr. S. Parthasarathy, Managing Director of Prithvi Insurance Co., Ltd., and Mr. L. S. Vaidyanathan, the retiring President of the Association spoke on the occasion on the development of the business and its role in the economy of the nation.

On March 23, the Conference reassembled at United India Bldg. at 11 A.M. when the following papers were read. Prominent insurance men participated in the debate that ensued on the papers read.

"Importance of Medical Examination in Life Assurance" By Dr. K. Sithapathi, Chief Medical Referee, Andhra Insurance Co., Ltd.

"Organisation Problems of Middle-sized Life Offices in the light of the Insurance Amendment Act, 1950" By P. R. Gupta, M.A., F.C.I.I., Life Manager, Ruby General Insurance Co., Ltd.

"Underaverage Risk" By H. K. Sen, M.Sc., A.C.I.I., F.F.A., Consulting Actuary, Calcutta.

"Mechanisation of the Operations of a Life Office" By V. H. Vora, B.Sc., F.I.A., Life Manager, New India Assce. Co., Ltd.

"Office Personnel and Measurement of Efficiency" By N. V. Nayudu, M.A., B.L., F.I.A., Manager, United India Life Assurance Company, Ltd.

THE SOUTH INDIA CO-OPERATIVE INSURANCE SOCIETY LTD.,

Armenian Street, MADRAS.

President: Sri V. Parthasarathy, B.A., B.L.,

- * An Ideal Co-operative Life Office.
- * Purely a policy-holders' concern without either Share or Debenture Capital.
- * Entire Profits divided among Policy-holders only.
- * Most attractive terms to Insurants and Agents,
- * Issues Policies from Rs. 100 to Rs. 10,000,

Further particulars can be had on application.

V. VENKATACHALAM, M.A., B.L.,
Secretary.

For Insurance of Every Description*Consult***VANGUARDS**

Competitive rates of premium,
prompt and efficient service to
policy-holders, and liberal policy
conditions are our watch words.

Wanted Agents on very attractive terms

THE VANGUARD
INSURANCE COMPANY LIMITED

THE VANGUARD
FIRE & GENERAL INSURANCE CO., LTD.

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11 & 12, SECOND LINE BEACH, MADRAS-1

Review

The role of the "Vanguards" in Indian Insurance
Mr. H. D. Rajah's unique achievement in General Insurance Business.

THE Hon. Sri C. Rajagopalachari, the present Home Minister of the Indian Union, delivering the welcome address and Sir Alladi Krishnaswami Iyer, performing the inauguration ceremony, the Vanguard Insurance Company, Limited, came into existence on the 14th of January, 1937. Though many were generous enough in those days to express their good wishes for a prosperous career of the Institution, it was only a few that could imagine the role that the Vanguard Insurance Company would play in the future of Indian Insurance. But, Mr. H. D. Rajah, the General Manager of the Company, who was solely responsible for the floatation, development, and management of the Institution, had no doubt in his

Unlike a great many others, he found a tremendous scope in Motor Insurance Business and with a rare courage he started transacting only Motor Insurance Business and that too as a non-tariff Company. He was a pioneer in this respect in South India. To the surprise of many of his associates and competitors, Mr. Rajah came out successful in his efforts. The response of the public was really splendid and the Company made out a decent profit even in the first year itself, to pay the dividend on its preference shares. In its third year of service, the Company extended its business activity to the island of Ceylon where practically Insurers of U.K. origin were enjoying a monopoly. As



Sri C. Rajagopalachari.
Home Minister, Government of India.

mind of its great future. He had the vision to see clearly what was going to be achieved in the course of a decade, or so.



MR. H. D. RAJAH
General Manager,
(Vanguard Insurance Co., Ltd.)

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a non-tariff Company, the Vanguard was able to offer efficient service at attractive rates of premiums and successfully compete with those long established, resourceful and powerful Insurers and win over the sympathy and support of the local public. Thus, in the course of a few years, the Company was able to consolidate its Motor Insurance Business in such a way, that a steady and substantial premium income was assured to it every year.

Late in 1938, the Company commenced transacting Life Insurance Business, and though the progress had been a little slow in the first few years, the business was transacted on very sound lines. Only first class lives were entertained, expenses were reduced to the barest minimum and Life Fund was built up and invested judiciously. The result had been that even the first valuation disclosed a surplus which was hailed as a unique record in the history of Indian Insurance. In the years followed, the Company was able to

show rapid progress and by the end of 1948, it had built up a Life Fund exceeding Rs. 2 Crores.

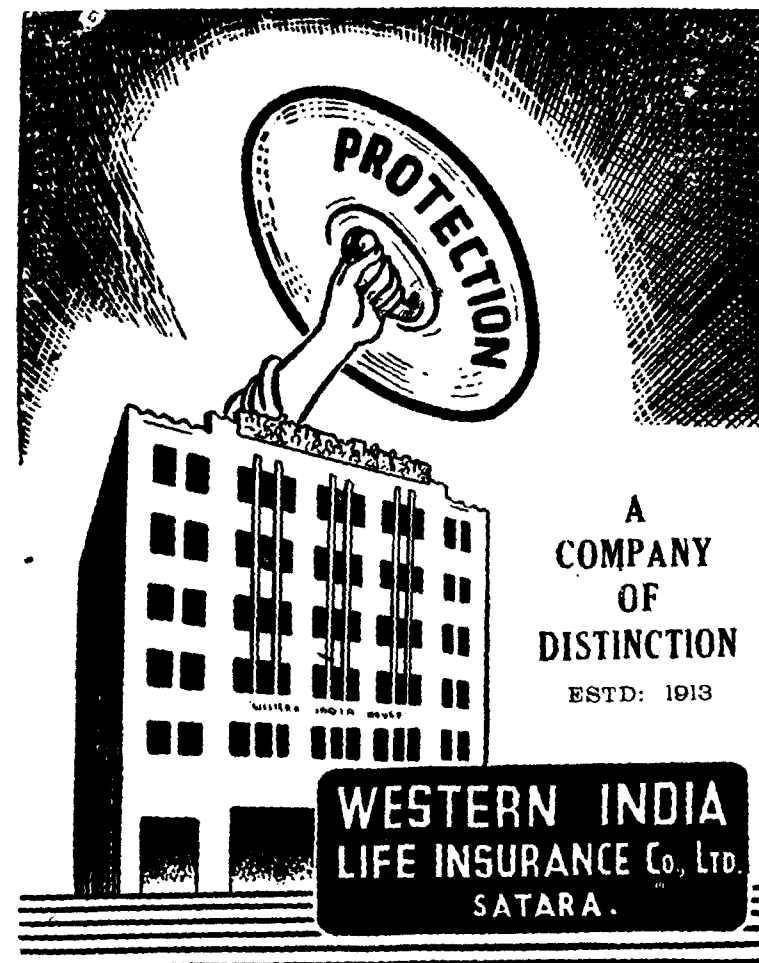
There are now about 230 Companies transacting insurance business in India out of which only about 20 Companies were able to declare dividends consistently for the past 10 years. Even of these 20, only 12 companies have been able to declare a dividend of more than 10 per cent. The Vanguard Insurance Company is not only one amongst these 12 companies, but one that holds the foremost position. For the years 1940, 1941 and 1942 the percentage of dividends paid was at 12½ %, for 1942 6 %, 1943 10 %, 1944 12½ %, for 1945 and 1946, 16 % and for 1947, 1948, 1949 at 12 %. On the whole the Company paid to its shareholders 125 % of the capital invested by them in the short period of a decade. It is a grand achievement never accomplished by any Insurance Company in the first ten years of its career.

Vanguard Fire & General Insurance Co., Ltd.

The Vanguard Fire & General Insurance Co., Ltd., took its birth in 1941 as the first non-tariff Company in South India. It has been almost a pioneer in the field, but has nothing to regret for its ventures. With a paid up capital of Rs. 15 lakhs, the Company, under the direction and management of Mr. H. D. Rajah, marches onwards from progress to progress. An Institution recognised by the State Governments of Travancore, Mysore, etc., for purposes of re-insurance in respect of Motor Insurance, it is now a powerful competitor in the field of Indian Insurance and particularly in South India. The Company has so far declared a total dividend of 34.65 per cent to its shareholders, a record that could not be attained by any other insurer of its age.

Both the Companies, The Vanguard Insurance and the Vanguard Fire & General Insurance, are now housed in their own palatial building in second line Beach, George Town, Madras.

In short, the spectacular growth and satisfactory financial position of the "VANGUARDS" has been the outcome of the genius and strength of Mr. H. D. Rajah, who laboured ceaselessly to organise their various departments and who fearlessly practised what he considered to be the best in the interests of the business undeterred by the time-worn patterns of a number of conservative companies, which to lesser minds seemed insuperable. To his many friends and colleagues Mr. Rajah, with his original turn of mind, is really an inspiration.



SERVICE: Claims Paid Exceed Rs. 2 Crores

SECURITY: Funds & Assets Rs. 4.15 Crores

POPULARITY: Over 1,50,000 Policyholders

ECONOMICAL MANAGEMENT: Renewal Expense Ratio 12%

Highly remunerative openings for ambitious and influential persons

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