NATION BUILDING AND PUBLIC SECTOR UNDERTAKINGS: A CASE STUDY OF L.I.C.

ABSTRACT

THESIS

SUBMITTED FOR THE AWARD OF THE DEGREE OF

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IN

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BY

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ABSTRACT

After independence, the statesmen of our country preferred mixed economy as they strongly and aptly felt it as the most suitable system. The outcome of this was the establishment of a number of industrial enterprises in both the public and private sector, which are, at the outset, rendering service to the general public thereby contributing significantly to the economy. Though India is predominantly an agrarian society, it has accomplished a remarkable advancement in the area of industrialization largely because of the presence of state owned undertakings. The public sector undertakings have contributed enormously to the progress of the country. Whatever the development we have been able to achieve is all because of the active role the PSUs have played in different sectors and have also helped the country in becoming self reliant and self-sufficient.

The Life Insurance Corporation of India (L.I.C.) plays an important role in providing insurance protection in the event of death and in providing relief in old age on the one hand and accelerating the growth of our economy on the other. This is obvious because of the fact that the life insurance touches every section of the society, privileged and underprivileged, agricultural and industrial labour, self-employed etc. by providing economic security to all and sundry. The L.I.C. is an important constituent of India’s capital market. It collects huge funds from the public and invests them in agriculture, industry, transport and in a number of other economic activities.
In the present work, “Nation Building and Public Sector Undertakings: A Case Study of L.I.C.” an attempt has been made to project and highlight the contribution made by the PSUs in general and L.I.C. in particular in the integrated socio-economic development of the society. The growth of PSUs in the country and the pattern of its investment have been examined.

The work has been divided into five chapters. In the first chapter an attempt has been made to get acquainted with the subject matter. The chapter gives an idea about the concept of nation building and its relationship with freedom struggle of the country. The nationalist leaders who fought for our independence not only aimed at gaining independence but they were also equally concerned about the development of the country after independence. All the steps which were taken in this direction have been discussed. These include planning in the pre-independence period and other steps taken by the then government to improve the economic scenario. Before actually discussing the public sector undertakings and its contribution, all the Acts and Policies governing it have also been discussed. The good economic growth in developed countries, attained through introduction of planning, prompted our leaders to adopt it for India too. Hence, the concept of five-year plans was introduced. A brief introduction about the plans and the aims and objectives has also been discussed in this chapter.

Against this background the second chapter discusses the history of public sector in different parts of the world, its origin in India before independence and after independence and the performance appraisal of PSUs. The history of public sector in
different parts of the world has been made to find out the feasibility of this form of economy. Several third world countries just after they gained independence adopted public sector as a tool to develop their economy. Almost all the developing countries were plagued with the menace of unemployment, poverty and rampant corruption. For them PSUs were the only silver lining in an otherwise depressing economy. But these countries could not sustain with this form of economy for long due to various factors. It seems India has emerged as leader among the third world countries and has made tremendous advancement with the establishment of PSUs. It is another mater that most of the PSUs did not fare too well and soon they began to be a burden on the exchequer. One reason for the losses that accrued in government companies could be due to the social obligations they have to observe. The products they produce remain highly subsidized and the pricing is done after taking into account the general interest of the public. The government started losing faith in the PSUs and started thinking positively about the idea of privatization. The industrial policy resolution of 1991, which formally invited private players to invest in the areas that were exclusive to them by removing them from the reserved list. Later in the chapter the pros and cons of privatization have been discussed and performance appraisal of all the PSUs in India has been made.

The third chapter discusses the Life Insurance Corporation of India, its history, growth, functioning, management and the recent developments in the insurance sector. Life insurance as a practice was not a new concept for Indians and was practiced, though in a crude form, in ancient India. The life insurance in the modern form began to be practiced when British Companies and
other foreign companies began their operation in India. The presence of foreign companies hardly made any difference in the economy or in the lives of common Indians. But, nonetheless, it taught the Indians some basic lessons and made them familiar with the modern practice of insurance. An attempt has been made to provide data about all the companies practicing insurance in India before independence. The year when they started their business in India and the year when they exited. Taking a look at the tables and information therein, reveals that very few companies stayed for long in the Indian market and practice of liquidation and amalgamation remained very high. The chapter also contains facts about the growth of life insurance business up to 1956 (before nationalization). It was mainly due to some very obvious factors, such as population growth, increase of incomes, industrialization and urbanization of the country. The sales techniques, the service standard and the investment policy adopted by the insurers failed to motivate the people.

After the nationalization of L.I.C. of India, mark improvement has been seen in the sales and service standard of life insurance business. This could be attributed to the fact that before nationalization, the life insurance business in the country was operated from 97 centers, which were almost entirely urban in character with 245 different companies. Today the L.I.C conducts its affairs through 7 zonal offices, 100 Divisional Offices and 2048 Branch Offices. Starting with a meager Rs 410.47 crores of life insurance fund in 1957, it has reached the figure of Rs 1,86,024.75 crores a son 31st March 2001.
The fourth chapter discusses the role L.I.C played in nation-building. The pattern of investment of Corporation’s fund in various developmental works has been examined. The share of L.I.C in different governmental securities has increased and its investment in developmental work aimed for the betterment of life has also improved a great deal. In pursuing such a policy the Corporation has no doubt earned adequate yield to discharge its obligations to its policyholders but it has somehow not taken full advantage of its administrative capacity and has not utilized the vast accumulation of life fund in the best possible manner.

The L.I.C also makes minor investments including mortgage loans, real estates, loans to state government securities and co-operatives for housing schemes and miscellaneous investments. This has increased from 13.6% to 36.4% during the period under study. The contribution of the Corporation to the various housing schemes run by the state governments and co-operative societies, water supply schemes, social security schemes and various other public welfare schemes increased throughout the period under consideration. Thus, the Corporation may be said to be taking interest in the public welfare schemes by assisting a number of social welfare schemes.

The study has also revealed that the L.I.C has to invest its funds strictly in accordance with the directives and guidelines provided by the government. As a result, major part of the investible funds of the Corporation always remain in Government Securities even though the yield there from is comparatively lower because this rigidity is, to a large extent, responsible for lowering down the earnings of the Corporation. As such the Corporation
should be allowed to exercise more freedom to invest in such securities.

The fifth chapter contains the main findings and conclusions of the study. The main purpose of this chapter is to sum up the main findings and conclusions of the project. It has been observed that the public sector undertakings though going down the drain in the present situation, but have nevertheless contributed handsomely on the all-round development of the country. There is a need to pump up those sectors which are working profitably. The management and pricing policy of the PSUs need a revision and they should be prepared to face the changing economic condition. The government should try to invite Foreign Direct Investment (FDI) for those sectors, which need some additional resources to pump up their production.

It has also been observed that the L.I.C needs to capture the rural market more aggressively before it falls into the hands of private financial giants. There is a need to introduce more new policies aimed at attracting prospective policyholders.

A good amount of L.I.C's funds are invested in socially oriented schemes of the government, namely the housing schemes, provision of health schemes, transport, water supply and sewerage schemes, social security schemes, electricity, agriculture, education, railways etc. It is especially in these fields that the role of the L.I.C. has got to be enhanced so that this important government agency proves to be an institution of change for the socio-economic advancement of this country.
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Certificate

This is to certify that Mohammad Imran Ali has completed his thesis entitled "Nation Building and Public Sector Undertakings: A Case Study of L.I.C." under my supervision and is, in my opinion, suitable for the submission for the award of the degree of Doctor of Philosophy in Political Science.

(Dr. Arif Hameed)
Supervisor

30.12.2002
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(Mohammad Imran Ali)
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INTRODUCTION
INTRODUCTION

In the wake of their newly won independence, almost all the third world countries launched programmes of nationalization of a wide variety of industrial enterprises and promoted industrial ventures involving huge capital outlays. Thought it was not in tune with their resource endowments but the policy reflected their long-term development objectives. These developing countries also adopted the system of establishing public sectors because they wanted to achieve the goal of development in a short period of time. The prime objective behind this policy was to develop the economy in order to raise the living standard of the people. It won't be an over exaggeration to say that the living standards during the colonial era of common Indians was no better than that of a guinea pig. The country was in need to absorb the unemployed youth for productive work as well as to fill the stomachs of millions. Without any iota of doubt, certain social objectives were attached to the Public Sector Undertakings and this work is an attempt to precisely find out the contribution made by the PSUs in developing the nation.

A lot of faith was reposed in the Public Sector to improve the condition of public exchequer and to overcome shortages therefore, the poor performance of PSUs have in several cases resulted in the erosion of public resolve and has prompted the government to hasten the process of liberalization/privatization. On the other hand it can also be said that, no doubt PSUs have been a drain on the exchequer, but it has to some extent try in the last half century of its functioning to bring the country in the same
bracket as the other industrialized nations of the world. Not only after independence of India but even before that it helped significantly in improving the economy of India. In fact when India got independence it inherited several companies from the colonial government.

The acceptance of social responsibility of business concerns has been the result of Industrial Revolution which also brought with it certain evils like exploitation of workers, and pure and simple motto of maximization of wealth for the owners. There was no provision for the representation of different groups in the society including those workers who were directly involved in the particular business operation as compared to other groups which ultimately resulted in ill will and lot of heart burning. All these factors compelled the government to don the mantle of a businessman. Consequently it also helped to some extent in the uniform development of all the regions of the country.

The protection of the interests of the society as a whole till very recent times was not considered seriously in the developing countries. The Indian Government soon after independence formulated its economic policy based on industrial development. Setting up of up Public Sector Undertakings was fundamental to the policy. The Government from time to time introduced various Acts and Resolutions to manage these undertakings and to keep an eye on the investment of its funds. They made a resolve to invest these funds in those programmes which would have directly helped the common people in order to make their lives better without disturbing the basic structure of PSUs. It can be safely contended that due to these efforts the Government has been able to achieve
so much of self-reliance in different fields. It is also a fact that because of a few aberrations in the last decade some governments lost faith in the PSUs and started the process of liberalization and privatization which continues the policy till date.

Today, the success of a business is measured not only in terms of profits, sometimes greater sanctity is attached to it if the activities undertaken benefit the society at large. If we agree to give more importance to this aspect then the Public Sector Undertakings will emerge as champions of the cause.

The present research is intended to study the overall contribution made by the PSUs in the development of the country. An overview of PSUs world over is also given to make a comparison. The Life Insurance Corporation of India’s contribution in the development of the nation as well as the welfare of the general public is also studied. The study has been divided into different segments to help arriving at certain conclusions.

Objectives of the study:

- To study the contribution of PSUs in national development with the help of economic and social parameters.

- To find out the contribution of Life Insurance Corporation of India in nation’s development as well as to find out the growth of L.I.C. as a leading public enterprises in India.

- Loss and Profit analysis of PSUs in general and L.I.C. in particular has been made, and to find out the reasons
responsible for the losses in PSUs and the motivating factors behind the policy of the government to privatize them

➢ To make suggestions in the light of the findings of the study.

Importance of the study:

1. This is an intensive study aimed at finding the role of PSUs in general and L.I.C. in particular in the task of nation-building. Most of the studies carried out in the field are questionnaire based and they hardly touch the area of nation-building. Many researches have been carried out with the intention to find the profits these PSUs earn on the basis of which an analysis is made about their general functioning, hardly ever bothering to find out the development work that is taken up right from their inception. A mere cursory glance over these works makes it amply clear that researchers conveniently tend to ignore an overwhelmingly important aspect.

2. Most of the studies are conducted in the context of the developed nations like U.S.A., England etc. but studies in the context of a developing nation like India are very rare.

3. Most of the studies of social responsibility of PSUs are undertaken with the help of questionnaire response but practice of management in terms of various activities undertaken, supported by numerical data seems to be very meager. In this study, an attempt is made to study
the contribution of PSUs with the help of certain selected parameters supported by numerical data.

4. The nature of the industry to which the present study attributes has special significance. The life insurance sector is of critical importance in a country like India. The L.I.C. has helped in inculcating insurance sense in the common man and has taught them the benefits of savings for future. This awareness for saving has also helped considerably the exchequer and the government has been able to invest more and more for the upliftment of the downtrodden.

5. The L.I.C. belongs to Public Sector upon which huge confidence was shown by the Government and it is a major sector that involves public money. People look upon the public sector as the only protector of their interests and therefore have high expectations from it.

6. Lastly, the unit selected for the study i.e. L.I.C. is the pioneer Public Sector Undertaking which has shown continuous increase in the profits and has also fulfilled the social obligations entrusted to it. But even this has not deterred the government from opening up the insurance sector to the private companies. The new angle that has emerged due to the shift in government policy has made the study even more interesting.

**Hypothesis:**

The present study needs examination of the basis of following hypothesis:
1. The Public Sector Undertakings have been able to successfully discharge their social responsibility.

2. Discharge of social obligations have been the main reasons for losses in most of the public sector enterprises.

3. Social orientation has been the main constraint on the profit of the company and the public sector is discharging social accountability more actively than private sector.

**Methodology:**

The present study is mainly based on primary sources and assisted by secondary sources. To fulfill the above objective the work of the thesis was divided into two broad areas. In the first part a detailed study of the existing literature on L.I.C. and PSUs was done. The idea behind this was to get fully acquainted with the subject matter. In the second phase the data collected and literature pertinent to the study was collected. The information and data so collected was later systematically arranged, analyzed and interpreted to arrive at certain conclusions.

**Scope of the study:**

The present study is totally devoted to Public Sector Undertaking in general and L.I.C. in particular.

**Limitations of the study:**

The following limitations of the present study would naturally guide the future researchers in this area.

1. The fact that the present study relies a great deal on secondary sources of information reduces the degree of
reliability as normally attributed to such probes. However, an attempt has been made to obtain maximum possible information from the official records of PSUs and L.I.C.

2. The contribution of PSUs in nation-building is studied with the help of certain parameters which are represented in terms of money only. For example, to study social responsibility of L.I.C. towards general public, the expenditure or funds made available by the L.I.C. for different projects such as housing, electricity, transport etc. is analyzed. The other aspects, which are also important but could not be studied due to limited resources at the disposal of the present researcher.

3. In the absence of standards in respect of discharge of social accountability/responsibility of business only increase/decrease trends are considered by the researcher and conclusions are accordingly drawn.

4. The present study is not a comparative study between either with other insurance companies or any other private sector unit which would give more lucid picture of the problem.

Presentation of the study:

The present study has been divided into 5 chapters. The chapter I contain the introductory aspect, which deals with the concept of nation-building. This chapter also gives an idea about the planning in India, both in present and post independence period. The chapter also discusses industrial policy resolutions passed by the government from time to time.
Chapter II deals with Public Sector Undertakings. The definition, scope, history, growth of public sector in different parts of the world and its origin in India. The reasons for the adoption of public sector for the development of the Indian economy is also discussed. The contributions made by the PSUs in the colonial era and how it affected the general public is discussed for some length. The performance appraisal on the working of PSUs after independence is also made at the end of this chapter.

Chapter III deals with the insurance sector before independence in general and the growth of Life Insurance Corporation of India since independence. The reasons which helped the L.I.C. in becoming a major public sector in India after independence and the reasons for the same is also analyzed. The menace of privatization which is threatening the insurance sector and the impact it is bound to make on L.I.C. is also discussed.

Chapter IV chiefly deals with finding out the developmental work undertaken by the L.I.C. for the welfare and well being of the general public as well as policyholders. The different schemes of the Corporation which are aimed at improving the condition of general public is also incorporated.

The last chapter i.e. chapter V, is totally devoted for conclusions and making suggestions. The findings of the research is discussed in this chapter and suggestions have been made to improve the overall functioning of Public Sector Undertakings in India.
THE CONCEPT OF NATION BUILDING

Nation building and freedom struggle:

The concept, enshrined in the phrase ‘nation building’ has not been mentioned in dictionaries as a single word; hence, we will have to decipher the meanings of ‘Nation’ and ‘Building’ separately. In Webster the word ‘nation’ is described as, “a people as an organized body politic, usually associated with a particular territory and possessing distinctive language and way of life”. On the other hand “a race or tribe having the same ancestry, history, language, etc.” ‘Building’ which comes from the word ‘Build’ is referred as to construct, erect or make by assembling separate parts or materials. The other meaning mentioned which is more relevant to the topic is “to establish and increase”.

Now if we use both the words “nation and building” as one. The meaning we may ascribe is “people living in a particular territory, possessing common history and language, politics and way of life, engaged in the construction of the country by assembling various parts or materials and constantly aspiring to establish and increase”.

Before we relate the concept of ‘nation building’ to freedom struggle, it is but prudent to dissect the reasons, which prompted the need for such concerns. One of the primary and most glaring causes for the development of this concept globally is its development as a reaction against colonialism. The lack of such opposition to colonialism is often regarded as an obstruction to national well-being and prosperity. It can safely be cited as one of the factors, which impeded the growth, and development of India.
Colonialism', means a system of political and social relations between two countries, in which one is the ruler and the other its colony. The ruling country not only enjoys political control but even determines the economic policies of the subjugated country. These policies are framed in such a manner that they serve the interests of the ruling country, and it forbids the people living in a colony to take independent decisions in terms of utilization of country's resources, development of agriculture and trade relations with foreign countries etc.

With the above definition, it becomes amply clear that the development of subjugated country is the prerogative of the ruling country. In the case of India it can safely be said that British did not have any intentions whatsoever of reforming her (India) as a nation in the same league as that of developed countries of that era. The sole aim of the British from the very beginning was to indulge in exploiting India. When the trade relations commenced between Britain and India, the former had very little to offer in exchange for the goods India offered. So, for a brief period East India Company was granted the authorization to export gold and silver bullion to India. Though it was not pleasant on the part of the British to pay in gold for Indian goods. This situation was dramatically reversed after the battle of Plassey. Political power gained after the battle brought East India Company in a position from where they could tilt the balance of exchange in its favor and secure maximum payment.

The Permanent Settlement Act of 1793, which was presented by Lord Cornwallis, showed £34,00,000 in land revenue but still the British did not venture to make the administration better and promote the cause of public welfare. Instead, no stone was left
untouched to generate surplus, so that it could be shipped to the coffers in Britain. They kept on introducing new ways to exploit the general masses. For example, when Diwani Right was secured for the civil administration of Bengal, Bihar and Orissa, there was manifold increase in land revenue, which completely ruined the agriculture and the farmers⁶.

It can safely be assumed that the gain British government savoured after industrial revolution was done at the expense of India. The Industrial revolution also, to a great extent, was brought at the expense of India. The industrial revolution also brought with it a change in the modes, and escalation of exploitation of India. India started to be looked upon as a market for British goods. Therefore, customs duty was imposed on Indian goods and easy availability for British products⁷ was made possible. Though every Indian industry suffered from this particular policy but Indian textile industry was the worst hit.

Apart from all the above atrocities committed on the people as well as the Indian industry, the British merchants constantly pressurized the British authorities to form a policy which could completely wipe out Indian industry. This was not a secret. All Indian leaders were very well aware of the fact that the British had dual aims – firstly, to make the country a valuable market for the products of the British industry and secondly, to crush the Indian handicrafts - the backbone of Indian economy. It was an open fact that the British wanted to transform India into a raw material producing, agrarian society so that Britain could enjoy cheap and easy flow of materials for her industries. Both these aims of the British could be achieved only by making sure that Indian handicrafts were ruined and thus by making them dependent on
British goods. The reason for Indian handicrafts to bow so easily to the British ploy was due to the fact that British enjoyed political control over the country and because they could impose biased terms of competition between the two countries. H.H. Wilson, the noted historian also agrees with this as he explains that, “the foreign manufacturer employed the arm of political injustice to keep down and ultimately strangle any competition with whom he could have contended on equal terms”\(^8\). It is believed that the sole purpose of parliamentary enquiries of 1813 and 1833 was to discover ways and means through which indigenous produce could be replaced by the British manufacture.

Due to the above mentioned policies, atrocities, biases and high handedness of British rulers, traditional Indian industries were the ones which bore the brunt most. British policies were such that instead of helping, they proved to be obstacles in the development of new industries. Primarily, these factors contributed in bringing the country under severe foreign economic domination. It presented the image of India as “a plantation growing raw produce to be shipped by British ships, to be worked in fabrics by British skill and capital and to be re-exported to the Dependency by British merchants to their corresponding British firms in India and elsewhere”. This rapid decay of rural and urban handicrafts in India clearly points out to the ‘tale of unfeeling, selfishness and cruel injustice’\(^9\).

**SWADESHI MOVEMENT:**

All the above factors relating to open atrocities and biases committed on the Indian industries and handicrafts helped in the
birth of Swadeshi Movement which was motivated by three factors—

* To search for national identity

* To ease the distress of Indian handicraftsmen and artisans, who were constantly losing their means of livelihood

* A gesture of protests against the unfairness of economic arrangements of the British, which favoured British industries to expand their tentacles in the Indian markets.

Indian leaders did their best to project Swadeshi as a means of economic self-reliance and to gain national identity through constructive national development. The annual ‘Swadeshi Mela’ established in 1864 with the assistance of Nabagopal and Tagore brothers aimed at fostering unity among Hindus and making them self-reliant in terms of social, economic and political progress.¹⁰ Extensive efforts were made to inculcate enthusiasm for indigenous crafts and music among the Mela participants. The reason behind the rapid growth of Swadeshi as a movement was due to the fact that during 1890s, the orthodox elements began propagating it as a patriotic duty, which ultimately became a social and religious duty.¹¹

Imposing five per cent excise duty on Indian manufactured yarns by Lord Elgin’s government in 1894, helped in turning, otherwise peaceful Swadeshi movement in its militant phase.¹² Even moderate leaders like Pherozshah Mehta couldn’t hide his anguish when he said, “the principle and policy are that the infant industries of India should be strangled at their birth, if there is
remotest suspicion of their competing with English manufacturers.\textsuperscript{13}

The boycott of foreign goods and urgency to get self reliant, Swadeshi Movement tried to chalk out programs to achieve this. Rabindrnath Nath Tagore felt the need for reviving cotton textile industries, so that ever-increasing home demands could be met. This gave rise to the need for capital investment from Indians. The movement helped in the establishment of seven new cotton mills in Bombay and six in Ahmedabad.\textsuperscript{14} when Jamshedji Tata approached Indian market for the establishment of Tata Iron and Steel, the response from the Indians was overwhelming. Entire capital was raised from the Indian market. This clearly states the will of the people as far as economic self-reliance and national development is concerned.\textsuperscript{15}

All the Indian leaders unanimously accepted the fact that panacea for all the economic ills of the country laid in complete transformation of economy with the help of modern machines. Justice Ranade can be hailed as the man behind industrialization in modern India. Every Indian leader, whole-heartedly, supported industrialization and showed unanimity in transforming India into a country of capitalist enterprises- a nation of traders, machine makers and shopkeepers. They strongly believed that industrialization was important, if not the sole criteria, for the progress and betterment of people. They were convinced of the fact that the main reason for India’s economic difficulties was under-production and under-employment. They believed that industrialization was the only medicine, which could induce prosperity among the millions and increase national wealth. This would have also helped in reducing rural unemployment and
provide alternate means of livelihood for the ever-growing population of the country. The other reason, which could be cited for the advocacy of industrialization, was to put an end to its exclusive dependence on agriculture.

To generate capital for the growing industries, national leaders urged zamindars and princess to come forward. Modern industries, apart from capital, also need technically trained people, hence, demands were made to open technical schools and colleges. Indian National Congress (INC) in its third session of 1887 also demanded an elaborate system of technical education. It reiterated this demand many times in its sessions held in 1891, 1892 and 1893. It was quite evident that unless the government sincerely took the initiative, no headway could be made in this regard. They also urged the government to provide employment for the recipients of technical education. Apart from the request made to the government, efforts were also made to open technical schools by nationalist leaders. In 1876 Indian league of Calcutta established one such technical school. In 1899, J.N. Tata donated Rs. 30 lakhs for the promotion of higher scientific education and research.

Though Indian leaders made every effort for the growth of industries but it soon dawned upon them that without state intervention it would however remain a difficult task to accomplish. So, in order to get state help, Indian leaders, more or less unanimously, started demanding state aid to provide necessary impetus. Though, the government did contribute towards industrialization but it was woefully inadequate especially in the field of technical education.
From the above discussion it becomes quite evident that the condition of Indian industry was very bad from the middle to the seventies of the nineteenth century. However, after the seventies, revival of industries really commenced. Justice Ranade also agrees that, "the position of industries had sunk lowest in India about the middle of the seventies". Prof. Kale, who applied the methods devised by Justice Ranade to gauge the industrial progress was of the view that, "there had been almost uninterrupted progress since nineties."  

Though there was slow and steady progress in the industrialization but it was insufficient to cope up with the ever-increasing population. Not much change was noticed in agricultural sector.

To make the dreams of rapid industrialization and national development come true, need was felt for planning. Apart from other requirements necessary for industrialization, planning holds key to gain maximum output. The Indian nationalist leaders saw phenomenal success of planning in different parts of the world. The planning in Soviet Russia, America and Germany particularly influenced them. This sentiment reflected in plenary session of Indian National Congress in Karachi.
PLANNING IN INDIA: ATTEMPTS IN PRE-INDEPENDENCE PERIOD

After successfully laying the foundations of education and industrial development in Mysore, Sir M. Viswesvaraya in 1934, published a book titled “Planned Economy for India” in which he formulated a ten-year plan for economic development of the country. This could be considered as the first serious attempt at formulating a systematic plan for the economic reconstruction and development of India. He suggested for the establishment of national economic plan for five or ten years to be worked out by an organization.  

Even before the publication of Sir M. Visweswaraya’s book, the political movement was also linked closely with social and economic development of the society. Leaders like Dadabhai Naoroji, M. G. Ranade, R. C. Dutt etc. were convinced that India could not walk on the road of development under the British empire as they were practicing the policy of 'laissez faire'. Nationalist leaders firmly believed that only national government could promote economic development by direct governmental action. Thus, Indian National Congress, from 1929 onwards emphasized the need to make revolutionary changes in the present economic structure of the society and to remove grave inadequacies in order to remove poverty and ameliorate the condition of the masses.  

When Indian National Congress assumed office in eight provinces of British India in 1937, they took this opportunity to explore the nature and strategy of planning conducive to the Indian situation. It appointed a committee of experts to point out
the problems and suggest solutions, so that national planning could be done. When Subhash Chandra Bose became the president of INC in 1938, he emphasized on setting up of a commission for drawing up a comprehensive plan for reconstruction. He vehemently supported agriculture to be managed on scientific lines and a comprehensive scheme for industrial development.

The planning committee, which was set up by INC in August 1937, consisted of 15 members from different provinces. They included industrialists, economists, financers, professors and scientists. Mr. Jawaharlal Nehru was made the chairman of the commission. He, in his book, ‘Discovery of India’ has reviewed the committee as, “in a sense it was remarkably representative committee cutting across political boundaries as well as the high barrier between official and non-official India, except for the fact that the government of India was not represented”. Main objective of the planning was to attain, as far as possible, national self-sufficiency. Apart from this they emphasized on:

- Increase in agricultural and industrial production
- Reduction of unemployment
- Increase in per capita income
- Elimination of illiteracy
- Increase in public utility services
- Provision of medical facilities and
- Increase in average life expectancy
This committee was of the view that defence industries, key industries and public utilities should be state owned or controlled by the government.

At the first session of the committee, 29 sub-committees comprising of 350 members were formed. When it was time for the sub-committee to submit its reports, second world war broke out and many of its members as well as its chairman were arrested. Between 1940 and 1945, the committee existed in name only. When the members came out of the jail in 1945, steps were taken to revive the committee and new instructions were issued to the sub-committee to produce their reports. But the national planning committee could not hold any formal meeting for various reasons. This proved to be the end of national planning committee.24

However, national planning committee generated some interests, as it was successful in making apparent the shortcomings of Indian economy. After the realization for the importance of national reconstruction was made, ‘reconstruction committee’ was formed under the chairmanship of the Viceroy in 1943. This committee was unanimous on the point that, “the ultimate object of all planning must be to raise the standard of living of the people as a whole and to ensure employment for all.”25 This observation paved the way for the establishment of separate department of planning in 1944, and Sir Arvind Dalal was made the member in charge.

The department was assigned the duty to look into different aspects of development. The Reconstruction Committee published its second report on planning in 1945, which reflected the views of the government on different aspects of development. It proposed
for fifteen-year, a perspective plan in which more detailed plans for first five years was embodied. The committee also recognized the need for the removal of poverty and establishment of large as well as small-scale industries. On the line of INC’s planning committee it also advocated for the state ownership of industries, particularly for the areas in which private capital was not forthcoming.

Another attempt towards planning was made through Bombay Plan of 1944 in which prominent industrialists like Purshotamdas Thakurdas and J.R.D. Tata prepared an outlay of Rs. 10000 crore aimed at doubling the per capita income. The sum was meant for vital sectors, such as industries including power, agriculture, commerce, housing, education etc. The capital was supposed to be realized from external as well as internal finance.

On the heels of Bombay Plan came the ‘People’s Plan’ which was prepared by Mr. M.N. Roy, leader of the Radical Humanist Movement. This plan was meant for 10 years, with an outlay of Rs. 15000 crores. Instead of giving priority to basic industries, it extended highest priority to agricultural and consumer goods sector. They advocated nationalization of lands. Though, this plan was very ambitious but it lacked realism and its financial computations were faulty. Although this plan did not take off but it was able to emphasize the need for the introduction of planning at the central level for comprehensive economic development.

Around that period, Mr. Shriman Narayan, an economist and disciple of Gandhi came up with a ‘Gandhian Plan’, with an investment outlay of Rs.3500 crores. He also emphasized on agriculture but he gave almost equal weightage to heavy industries.
and other sectors necessary for all round development of the country. The main thrust was on rural reconstruction. The plus point of the plan was that it gave an alternative to the earlier plans, which were based on either socialist or capitalist pattern. It was essentially an idealist plan whose financial outlays were not sound.

When the nationalist leaders started demanding the establishment of planning committee, government of India in October, 1946 appointed a planning committee called the 'Advisory Planning Board' which was assigned the task to review the planning already done by the government. It was assigned to look into the work done by the National Planning Committee and other plans and proposals of that time. Advisory Planning Board was also asked to make recommendations in the light of this review and to suggest the area of priorities. They were also supposed to recommend the future machinery of planning.

The Advisory Board recognized the need for central planning and control for the development of large-scale industries. The central government's approval was deemed necessary for the expansion of existing or establishment of new units in these industries. But it cautioned the government that industrial development would not be rapid, if the state attempted to own a large range of industries. It recommended for the state ownership of defence, coal, mineral oils, iron and steel, motor, air and sea transport industries only.

The advisory board also recommended for a consultative body of 25 to 30 members, meeting half-yearly, consisting of the members of the planning commission, representatives of the
provinces and Indian states, as well as representatives of different interests. This body was supposed to advise on problems and receive progress reports.

The advisory planning board did a great job in receiving all the plans of that time and made recommendations in that light. But the work of the Board held little significance as the transfer of power seemed inevitable. Plans were also not coordinated. They accepted the recommendations of the experts who did nothing except some consultations with state governments, or the other party concerned. They also lacked basic social philosophy. But the thinking on the technique was going to benefit in the future.

**INDUSTRIAL POLICY RESOLUTIONS:**

**HISTORICAL BACKGROUND:**

**Pre-Independence Period:**

The work on the industrial policy started during the British period. When we talk of industrial policy, we take into account the growth and development of industries in a wider perspective. The term 'Indian industry' includes all sorts of industries, big or small, indigenous or modern. It's an open fact that industries in India made their presence felt right from the medieval period. Invention of the machines run on power of steam, which helped in laying of foundations of modern industries was already realized. This phenomenon first started in Europe, then spread to other parts of the globe. In India too, a modest beginning in the field was made during the British regime. However, it was only after independence that the development of basic and strategic industries were taken up in a systematic and planned manner.
The East India Company initially encouraged indigenous industries, which helped in the export needs of British empire. But this policy was soon reversed for the benefit of industries in Great Britain and therefore, the government opted for the policy of 'Laissez Faire'. 30 Though, towards the end of the century, few attempts were made to introduce more progressive policy. To lay stress on the sincerity, Mr. Alfred Chalterton was appointed on special duty to organize and develop technical trades and industries like handloom weaving, lather tanning, well boring, aluminium manufacture etc. 31 In 1905, the commerce and industry department was set up to coordinate industrial policy in the provinces. They were assigned the task to initiate active cooperation and grant loans to aluminium, leather-tanning industries etc. 32

1910 saw the appointment of Directors of Industries, who were assigned the task for collecting information, carry research and supervise industrial training. They were also supposed to advice the government on technical matters. At the outbreak of first world war industries were not developed enough to cope up with the situation. This gave rise to the need for new constructive policy in India. In 1916, the British government appointed an Industrial commission to survey the resources and industrial possibilities. In 1918, the commission recommended that the government should help the large organized industries by providing industrial and technical services with adequate scientific staff and to establish a provincial department of industries. 33
When the second world war broke out, there were no significant developments in the Indian industries. The condition was as bad as during the first world war. To bring some improvement in the industrial condition, the center established a Board of Scientific and Industrial Research.34

Due to the second world war, flow of consumer-manufactured goods from Britain was blocked. This started the need for industrial development of the country. The government made renewed efforts in industrial reconstruction and development. Accordingly, government of India established the Department of Planning and Development in 1944. This department issued a statement on new industrial policy in 1945. Announcing the policy, the then Viceroy, Lord Wavell declared, "the government has decided to take positive steps to promote industrialization of the country to the fullest extent possible."35 This statement given by Lord Wavell, is considered as the official beginning of the planned development of industry in India.

This industrial policy attached great importance to those industries, which were basic to the national economy. Though, it was widely speculated during that time that government should give priority to heavy industries like, iron and steel, heavy engineering, machine tools, heavy chemicals etc. But government showed great interest in consumer goods industries to meet the immediate needs of the people.36

**POST-INDEPENDENCE PERIOD:**

**Industrial Policy Resolution: 1948**

The advent of independence in 1947 brought with it a dramatic change in the outlook of the government, as far as all
round development of the country was concerned. With independence came a basic change in the entire philosophy of the industrialization of the country. India graduated from the myopic colonial view of economic development. Now the thrust was on sectoral balance of development and transcended beyond regions and sectors, to a national canvas. The leaders were keen to make up the arrears of development which were kept in abeyance for long during the colonial period.

All this enthusiasm led to an active state participation in economic progress of the country. Therefore, declarations of industrial policies were in the economic interests of private companies. They were afraid of complete nationalization in every sector. This fear refrained both indigenous and foreign investors from making worthwhile investments. Inflation, brought about by vagaries of world war became amply evident in heavy decline of production. After partition, the problems of population growth and rehabilitation of refugees demanded considerable increase in production. To cope up with all the above-mentioned problems combined with poor economic conditions in the country, the government announced the Industrial Policy Resolution (IPR) of 1948.

The IPR of 1948 provided for the state to play an active role for the first time in economic field, though in limited areas. The main objectives of IPR 1948 could be classified into the following broad points:

- The thrust was on the establishment of a social order where justice and equality of opportunity were secured to all the people. Educational facilities and health services were to be
provided on much wider scale and for the increase in the standards of living of the people.

- Policies to be devised for a sustained increase in production and to secure its equitable distribution.

- To exploit the resources of the country in increasing the production and offering opportunities for employment.

- The government through IPR prescribed the roles, responsibilities and limits of private enterprises.40

The above objectives make it very clear that emphasis was to increase the wealth of the country through rapid and balanced industrialization and to raise national as well as per capita income. A noteworthy feature of this resolution was to say good-bye to the ‘laissez-faire’ policy practiced by British. Besides, the IPR envisaged the policy of mixed economy, according to which the state must play a progressively active role in the industrial development of the country.41

1. Identification of Key Industries:

The IPR of 1948 clearly demarcated industries into the following four categories:

A. In the first category, industries like arms and ammunitions, atomic energy and rail transport were included. These were to be the exclusive monopoly of the state. Apart from this, it was also laid down that government would have the power in an emergency to take over any industry vital for national defence.
B. In the second category which was termed as mixed sector, six (6) industries were specified i.e. coal, iron & steel, aircraft manufacture, ship building, manufacture of telephone, telegraph and wireless apparatus (excluding radio sets) and mineral oils. Only when the state deemed it necessary to secure the cooperation of private enterprises, it enjoyed the exclusive right to the setting up of new undertakings in this category. Existing private industries in the field were allowed to continue for ten years after which the government would review the situation and acquire any existing undertaking after paying compensation on fair and equitable basis.\textsuperscript{42}

C. The third category in the field of government control included 18 industries of national importance. Though the government was not to undertake the responsibilities of developing these industries but if these were considered of such importance that their regulation and direction was necessary for strategic importance, then it had the power to acquire them. Some of the industries included in this category were automobiles, chemicals, heavy machinery, machine tools, fertilizers, electrical engineering, sugar, paper, cement, cotton and woolen textiles etc. though the list is not exhaustive in nature but government of India while retaining ultimate direction was also supposed to consult the government of provinces and states in the formulation and execution of plans. Besides the government, representatives of the state and labour were also to be associated with the central government in the Industrial Advisory Council and other business recommended by the Industries Conference.\textsuperscript{43}
D. The fourth category is the field of private enterprises which included all the industries not mentioned in the above three categories. These industries were left open to private sector, but the state could take control of any industry in this sector whose progress was unsatisfactory.

2. Cottage and small-scale industries:

There is no denying the fact that cottage and small-scale industries play a pivotal role in the national economy. These industries are best suited for utilization of local resources and achievement of local self-sufficiency. These industries help in creating employment opportunities and rehabilitation of displaced persons.

But the cottage and small scale industries at the dawn of independence was marred by acute problems of raw material, capital, market etc. Accordingly emphasis was laid in the IPR to solve these problems. This was proposed to be done by the central government with the cooperation of state governments. Keeping this in view the government proposed to set up a Cottage and Small-Scale Industries Directorate within the Directorate-General of Industries and Supplies.

3. Foreign investments:

The government accepted the views of Industries Conference that foreign investment particularly industrial technique and knowledge was important for rapid industrialization. It was thought to be a wise step to regulate these investments in national interests. It was also laid down, as a rule, that effective control and ownership should always be provided in foreign concerns to
train Indians so that they could take independent control at a later stage.

4. Industrial Relations:

The government realized that merely prescribing the respective spheres of public and private enterprise would not yield rapid growth. It was equally important to ensure the fullest cooperation between the management and labour. The resolution passed by Industries Conference rightly emphasized on fair wages, housing and facilities for good living and a share in the profit, for the labour class.46

5. Tax System:

The industrial policy resolution of 1948 stressed on evolving a tax system in the country, which must encourage savings and investments, ensure growth of new industries and help in reducing disparities in distribution of income and wealth.47

Through the IPR1948 the government of India hoped to remove all apprehension, and was confident that a joint and intensive effort from labour and the general public, will pave the way for rapid industrialization of the country.

INDUSTRIAL POLICY RESOLUTION-1956:

The second industrial policy, which was announced in 1956, came after a gap of eight years from the first industrial policy. The need arose due to the several changes, which the country witnessed during the past eight years. These were important developments, which necessitated the need for changes in the policy. The constitution of India was enacted which guaranteed fundamental rights and contained directive principles of state
policies. This was the time when the first five-year plan was completed and the Parliament accepted socialist pattern of society to achieve social and economic targets. It was the time when second five-year plan was ready to be placed before the country.

It was planned to facilitate and encourage the development of these industries in accordance with the programmes formulated in successive five-year plans. The government was eager to provide financial support to the industries working in this sector and also to provide special assistance to those industries, which were organized on cooperative lines and for agricultural purposes.

**Role of cottage and small-scale industries:**

The role of small scale and cottage industries cannot remain unnoticed for long in any form of economy. The government of India well understood its importance and made provisions for it in this Industrial Policy Resolution. The government recognized the importance of cottage and small-scale industries for the development of national economy.

The reasons behind such vociferous advocations of small-scale industries were the fact that these industries provided immediate and large-scale employment, ensured more equitable distribution of national income, facilitated effective utilization of latent resources and prevented the evils of urbanization. The IPR laid down that the state would constantly endeavour to support these industries through measures like restricting the volume of production in the large scale industries, by differential taxation, or by direct subsidies and so on. Financial assistance was also provided for improving and modernizing the techniques of production and there by improve their competitive strength.
Removal of regional inequalities:

The IPR 1956 stressed on removing regional disparities. It sought to remove disparities at all levels of development. The concentration of industries in particular areas is determined by several factors. This includes availability of resources, power supply, transportation facilities, etc. In order to provide other areas with basic facilities important for industrialization, national planning aimed at steadily making available of these facilities in those areas presently lagging behind industrially. This was the only way by which secured and balanced development of the whole country could be made. This would have ultimately led to increase in higher standards of living.  

Technical and managerial personnel:

The proposed industrial development of the country demanded technical and managerial personnel. To meet this, government of India established managerial and technical cadres in public services. To meet shortage at supervisory levels in public and private enterprises, government organized apprenticeship schemes and extended training facilities in business management in industries and other institutions.

Amenities for labour:

Smooth industrial progress is possible only when relationship between owners and employees is cordial and amicable. IPR 1956, recognized that proper amenities and incentives must be provided to all those engaged in industry. The working conditions of the workers should be improved and standards of efficiency raised. The rights of the workers must be protected.
Socialist democracy recognizes labour as a partner in the common tasks of development. Some laws governing industrial relations have been enacted and an approach has been developed which outlines the obligations of both management and labour. Wherever possible workers should be engaged in management.

There was not much difference between the first IPR 1948 and 1956. IPR 1956 considerably increased the area of operations of public sectors from 6 to 17 industries. The other difference between the two IPR's was that the later dropped the threat of 'nationalization ' present in the first IPR. The objective remained the same i.e. strengthening of mixed economy in the country.

According to D.K. Rangnekar, the basic soundness of India's industrial policy remains unquestioned. It has provided an 'overall sense of direction, flexibility and thrust to the process of industrial development. The policy has enabled the country to build up a strong and industrial base and helped in creating a climate, which is infinitely more favorable to rapid industrialization in the years to come than what we had when we achieved independence.

**INDUSTRIAL POLICY STATEMENT-1980:**

When the Congress (I) government returned to power in the center, they felt that the 33 months rule of Janta Party government had put the development process in reverse gear. The Congress (I) government advocated for further revision of the industrial policy.

The Industrial Policy of July 1980, emphasized on modernization, expansion and development of both small scale and large industries. The mantra was to stress on optimal use of capacity, productivity and employment. The economy was plagued
by infrastructural gaps and inadequacies in performance. This resulted in shortage of industrial inputs. To overcome this, the government was working on a war footing, so that economy could stand on its feet again. This new policy was updated version of IPR-1956. It aimed at providing the common man with goods at reasonable prices as well as higher per capita income. Further it advocated the agro-based industries, promotion of economic federation through coordinated development of small, medium and large industries.

Apart from the above-mentioned objectives, the government tried to re-establish the common man's faith in public sector, which were considered as pillars of economic infrastructure. The government decided to examine public sectors, unit by unit and vowed to take corrective action. Priority was to be accorded to convert loosing concerns into viable ones, through broad restructuring and providing dynamic and competent management.

To boost up production in small-scale industries and in order to ensure their rapid growth the 1980 policy fixed the investment limit for small-scale industries at Rs.20 lakhs. It was envisaged that this enhancement would have facilitated the modernization of existing small-scale units. To further strengthen the smooth functioning of small-scale industries, government decided to build up buffer stocks of essential materials, which it was thought sometimes, becomes difficult to procure. The policy also indicated towards encouraging village industries without disturbing the ecological balance.

Modernization packages were evolved to suit the needs of each industry and it included all aspects i.e. appropriate location
and optimum use of energy and adoption of right kind of scale and technology in order to minimize costs and improve efficiency in the use of scarce materials. The government was to ensure that this modernization scheme reaches out to even small towns and village units.

Through the IPR-1980, government renewed its commitment to the preservation of ecological balance and improvement of living conditions in the urban centers of the country.

NEW INDUSTRIAL POLICY - 1991:

Progressive reduction of social and economic disparities, removal of poverty and attainment of self-reliance. These generate the same interests as at the first time Pandit Nehru set them out before the nation. The aim of any industrial policy should be realization of these objectives at an accelerated pace. Industrial policy of 1991 is inspired by these very concerns.

The circumstances, which compelled the government of India to announce new industrial policy on July 24, 1991 can be traced in the industrial policies announced earlier and changing world economy. Immediately after independence, government introduced Industrial Policy Resolution 1948. The thrust was to outline the approach of industrial growth and increase in production and its equitable distribution. When the government adopted constitution and the socio economic goals, the industrial policy was once again revised and adopted in 1956. To cope with new challenges, it was modified through the statements in 1973, 1977 and 1980. The industrial policy of 1956 was aimed at speeding up industrialization, to attain socialist pattern of society. Due to scarcity of capital and weak base of entrepreneurship, the state
was given predominant and direct responsibility for industrial development. The industrial policy statement of 1973 identified high priority industries where investment from large industrial houses and foreign companies were permitted, whereas industrial policy statement 1977\(^5\) stressed on decentralization and greater role for small scale, tiny and cottage industries. When Industrial Policy Statement of 1980\(^5\) was announced, it concentrated on promoting competition in domestic market, technological upgradation and modernization. It welcomed foreign investments in high technology areas. On these lines a number of policy and procedural changes were introduced in 1985 and 1986\(^5\) under the leadership of Mr. Rajeev Gandhi. These changes were aimed at increasing productivity, reducing costs and improving quality. The objective of these changes introduced was to open domestic market for competition and gear up the industries to stand on its own to face international competition. The public sector companies were freed from number of constraints and provided with large number of autonomy. All these changes resulted in an impressive average growth rate of 8.00%\(^5\) in the seventh plan period.

The government of India through all the above measures decided to launch full fledged struggle for social and economic justice, to end poverty and unemployment and to build a modern, democratic, socialist, prosperous and forward looking India. All this was possible only when India grows as a part of the world economy and not in isolation.

To consolidate the achievements in the industrial field, which was gained in the 1980s, and to provide greater competitive stimulus to domestic industries in the 1990s, the government of

1. Abolition of industrial licensing:

   In order to liberalize the economy, the government took a daring step in abolishing industrial licensing in almost all types of industries, irrespective of the level of investments, except for eight (8) specific industries which are related to strategic and security concerns, social reasons, hazardous chemicals and environmental issues and the items of elitist consumption. Now there are only fifteen (15) industries, which require license. Some of the industries, which still need the licence, are coal, alcohol, petroleum, sugar, cigarettes and the like. 

   The abolition of industrial licensing has resulted in giving free hand to almost 85% of the industries, which no longer needs license to operate. This has provided a conducive environment for the existing industries to expand freely as per their market needs without obtaining prior approval or capacity clearance from the government.  

2. Public sector:

   The public sector undertakings have been greatly diluted. Since 1956, seventeen public sector were reserved which is reduced to six, through the Industrial Policy Resolution of 1991. Now only those industries have been reserved which falls in core areas involving strategic and security concerns. A part of the government shareholding in the public sector has been offered to
mutual funds, financial institutions, the general public and workers.

The reasons, which compelled the government to dilute public sector, were the problems that manifested into it. Serious problems were observed in the insufficient growth in terms of productivity, poor project management, over-staffing, lack of continuous technological upgradation and inadequate attention to R&D and human resource development. Apart from that, the major problem with public sector is that the capital invested in it is seldom recovered or in other words there is very low rate of return on capital invested in it. All these have considerably marred the ability of public sector in regenerating themselves for new investments as well as technological development. This has given rise to a situation where public sector has become a burden on the center, instead of proving helpful to the exchequer.\textsuperscript{66}

If we look at the brighter aspects of New Industrial Policy, it becomes crystal clear that the policy has helped in structural reforms, which has helped in converting Indian industries in becoming more market oriented and competitive. This also put a pressure on the public enterprises to reduce costs and improve quality. The disinvestments in some selected public sector undertakings has helped in raising finance for development. With the amendment of the sick industry company act, the public sector have also come under its purview. This has subjected the public sector to follow same discipline, as private sector units.\textsuperscript{67}
3. **Monopolies and Restrictive Trade Practices Act (MRTP):**

The basic aim of MRTP act is to prevent concentration of economic power to the common detriment, control of monopolies, restrictive and unfair trade practices.\(^6^8\)

The MRTP Act became effective in June, 1970\(^6^9\). Some amendments were carried out in the Act during sixth plan, with the aim of removing obstacles, necessary for industrial growth and expansion. Since 1985\(^7^0\) all the firms with assets above (Rs 100 crore) came under MRTP Act. These firms were allowed to enter only selected industries. Apart from industrial licensing, these firms needed separate approval for new investment proposals. The government knew that this was hampering the plan of many industries for growth and diversification. Keeping this in mind, the government through new industrial policy scrapped the threshold limit of assets in respect of MRTP and dominant undertakings. This meant that these industries (which earlier came under MRTP) enjoyed the same benefits as others. Now there was no need for prior government approval for making new investments in the delicensed industries.

4. **Free entry to foreign investment and technology:**

Foreign investment policy prior to 1991 discouraged foreign equity holdings in service areas. But the industrial policy of 1991 has opened the door for foreign participation and equity holdings up to 51% from international trading companies are welcome.

Prior to 1991 foreign technology agreements as well as foreign investments sought by the Indian firms were obtained only through prior approval from the government for each project. This only helped in hampering business interests of the indigenous
companies. Apart from this it is no longer necessary to take prior permission for hiring foreign technicians or foreign testing of indigenously developed technologies.

It is agreed that the 80s, saw the industrial recovery after several years of deceleration but major boom in Indian industries or for that matter economy came only after the announcement of policy of liberalization by the central government. This compels us to safely assume that in the coming years, higher rate of industrial growth could be witnessed.

J.C. Sandesara\(^7\) is of the view that industrial policy seeks to raise efficiency and accelerate industrial production in five different ways:

- **The fact that there is no need for prior governmental approval for new investments and changes in licensing policy, foreign investments, MRTP Act etc. will reduce project cost, project time as well as it will witness boom in industrial development.**

- **Changes made in foreign investment and foreign technology area will attract capital, technology and managerial expertise from abroad. This will help in improving efficiency as well as level of production.**

- **Changes aimed at public sector will help them in rejuvenating themselves and the closure or liquidation of sick units will free resources, which would be used for more productive cause.**

- **Purposeful formation and implementation of memorandum of understanding and its monitoring,**
professionalization and greater autonomy may be expected to improve the performance of the enterprise that will remain in the public sector.

- Greater emphasis in controlling and regulating monopolistic restrictive and unfair trade practices and the strengthening of the power of the MRTP commission will curb anti-competitive behaviour of firms in the monopolistic and ineffectively competitive markets and thus promote competition and inefficiency.

**FIVE-YEAR PLANS:**

In general terms planning refers to decisions taken in advance for projected works. The plan is to propose a forward programme for guiding the future affairs of an enterprise or nation. Planning starts with the assumption that the future will be different from the present and it attempts to determine how the enterprise can take advantage of the difference. Thus, planning can be regarded as a device for a change to meet the future.

Planning cannot be regarded as mere collection of programmes and projects. It concerns millions of families and embodies their efforts to build up a new life for themselves. Plan seeks to find out new ways to change the outlook of families living in country side and infuse enthusiasm for new knowledge and new ways of life.

The advent of independence on August 15, 1947 gave a new impetus to planning. The All India Congress Committee appointed the Economic Programme Committee in November 1947 under the chairmanship of Jawaharlal Nehru. This committee submitted its
report in January 1948 and recommended for the establishment of a permanent Planning Commission. In January 1950, the working committee of the Congress Party passed a resolution on planned economy as well as appointment of a Planning Commission. Accordingly, government of India passed a resolution in March, 1950 and appointed a permanent Planning Commission, whose objective was to prepare a blue print of development while taking into consideration the needs and resources of the country.\textsuperscript{74}

**AIMS AND OBJECTIVES OF FIVE-YEAR PLANS:**

Though it is convenient to plan for limited periods of time but planning in its nature continues. The aims of planning are of a permanent character, but the forms and institutions through which they are expressed and the relative emphasis given to them may differ from one phase to the next. In carrying out the plan it should be kept in mind, that the ends for which we work, and it becomes important to re-assess experience and state afresh objectives to renew the faith.\textsuperscript{75}

The aims and objectives of plan in India have gradually evolved over these decades through different phases. Each plan defined the specific aims of the development efforts to be carried out during the plan and these aims have varied in different plans but long-term perspective has always been kept in mind and certain basic objectives were found to be appropriate in every plan. The basic aims and objectives, which have been pursued in each and every plan, can be traced under the following heads.

**A. Rapid increase in national and per capita income:**

Increase in national and per capita income of the country has always remained in focus as the main objective of India's five-year
plans. The reason behind the emphasis on the increase of national and per capita income was the belief that it would reduce poverty and improve standards of living.

Another reason was that Indian economy saw long periods of stagnation from the nineteenth century to the early twentieth century. So, after independence, decision makers went all out for a rapid increase in national income.

B. Increase in employment opportunities:

Another major objective of five-year plans in India has been to utilize to the fullest extent the existing manpower resources, so that expansion in employment opportunities could be made. There is a need to create employment opportunities, so that poverty could be gradually eliminated.

Though in every five-year plan, removal of unemployment has remained one of the objectives, but it has failed to get the top priority as yet.

C. Reducing inequalities in the distribution of income and wealth:

Though reduction of inequalities in the distribution of income and wealth always finds a place in five year plans as one of the objectives but in terms of priority it has always stood at lower levels. This could be regarded, as one of the reasons that the plan documents as well as publication on planning commission has never provided estimates on income inequalities and distribution of wealth.
D. Rapid growth in industrial and agricultural sector:

This can be termed as the most important objective, which has been mentioned, in every successive plan. Industries and agriculture have got a better place due to the fact that these two sectors could take the country on road to self-reliance.

Despite the fact that India is predominantly an agrarian country, the output of food grain was not enough to meet the needs of the country. It had to import food grains from other countries. Apart from this, due to non-existence of heavy and basic industries it had to look up to developed countries for help and assistance in any areas of industry and infrastructure.

A brief survey of all the plans, its aims and objective is given below:

First Five Year Plan: 1951-52 to 1955-56

The First Five Year Plan was formulated against the backdrop of the second world war and partition of the country. It accorded high priority to agriculture, irrigation and power projects, in order to reduce dependence on foodgrain imports, solve the food crisis and ease the raw material problem particularly in jute and cotton. Almost 45% of the resources were allocated to agriculture, while industry got a paltry 4.9%. The strategy in the first five year plan was to increase the development potential of agriculture, which will provide a platform for industrial sector to flourish. The plan also aimed to increase the rate of investment from 5% to 7% of national income. Though the first plan was conceived in haste, it was highly successful in as far as attainment of objectives go. Agriculture production targets were surpassed, national income
rose 18%, per capita income 11% and per capita consumption 9% during the plan period.

**Table: First Five Year Plan (Actuals)**

<table>
<thead>
<tr>
<th></th>
<th>Rs bn</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Public outlay</strong></td>
<td>19.6</td>
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<tr>
<td>Agriculture</td>
<td>2.9</td>
</tr>
<tr>
<td>Irrigation</td>
<td>3.1</td>
</tr>
<tr>
<td>Power</td>
<td>2.6</td>
</tr>
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<td>Village, small industries</td>
<td>0.4</td>
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<td>Organised industries, mining</td>
<td>0.7</td>
</tr>
<tr>
<td>Transport &amp; communications</td>
<td>5.2</td>
</tr>
<tr>
<td>Social services etc</td>
<td>4.6</td>
</tr>
<tr>
<td><strong>Budgetary resources</strong></td>
<td>14.4</td>
</tr>
<tr>
<td><strong>of which</strong></td>
<td></td>
</tr>
<tr>
<td>Additional taxation</td>
<td>2.6</td>
</tr>
<tr>
<td>Internal private savings</td>
<td>6.9</td>
</tr>
<tr>
<td>External assistance</td>
<td>1.9</td>
</tr>
<tr>
<td>Deficit financing</td>
<td>3.3</td>
</tr>
</tbody>
</table>

Second Five Year Plan: 1956-57 to 1960-61

In the second plan which was formulated in an atmosphere of economic stability, agriculture was given a complementary role and emphasis was on industrial sector especially heavy goods industry. Agricultural programmes were aimed at meeting the raw material requirements of industry besides meeting the food needs of the increasing population. Industrial sector was perceived as the leading sector which could enable the economy to grow at a rapid pace. The Industrial Policy of 1956 was formulated with a socialistic pattern of society as the goal of economic policy. The plan also aimed at a 25% increase in national income and a multifold increase in employment opportunities. Emphasis was laid on a more equitable distribution of income and wealth and an even distribution of economic power. The development programmes in other sectors envisaged close interdependence amongst all sectors of the economy. Compared to the first plan the second plan was only a moderate success. Unfavourable monsoons in 1957-58 and 1959-60 adversely affected agricultural production. Also the Suez crisis cut off international supplies leading to a jump in commodity prices.
Table: Second Five Year Plan (Actuals)

<table>
<thead>
<tr>
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<tbody>
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</tr>
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</tr>
<tr>
<td>Irrigation</td>
<td>4.3</td>
</tr>
<tr>
<td>Power</td>
<td>4.5</td>
</tr>
<tr>
<td>Village, small industries</td>
<td>1.9</td>
</tr>
<tr>
<td>Organised industries, mining</td>
<td>9.4</td>
</tr>
<tr>
<td>Transport &amp; communications</td>
<td>12.6</td>
</tr>
<tr>
<td>Social services etc</td>
<td>8.6</td>
</tr>
<tr>
<td>Budgetary resources</td>
<td>25.6</td>
</tr>
<tr>
<td>Of which</td>
<td></td>
</tr>
<tr>
<td>Additional taxation</td>
<td>10.5</td>
</tr>
<tr>
<td>Internal private savings</td>
<td>14.1</td>
</tr>
<tr>
<td>External assistance</td>
<td>10.9</td>
</tr>
<tr>
<td>Deficit financing</td>
<td>9.5</td>
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<td>Memo figures</td>
<td></td>
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<tr>
<td>Break up of public outlay</td>
<td></td>
</tr>
<tr>
<td>Centre</td>
<td>25.3</td>
</tr>
<tr>
<td>State &amp; Uts</td>
<td>21.4</td>
</tr>
<tr>
<td>Break up of public outlay</td>
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<td>36.2</td>
</tr>
<tr>
<td>External resources</td>
<td>10.5</td>
</tr>
</tbody>
</table>

Third Five Year Plan: 1961-62 to 1965-66

At the time of formulating the third plan it was found that the limiting factor in economic growth was growth in agricultural production. Accordingly agriculture was given top priority again. Also allocation to power sector was enhanced considerably to 14.6% of the total outlay. Power generation was seen as an important factor in ensuring rapid growth of industrial sector, which could lead to a self sustaining economic growth. The relative weights of other sectors in the economy was broadly maintained at the earlier levels.

Emphasis was on attaining self sufficiency in agriculture and industry. The goal of import substitution was seen as inviolable and opportunity cost estimates were entirely ignored. In a zeal to prevent monopolies and to promote economic development in backward regions, unviable plants were propped up by subsidies. The plan aimed at increasing national income by 30% from Rs145bn in 1960-61 to Rs190bn by 1965-66 and per capita income by about 17% from Rs330 to Rs385. It also targeted a 30% increase in agricultural production and 70% in industry. These targets could not be achieved as the plan period was marred by two wars - the Chinese war in 1962 and the Pakistan war in 1965. Also, except for 1964-65, monsoon failed in all other years, with 1965-66 being the worst year.
<table>
<thead>
<tr>
<th>Overall outlay</th>
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</thead>
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<td>Irrigation</td>
<td>6.6</td>
</tr>
<tr>
<td>Power</td>
<td>12.5</td>
</tr>
<tr>
<td>Village, small industries</td>
<td>2.4</td>
</tr>
<tr>
<td>Organised industries, mining</td>
<td>17.3</td>
</tr>
<tr>
<td>Transport &amp; communications</td>
<td>21.1</td>
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<tr>
<td>Social services etc</td>
<td>14.9</td>
</tr>
<tr>
<td>Budgetary resources</td>
<td>50.9</td>
</tr>
<tr>
<td>of which</td>
<td></td>
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<tr>
<td>Additional taxation</td>
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<td>21.1</td>
</tr>
<tr>
<td>External assistance</td>
<td>23.9</td>
</tr>
<tr>
<td>Deficit financing</td>
<td>11.5</td>
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<tr>
<td>Private investment</td>
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<tr>
<td>Agriculture &amp; allied</td>
<td>8.0</td>
</tr>
<tr>
<td>Industry &amp; minerals</td>
<td>13.3</td>
</tr>
<tr>
<td>Power</td>
<td>0.5</td>
</tr>
<tr>
<td>Transport &amp; communications</td>
<td>2.5</td>
</tr>
</tbody>
</table>
Annual Plans: 1966-67 to 1968-69

The government was forced to declare a 'plan holiday' for 3 years, sensing the mood of pessimism, which had generated at the major failure of the third plan. In place of the fourth plan, 3 annual plans were introduced. The economy, which was in the grip of a recession, had to grapple with another drought in 1966-67. Agricultural production rose marginally over the earlier year, but continued to remain much lower resulting in shortage of food grains. The lower agricultural production adversely affected industrial production in 1966-67. Recovery began in 1967-68, with a recovery in the agricultural sector. This was due to the twin effect of a good monsoon and the technological advancements like introduction of high yielding variety seeds and multi cropping techniques.

<table>
<thead>
<tr>
<th>Others</th>
<th>16.8</th>
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</thead>
<tbody>
<tr>
<td><strong>Memo figures</strong></td>
<td></td>
</tr>
<tr>
<td><strong>Break up of public outlay</strong></td>
<td></td>
</tr>
<tr>
<td>Centre</td>
<td>42.1</td>
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<tr>
<td>State &amp; UTs</td>
<td>43.7</td>
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<tr>
<td><strong>Financing of public outlay</strong></td>
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</table>

<table>
<thead>
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<th>Total outlay</th>
<th>Rs bn</th>
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</thead>
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<tr>
<td>Agriculture</td>
<td>9.7</td>
</tr>
<tr>
<td>Irrigation</td>
<td>4.7</td>
</tr>
<tr>
<td>Power</td>
<td>12.1</td>
</tr>
<tr>
<td>Village, small industries</td>
<td>1.3</td>
</tr>
<tr>
<td>Organised industries, mining</td>
<td>15.1</td>
</tr>
<tr>
<td>Transport &amp; communications</td>
<td>12.2</td>
</tr>
<tr>
<td>Social services etc</td>
<td>11.2</td>
</tr>
</tbody>
</table>

Source: http://www.indiainfoline.com/econ/andb/plan/plan7.html

Fourth Five Year Plan: 1969-70 to 1973-74

At the time of formulating the fourth plan it was realized that GDP growth and high rate of capital accumulation alone may not help improve standard of living or help attain economic self-sufficiency. Emphasis, therefore, shifted towards providing necessary consumption benefits to the less privileged and weaker sections of the society through employment and education. The plan also aimed at accelerating the momentum of economic development and improving stability of foodgrain production. Share of outlay to agricultural sector was increased to 23.3% while that of industrial and transport and communications sector was cut.
back. Family planning programme received a big impetus and was allotted Rs2780m against Rs250m in the previous plan. The fourth plan aimed to increase the net domestic product (at 1968-69 factor cost) from Rs290.7bn in 1969-70 to Rs383.1bn in 1973-74, reflecting a 5.7% CAGR. Foreign assistance was considerably reduced in the fourth plan to 12.9% of total resources, from 28.2% in the earlier plan period. Achievements in the fourth plan were way below targets. Agricultural growth was only 2.8% pa against the targeted 5% pa coupled with successive failure of monsoons. The much touted green revolution seemed to be lacking the spread effect. Industrial growth was only 3.9% against the targeted 8% pa.

Table: Fourth Five Year Plan (Actuals)

<table>
<thead>
<tr>
<th></th>
<th>Rs bn</th>
</tr>
</thead>
<tbody>
<tr>
<td>Overall outlay</td>
<td>247.6</td>
</tr>
<tr>
<td>Public outlay</td>
<td>157.8</td>
</tr>
<tr>
<td>Agriculture</td>
<td>23.2</td>
</tr>
<tr>
<td>Irrigation</td>
<td>13.5</td>
</tr>
<tr>
<td>Power</td>
<td>29.3</td>
</tr>
<tr>
<td>Village, small industries</td>
<td>2.4</td>
</tr>
<tr>
<td>Organised industries, mining</td>
<td>28.6</td>
</tr>
<tr>
<td>Transport &amp; communications</td>
<td>30.8</td>
</tr>
<tr>
<td>Social services etc</td>
<td>29.9</td>
</tr>
<tr>
<td><strong>Budgetary resources</strong></td>
<td><strong>120.2</strong></td>
</tr>
<tr>
<td>of which</td>
<td></td>
</tr>
</tbody>
</table>
During the fourth plan period the country faced severe inflationary pressures. The fifth plan therefore concentrated on reigning inflation and achieving stability in the economic situation. It also aimed at improving the quality of life of especially the downtrodden section of the economy. Several new economic and non-economic variables such as nutritional requirements, health, family planning etc were incorporated in the

|---|

**Fifth Five-Year Plan: 1974-75 to 1978-79**

<table>
<thead>
<tr>
<th>Additional taxation</th>
<th>42.8</th>
</tr>
</thead>
<tbody>
<tr>
<td>Internal private savings</td>
<td>65.4</td>
</tr>
<tr>
<td>External assistance</td>
<td>20.9</td>
</tr>
<tr>
<td>Deficit financing</td>
<td>20.6</td>
</tr>
<tr>
<td>Private investment</td>
<td>89.8</td>
</tr>
<tr>
<td>Agriculture &amp; allied</td>
<td>16.0</td>
</tr>
<tr>
<td>Industry &amp; minerals</td>
<td>25.6</td>
</tr>
<tr>
<td>Power</td>
<td>0.8</td>
</tr>
<tr>
<td>Transport &amp; communications</td>
<td>9.2</td>
</tr>
<tr>
<td>Others</td>
<td>38.3</td>
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</table>

**Memo figures**

**Break up of public outlay**

| Centre | 78.3 |
| State & UTs | 79.5 |

**Financing of public outlay**

| Internal resources | 140.7 |
| External resources | 20.9 |
planning process. Investment mix was also chosen based on demand envisaged for final domestic consumption. Industry got the highest allocation of 24.3% of the plan outlay. In agricultural sector irrigation programmes attained prominence and outlay almost trebled to Rs39bn from Rs13.5bn in the previous plan. The plan targeted an annual growth rate of 5.5% pa in national income. Foreign assistance was reduced further to 7.5% of total resources, while reliance was placed on domestic capital and own resources.

The fifth plan was terminated by the (new) Janata Government in the fourth year on 31st March 1978. Only the targets relating to foodgrains and cotton cloth were achieved in the fifth plan. The plan was introduced at a time when inflation was very high. The cost figures therefore had to be revised upwards and the targets had to be scaled down.

**Table: Fifth Five-Year Plan (Targets)**

<table>
<thead>
<tr>
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<tbody>
<tr>
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<td>Agriculture</td>
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<td>Irrigation</td>
<td>38.8</td>
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<td>Power</td>
<td>74.0</td>
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<tr>
<td>Village, small industries</td>
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<td>Organised industries, mining</td>
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</tr>
<tr>
<td>Transport &amp; communications</td>
<td>68.7</td>
</tr>
<tr>
<td>Social services etc</td>
<td>68.3</td>
</tr>
</tbody>
</table>
The Janata Government which formulated the sixth plan, instead of the GNP approach to development, sought to achieve higher production targets with concomitant increase in employment opportunities for the poorest section of the society. Though the emphasis on irrigation and power and the shift in approach to development was laudable, the government lacked political will to forge ahead. The Congress Government on

<table>
<thead>
<tr>
<th>Budgetary resources</th>
<th>321.2</th>
</tr>
</thead>
<tbody>
<tr>
<td>of which</td>
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<tr>
<td>Additional taxation</td>
<td>77.5</td>
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<td>Internal private savings</td>
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<td>External assistance</td>
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<td>Deficit financing</td>
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<tr>
<td>Private investment</td>
<td>270.5</td>
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<table>
<thead>
<tr>
<th>Memo figures</th>
<th></th>
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</thead>
</table>

<table>
<thead>
<tr>
<th>Break up of public outlay</th>
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</tr>
</thead>
<tbody>
<tr>
<td>Centre</td>
<td>199.5</td>
</tr>
<tr>
<td>State &amp; UTs</td>
<td>193.5</td>
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</table>

<table>
<thead>
<tr>
<th>Financing of public outlay</th>
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<td>Internal resources</td>
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</tr>
<tr>
<td>External resources</td>
<td>52.1</td>
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</tbody>
</table>

Source: http://www.indiainfoline.com/econ/andb/plan/plan5.html

Sixth Five Year Plan: 1978-79 to 1982-83 and 1980-81 to 1984-85
assuming power in 1980, formulated a new sixth plan, with a strategy to move simultaneously to strengthen the infrastructure for both agriculture and industry in order to achieve rapid economic growth. Within agriculture, emphasis was on rural development - the outlay was increased from 2% to 5.5%. Special programmes were designed to provide increased employment opportunities in the rural areas and unorganized sector and meet the minimum basic needs of the people. In the sixth plan industry achieved a growth of 6% pa compared to the 5.3% growth in the earlier plan period.

Table: Sixth Five-Year Plan (Targets)

<table>
<thead>
<tr>
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<tbody>
<tr>
<td><strong>Overall outlay</strong></td>
<td>1,851.8</td>
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<td>Public outlay</td>
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<tr>
<td>Agriculture</td>
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<td>Irrigation</td>
<td>109.3</td>
</tr>
<tr>
<td>Power</td>
<td>184.6</td>
</tr>
<tr>
<td>Village, small industries</td>
<td>19.5</td>
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<td>Organised industries, mining</td>
<td>272.9</td>
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<td>Transport &amp; communications</td>
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<td>Social services etc</td>
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<tr>
<td><strong>Financing of public outlay</strong></td>
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<td>Current revenue balance</td>
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</tr>
<tr>
<td>Public enterprises</td>
<td>58.1</td>
</tr>
<tr>
<td>Additional resource mobilisation</td>
<td>329.7</td>
</tr>
<tr>
<td>Market borrowings (net)</td>
<td>247.0</td>
</tr>
</tbody>
</table>
S Seventh Five-Year Plan: 1985-86 to 1989-90

The first three years of the seventh five-year plan saw severe drought conditions, despite which foodgrain production grew 3.2%. Policies were aimed at rapid growth in foodgrain production, higher employment levels etc. Several special programmes like Jawahar Rozgar Yojana were introduced. Social sectors like welfare, education, health, family planning, employment etc. which were accorded low priority in the earlier
plans, got a higher outlay - 21.6% in the seventh plan. Industrial growth also accelerated during this plan period to 8.7% pa. Rural electrification increased significantly and covered 81% of the villages by the end of the seventh plan. Actual public sector expenditure in the seventh plan increased by 21.5% against the envisaged outlay.

**Table: Seventh Five-Year Plan (Targets)**

<table>
<thead>
<tr>
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</thead>
<tbody>
<tr>
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<td>Irrigation</td>
<td>165.9</td>
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<td>Power</td>
<td>385.6</td>
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<td>Village, small industries</td>
<td>32.5</td>
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<td>Organised industries, mining</td>
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<td>Public enterprises</td>
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</table>
Eighth Five Year Plan: 1992-93 to 1996-97

The eighth plan was launched immediately after a severe balance of payment crisis, which was accentuated by the Gulf War in 1990. Several structural adjustment policies were introduced in order to put the country on a higher growth path and remedy the precarious balance of payments situation. These included a substantial devaluation in the value of rupee, dismantling of licensing requirements, reducing trade barriers, reforms in the financial sector and tax systems. The plan targeted an annual growth of 5.6% in GDP and 7.5% pa in industry, while keeping inflation under control. Higher growth rates were envisaged in
most the of the sectors - manufacturing, agriculture, foreign trade etc. Achievements in the infrastructural sector however fell short of the targets.

Deficit financing to meet the resource shortfall was curtailed to 4.6% of total resources as against 15.8% in the previous plan period. Government’s own resources increased considerably to 42.2% of the total resources.

**Table: Eighth Five-Year Plan (Targets)**

<table>
<thead>
<tr>
<th>Overall outlay</th>
<th>Rs bn</th>
</tr>
</thead>
<tbody>
<tr>
<td>Public outlay</td>
<td>4,341.0</td>
</tr>
<tr>
<td>Agriculture</td>
<td>628.7</td>
</tr>
<tr>
<td>Irrigation</td>
<td>265.5</td>
</tr>
<tr>
<td>Power</td>
<td>810.5</td>
</tr>
<tr>
<td>Village, small industries</td>
<td>63.3</td>
</tr>
<tr>
<td>Organised industries, mining</td>
<td>751.0</td>
</tr>
<tr>
<td>Transport &amp; communications</td>
<td>810.4</td>
</tr>
<tr>
<td>Social services etc</td>
<td>1,011.6</td>
</tr>
</tbody>
</table>

**Financing of public outlay**

| Current revenue balance | 350.1 |
| Public enterprises      | 1,481.4|
| Additional resource mobilisation | - |
| Market borrowings (net) | - |
| Small savings           | 2,022.6|
| Other resources         | - |
It was found in the eighth plan that though the economy performed well, the benefits did not percolate down to the poor and disadvantaged sections of the economy. The key task in the ninth plan therefore was to improve the living conditions of the poor and provide them with adequate employment opportunities. The ninth plan makes serious efforts to raise the level of agricultural and rural incomes and target programmes at small, medium and marginal farmers and landless labourers. To increase real income the plan also aims to control growth rate of
population. Allocation to power sector shot up to 25.4% of the total outlay. A growth rate of 7% in GDP has been targeted for the ninth plan, with current account deficit of 2.4% of GDP and savings rate of 26.2% of GDP. Reliance on own resources increased to 54.3%, while domestic capital receipts' contribution is slated to fall to 38.8% of total resources. Foreign assistance continues to remain low at 6.8% of total resources.

Table: Ninth Five-Year Plan (Proposed)

<table>
<thead>
<tr>
<th>Public sector outlay</th>
<th>Rs bn</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>8,750.0</td>
</tr>
<tr>
<td>Agriculture and allied</td>
<td>366.6</td>
</tr>
<tr>
<td>Irrigation</td>
<td>577.4</td>
</tr>
<tr>
<td>Rural development</td>
<td>749.4</td>
</tr>
<tr>
<td>Special Programme</td>
<td>37.9</td>
</tr>
<tr>
<td>Energy/ Power</td>
<td>2,219.7</td>
</tr>
<tr>
<td>Industry &amp; minerals</td>
<td>716.8</td>
</tr>
<tr>
<td>Transport &amp; communications</td>
<td>1,729.8</td>
</tr>
<tr>
<td>Science, Technology and Environment</td>
<td>263.4</td>
</tr>
<tr>
<td>General Economic Services</td>
<td>155.7</td>
</tr>
<tr>
<td>General Services</td>
<td>124.0</td>
</tr>
<tr>
<td>Social services etc</td>
<td>1,809.3</td>
</tr>
<tr>
<td>Budgetary resources for Plan</td>
<td>3,740.0</td>
</tr>
<tr>
<td>----------------------------</td>
<td>---------</td>
</tr>
<tr>
<td>Current Revenue Balance</td>
<td>942.1</td>
</tr>
<tr>
<td>Loan Recovery</td>
<td>377.1</td>
</tr>
<tr>
<td>Borrowings and other liabilities</td>
<td>3,201.4</td>
</tr>
<tr>
<td>External grants</td>
<td>100.6</td>
</tr>
<tr>
<td>Total Budgetary resources</td>
<td>4,621.2</td>
</tr>
<tr>
<td>Non plan capital expenditure</td>
<td>(881.2)</td>
</tr>
</tbody>
</table>

**Financing pattern of Central Plan Outlay**

| Current Revenue Balance     | 942.1   |
| IEBR of CPSEs               | 3,011.3 |
| Borrowings and other liabilities | 3,201.4 |
| Misc Capital Receipts       | (504.1) |
| External Grants             | 100.6   |
| Aggregate Resources         | 6,751.3 |
| Assistance to States and UTs| (1,671.1)|
| Resources for Central Plan  | 5,080.2 |

**Memo figures**

<table>
<thead>
<tr>
<th>Break up of public outlay</th>
</tr>
</thead>
<tbody>
<tr>
<td>Centre</td>
</tr>
</tbody>
</table>
### State & UTs

<table>
<thead>
<tr>
<th>Financing of public outlay</th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>Internal resources</td>
<td>4,979.6</td>
</tr>
<tr>
<td>External resources</td>
<td>100.6</td>
</tr>
</tbody>
</table>

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12. Ibid. P.203.


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PUBLIC SECTOR UNDERTAKINGS

Governments in all developing countries undertake the responsibility of national development. In fact the focus of politics in these countries is development. The distribution of wealth and income becomes the driving force and an important objective in such developmental efforts. The governments of most third world countries pursue policies and take measures aimed at improving the socio-economic conditions of the underdeveloped regions and its inhabitants.

The regional developmental projects, in most of the cases become the ultimate responsibility of the state because of the magnitude and multiplicity of activities needed and a variety of inputs are required in such developmental projects. The all-round development of the country requires multi-institutional structures, capable of providing necessary inputs. This makes it quite clear that all-round development of the country, coupled with the diversity of activities involved, place their sound development beyond the capabilities of private initiative, especially in developing countries. Therefore, it is the government, which assumes the responsibility of national development by the virtue of their national, political, economic and social policies, to initiate all-round development of the country. However, private business can contribute to regional development through support services, but it is quite difficult for it to undertake the entire responsibility on its shoulders.

The tools through which governments in developing countries implement their national and regional development plans are through public enterprises. The post-independence era in
majority of the third world countries witnessed a substantial increase in the activities for the development of infrastructural, industrial, commercial and agricultural public enterprises. This remarkable growth in numbers and variety of public enterprises has been possible because, the third world countries accepted development planning¹ as the rational approach at enhancing socio-economic development.

The above discussion clearly explains that Public Sector occupies an important place in the national economy of most of the countries. Nevertheless, it doesn’t mean that the reasons for its emergence were same everywhere. As in the west, its reason could be attributed to growing realization about the unworkability of the laissez-faire policy and the wide spread social tensions created by capitalism.² Public Enterprises in the western countries were only used to reform Private Enterprises, but in the countries propagating communist ideologies it was the ideological commitment which demanded liquidation of capitalist system and private enterprises. During the Second World War a boom was noticed in the number of public enterprises. It was not due to any ideological commitment but a matter of economic necessity. The immediate problem faced by most of the independent countries, after second world war was raising the living standards of their people in the shortest possible time. These countries had before them chiefly two models of economic development to choose from, “the Russian experiment of economic planning and the western model of development through Private enterprises.” Moreover, since the Soviet Union had attained, within five decades, substantial economic and technological progress that the western democracies had taken nearly two centuries to achieve, the choice
of the Soviet model became obvious. Another reason which could be attributed to the adoption of ‘Soviet model’ was the belief that capitalist class created a society of unequals where unchecked freedom in economic matters led to the creation of monopolies, resulting in the exploitation of man by man, revolt by the working class and social tensions of the worst order. Poverty and plenty, distress and luxury became so juxtaposed and social tensions so intense that even the most vociferous protagonists of the free enterprise system were compelled to recognize the need for state’s intervention.

The reasons mentioned above were enough to lure independent countries to opt for state controlled economy. Apart from this, there are several other factors, which led to the emergence of public enterprises. The mother of all wars (I & II) necessitated the rehabilitation of war-torn economies of the victor and the vanquished nations alike as well as the great depression of the early thirties demanded active state intervention in economic matters. The fact that there were frequent economic depressions and wide spread unemployment, it became clear that private economy alone was not in a position to address it, so state was called upon to contribute actively. It was also realized that the key sectors of the economy, which demanded large capital investment, low returns and long gestation period as well as the public utilities could perhaps be better served by the state, directly.

The increasing involvement of public sector in the economies of the third world countries can be better understood by a study carried out by the United Nations, which says that “most public enterprise sectors in developing countries are in formative stage. Yet their expansion has been marked at times phenomenal.
Not infrequently the public enterprise has more than doubled its size in the first decade of independence. Even where large scale nationalization was absent, the rate of output growth of public enterprise sector has outpaced that of the private sector..."\(^4\)

**Public Sector Defined:**

A United Nations expert, Fouad Sherif, has defined Public Sector as, "the aggregate of institutions and government operations within the framework of an overall balance of public income and expenditure."\(^5\)

Public Enterprises are diverse both in structure and in function, and it is not easy to distinguish them clearly from a private firm on the one hand and a traditional government agency on the other. The European Community through a directive in 1980 defined Public Sector Undertakings as, 'over which the public authorities may exercise directly or indirectly a dominant influence by virtue of their ownership of it, their financial participation there in, or the rules which govern it'. The ‘public authorities’ are defined in turn as ‘the state and regional or local authorities’\(^6\).

There is no single definition of the term ‘public sector’, which could be applied all over the world. In the Indian context the term can be defined as, “a recognizably distinct organization of the government, whether central, state or municipal, involving the manufacture or production of goods, including agriculture or making available a service for a price, such activities being managed departmentally or through an autonomous body, with the government having majority ownership, that is, more than fifty one per cent equity.”\(^7\)
Public sector are considered as legal persons and the law attributes to it a fictitious personality. Holland, eminent author of Jurisprudence, defines a legal person as, “Artificial persons are created by a charter granted by the executive authority in a state or by a special statute passed by the legislature, but of late years also by virtue of general statutes, which prescribe the condition under which voluntary associations may acquire a corporate character”. The above definition clearly indicates the process of granting legal status to public sector. This may be done through either by express statutory declaration as in the case of Life Insurance Corporation of India (LIC) or by fulfillment of legal formalities prescribed by general statute, viz. the creation of government companies by registration under the Indian Companies Act, 1956.

More precisely and simply, public sectors can be defined as a corporate body, created by an Act of legislature, which also defines its power, functions, relationship with the government etc. Usually, it is completely government owned but with its own funds and employees.

There are two methods, which help in the formation or expansion of public sectors. The first is ‘nationalization’ of enterprises belonging to foreign or local capital and the second is building new enterprises with the capital mobilized by the state. Nationalization could be termed as, ‘the establishment of public ownership of the means of production by taking them over from private proprietors or foreign states, and subsequently transferring them to the control of the national government’. The newly independent countries after Second World War, mainly went for nationalizing private owned foreign firms, which were active in
banking, insurance, power, transport sectors the like. The nationalization of these sectors was important due to the fact that, these sectors were of national interest. Another reason, which also appeal was to gain economic independence and thereby eliminate economic backwardness.

**Public Sectors in Different Parts of the World:**

The primary concern of almost all the developing countries of the world is enhancing the economic role of the state and expansion of its influence on the economic life. In several countries of Asia, Africa and Latin America, the state has undertaken the task of mobilizing financial and material resources for the development and exploitation of natural resources, as well as the function of direct industrial management. National economic planning has evolved as an effective weapon in the hands of developing countries, which enables them to turn country’s development purposeful and stable as well as rational utilization of available resources.

Newly liberated countries went for public sectors, as they felt that economic development could not be hastened without state intervention. The degree of state intervention was decided as per the path of the socio-economic development chosen by the country concerned. In some countries the growth of public sectors has been massive while in some others, slow and deliberate.
Africa:

Most of the African countries, which gained independence after the second world war, come under the bracket of developing nations. The major challenge, which still holds significance, is eradication of poverty and strengthening of their economy. In Africa, the shadow of public sector dominates in a greater degree than it does in other parts of the world. Though, it is because of their absolute size, scope, and of course, due to the absence of large-scale companies.

One observer has described the role of public sector in African economy as, "it is no longer adequate to describe the role of public corporations in the economies of developing countries as 'important'; their role can only be accurately described as 'vital'. Public corporations in developing countries now handle most of the important exports, they control the banking system and insurance; they are pioneering industrial as well as commercial and agricultural development; they control important services like electricity, railways, harbours etc.; and more recently, they are grappling with the importation of the more important goods and commodities. Their efficient and successful management is, therefore, of supreme importance to the entire population of Africa. There are continuing and sometimes heated debates all over Africa that their management as well as unplanned and often disastrous experimentation on the scope of their activities.... The continued growth of developing nations in Africa depends to a very significant extent on how efficiently the mushrooming public sector are managed."
Countries like Angola, Tanzania, Zaire, Zambia, South Africa, Ghana etc. have high percentage of public owned companies, whereas in Kenya, Nigeria, Ivory Coast etc. the share of public sectors in the national economy is fairly low.  

Public sector in Sudan was established with the same commitment of national development as anywhere else in the world. Permanent constitution of Sudan, which was adopted in 1973 declares “the public sector.... shall be a pioneer sector and shall lead progress in all fields for the purpose of development, shall be based on public ownership and be subject to people’s control”. This clearly explains the belief of the country in the public sector; as a means for nation building and all-round development.

Europe:

In the western world, it took a long time for the economy to evolve from laissez faire to public enterprises. The communist bloc of Europe wasted no time in transferring the means of production into public ownership, control and management. In fact, public enterprises were a matter of ideological commitment for the communist countries. The idea of public ownership in western Europe gained momentum only during inter war period, when it became evident that the reconstruction of war ravaged economies and the problem of widespread unemployment as well as frequent depression could be met only through state intervention and active participation. It was also felt that key sectors of the economy involving large capital investment, low returns and long gestation periods, as also the public utilities could be better served by the state directly. All these factors paved
the way for the growth of public sectors in the western world. The condition of public sector in some important countries of Europe is discussed below—

**United Kingdom:**

Though few autonomous corporations existed in Great Britain prior to the first world war, but it was only after the war that public corporations concerned with the operation of industries and services came into being. The inter-war period witnessed a boom in Public Corporations, some of them were, 'Electricity Commission (1919), the Forestry Commission (1926), the Race Course Control Board (1928), the London Passenger Transport Board (1933) and the British Overseas Airways Corporation (1939).)

Before the establishment of above-mentioned public enterprises, the Port of London Authority (1908) was established as an autonomous statutory public authority. The phenomenal success of British Broadcasting Corporation (BBC) also helped in the acceptance of the viability of public corporations in Britain.

At present most of the public corporations in Britain have been sold out. There are only few concerns, which are likely to remain under public ownership. These sectors are, British Rail, British Steel, the National Coal Board, the Post Office and London Regional Transport.

A massive programme of privatization was launched after the general elections of 1983. Some of the companies which were sold off completely or in part were—Amersham international, Associated British Ports, British Aerospace, British Telecom,
British Petroleum, Cable & Wireless, Jaguar Cars (part of British Leyland) etc.\textsuperscript{18}

If we look at the companies privatized by the British government, we find that with the privatization of British Petroleum, the government has sold its oil interests. The biggest sale among the above mentioned companies was that of British Telecom. At present, the British government has privatized almost all the sectors, which were providing basic services to the people, i.e. electricity, water, gas etc.

\textbf{France:}

French commitment towards 'laissez-faire' was never strong. As a result, the state's participation in economic life was very evident. France, instead of complete nationalization believed in majority participation from the state. In the closing years of II World War, policy of nationalization was actively pursued, bringing coal mining, gas, electricity, and bank of France as well as a score of other industries under state control.\textsuperscript{19} In the field of petroleum, French government was an active participant in the ownership and management of several enterprises through its Bureau de Petrole (BRP) and the Institute Francais de Petrole (IFP).\textsuperscript{20}

Even during 1980s when some European countries were selling their interests in public enterprises, France witnessed steady growth in the PE's. One of the reasons for this was that, the private sector was so much financially dependent on the state that they were eventually taken over. Another reason was that the managers of profit earning public enterprises, favoured to extend their domain in other sector through acquisition of holdings and
the creation of subsidiaries. To sustain their industrial production, certain public sectors diversified their activities. As a result, they entered into the business of electrical household equipment, beauty products, perfumes, paints and chemicals.

The shares of public sector in the French market have definitely increased since 1982. The PE's have become more market oriented and competitive. To meet the needs of the people in terms of electronics and technologies, the French public sector has exclusively invested in it and has gained a strong foothold in the market.

**Italy:**

Italy, another member of European Union (EU) decided to enter in economic activity after the Great Depression of early thirties. To save the banking system from collapse, the Fascist government under the leadership of Mussolini, established the Industrial Reconstruction Institute in the public sector to take over the industrial assets of the banks so that their liquidity could be restored. The nationalization in Italy gained momentum from 1936, which was continued even after the second world war. The most interesting feature of Italian public sector in the initial stage was that while ownership was transferred to the state, the management remained in private hands as the government of that day, was reluctant to disturb the old management class.

Even now, the public sector is active in providing services in basic sector as well as commercial sectors such as railways, steel plants, chemical factories, mines, banks etc. One of the public sector of Italy, AMGA, which provides services like electricity, gas and water is active in other countries as well.
Throughout Europe, public enterprises, trades actively like commercial organization and are often-in competition with private companies. They extend their activity beyond their original localities. Most of the public enterprises in Europe are active in core group of services, which are described as 'Network Services'. These are water, electricity, waste management, gas, telecom, public transports, ports, airports and postal services.

The positive side of public sectors in Europe is that they behave in the same manner as private companies when confronted with changing market conditions. They enlarge themselves by restructuring through mergers, takeovers and forming consortia. They are no more passive agents in this process, they participate actively in the bid to take over other companies, private and public. The standards of public enterprises have improved in Europe due to EU policies which emphasizes:

1. The liberalization of markets in 'network-services' such as telecom and electricity. This means that if they are to stay in these areas, they must engage themselves in competition with other companies.

2. Procurement regulations that require continent wide advertising of contracts and franchises, and crucially do not discriminate between publicly and privately owned companies.

The other EU policies have stimulated the growth and development of public enterprises. The policy of 'liberalization' instead of proving hindrance has opened new vista for public sectors. Today’s public enterprises are operating beyond their
national borders, for example, the French state owned EDF\textsuperscript{27} has expanded worldwide in electricity.

Some major public enterprises of Europe and their area of activity are listed in the table below.

<table>
<thead>
<tr>
<th>Company</th>
<th>Country</th>
<th>Activity</th>
</tr>
</thead>
<tbody>
<tr>
<td>AMGA</td>
<td>Italy</td>
<td>Electricity, gas, water</td>
</tr>
<tr>
<td>WIENER · STADTWERKE</td>
<td>Austria</td>
<td>Energy, transport, funerals</td>
</tr>
<tr>
<td>BERLINER WASSIBETRIEBE</td>
<td>Germany</td>
<td>Water</td>
</tr>
<tr>
<td>ETCOLOGNE</td>
<td>Germany</td>
<td>Telecom</td>
</tr>
<tr>
<td>CITYCOM</td>
<td>Austria</td>
<td>Cable</td>
</tr>
<tr>
<td>RATP</td>
<td>France</td>
<td>Public transport</td>
</tr>
<tr>
<td>KOMMUNEDATA</td>
<td>Denmark</td>
<td>Information technology</td>
</tr>
<tr>
<td>STOCKHOLM VATTEN</td>
<td>Sweden</td>
<td>Water</td>
</tr>
<tr>
<td>DEBRECEN WATER</td>
<td>Hungry</td>
<td>Water</td>
</tr>
<tr>
<td>EDF</td>
<td>France</td>
<td>Electricity, water, waste management</td>
</tr>
<tr>
<td>IVO</td>
<td>Finland</td>
<td>Electricity</td>
</tr>
<tr>
<td>VATENFALL</td>
<td>Sweden</td>
<td>Electricity</td>
</tr>
</tbody>
</table>

Source: PSIRU Report, February 1998
Latin America:

The long history of political independence of the Latin American countries have given rise to the establishment of public sector, which are different from other countries. The late nineteenth century and early twentieth century witnessed dynamic growth in exports in most of the South American countries. The infrastructure built during that period, concentrated chiefly on international trade. This gave way to the control of vital sectors into the hands of foreigners. Though in few countries government also took an initiative in exploiting the natural resources i.e. Y.P.F. in Argentina, PETROBRAS and CVRD in Brazil.\textsuperscript{28}

Initially public sectors were the result of nationalization of foreign enterprises. Later, peaceful purchase of enterprises providing infrastructure services resulted in the growth of public sectors. Post war crisis in Britain also led to the nationalization of British enterprises active in the field of rail transport, electrical energy, ports etc.\textsuperscript{29} As a result, most of the public sectors heavily concentrated in the fields of natural resources and infrastructure with little interest in manufacturing. Interest in manufacturing arose only in the sixties and seventies of the last century and that too because of the fact that private investors showed little interest in the fields of steel, paper, basic chemicals etc. The second reason was that the national private sector frequently failed, which prompted the state to intervene. Perseverance of the government to provide jobs and social peace were also the reasons for the establishment of public sector.
USA and Japan:

Though USA and Japan are the practitioners of capitalist economy, nevertheless the states, at times, have invested in the economic activities. During the first World War several corporations were established by the Congress, for example, War Finance Corporation, the Emergency Fleet Corporation, the United States Grain Corporation, the United States Housing Corporation, the United States Sugar Equalization Board and the United States Spruce Production Corporation. Though, most of these corporations were liquidated in the post-war period.

The great depression of early thirties forced the government once again to take interest in the economic field. The New Deal of President Roosevelt saw the entry of government in the economic activities in even a bigger way. The renewed interest of the federal government was in economic and industrial management. This upsurge witnessed the establishment of the most important public corporation in USA i.e., the Tennessee Valley Corporation.

In Japan, during the early years of economic development in the Meiji period, the government played an active role in providing capital as well as allocation and management of resources.

The Japanese government not only played an active role in expanding resource availability but it exercised extensive control over the direction of investment. The state directed investment by establishing publicly owned enterprises, by subsidizing private investment and generating returns, as well as through its extensive purchasing operations for military and civilian account. In the decade after 1868, the state, entirely apart from the provision of overhead facilities, built and operated such diversified enterprises...
as coal, copper and gold mines, iron foundries, ship-building, machine shops, model factories in cement, paper, glass, sulphuric acid, cotton spinning and many others.\(^\text{34}\)

In the above discussion, we saw that public sectors have helped many countries in combating one of the worst economic depressions of the last century. It not only helped capitalist or socialist countries in strengthening their economy but even the newly independent countries of Africa, Asia, and Latin America etc. In fact, in the third world countries, it proved as the backbone of their economy. We also saw that most of the countries in Europe are opting for privatization but still there is many a public sector, which are giving stiff competition to the private companies. They are diversifying themselves as well as bidding for tenders in different parts of the world. In a nutshell, it can be safely assumed that the public sectors can survive in today’s scenario only when they are ready to revamp themselves and use the same techniques and tactics practiced by the private sector.

The history of public sector in different countries have also proved that they have been the driving force behind their all round development. It has helped in building the economy from scratch. Improvement in living standards, increase in per capita income, self sufficiency etc. All these dreams of developing countries were realized with the help of public sector.

*Origin in India:*

The concept of public enterprises has been present in the Indian economy even before the advent of independence. When India was ruled by the Kings and princess, it was recognized as the duty of the state to run productive undertakings and provide
services that may be regarded as important or essential for the prosperity of the community. To be more precise, a ruler was judged as good or bad, chiefly keeping in mind the welfare activities he carried out for the masses. The scope of state activity in economic affairs extended in almost every conceivable item that could help in promoting the welfare of the people, add to the prosperity of the community and strengthen the state. The construction of wells, dams, reservoirs, irrigation channels, ghats, fortresses, tanks, roads etc. were the most common activities undertaken by the rulers. Apart from these activities, relief works were undertaken during the time of distress.

Long before the theory of state intervention was expounded by the political theorist of the west, India seems to have anticipated them. Before the British arrived in India and took control of it the industrial development and general prosperity of the country was at par with the most prosperous and industrially advanced nations of the world. The reason behind all this was the patronage extended by the royal court of the times. However, the state participation was not in the same league as it is understood today, but the governmental protection and patronage was there for everybody to see. Chola kings, constructed several dams and bridges across the rivers in the 11th and 12th centuries. Apart from this, there was economic development undertaken by the state, which was aimed at improving the life of the community.35

The government entered the business, as the political theorists and the economists defined it, only during the later part of the eighteenth century. Lord Clive introduced postal system in India in 1766 and this system was further extended by Lord Dalhousie in 1774, this was later consolidated and placed under
the Director-General. The year 1851 saw the opening of the first telegraph line between Calcutta and Diamond Harbor. When Railway was introduced in India, it indicated the active participation of British government in economic activities and development of the country in the true sense. In the early days of Indian railways, it was constructed as well as managed by private companies. The reason behind early introduction of railways in India was military, political as well as economic farsightedness. Though, the railway traction in British, developed only between 1825 and 1830 but soon after in 1845, the construction of three short lines from Calcutta to Raniganj (East India Railway), Bombay to Kalyan (Great Indian Peninsular Railway) and Madras to Arkonan (Madras Railway) was started on an experimental basis. Later it was decided to carry a scheme of railway extension connecting all the Presidencies with each other and inland regions with their ports. This task was entrusted to eight private companies incorporated in Britain. Though, the private companies were carrying out the task of construction but the basic concern was to ensure the lines of communication for the British rule in India. Both the railways as well as early trunk roads were of strategic importance; hence, the government exercised thoroughgoing control both in the construction and in the maintenance and administration of railways.36

When the East India Company took control of India and spread its tentacles, they ruled like an invader, never committing itself for the economic progress of India or its people. Even the tanks, canals and the roads that were constructed by the Indian Kings were allowed to fall into disrepair. The policy of East India Company rulers can be aptly summed up in the words of Sir
Arthur, when he says, "public work have been almost entirely neglected throughout India. The motto hitherto has been do nothing, have nothing done, let nobody do anything. Bear any loss, let the people die of famine, let hundreds of lakhs be lost in revenue for want of water, or roads, rather than do anything."

The British rulers started taking interests in ameliorating the conditions of Indians, only at the beginning of the nineteenth century. Now the attention was paid towards the restoration of canals and undertaking of a few new works. This change of heart was possible, only because the condition of Indian people was becoming too glaring, which attracted the attention of numerous British observers who toured India during that period, as well as the British statesman. This compelled the East India Company rulers to change their approach from outright and blatant plunder of wealth from India to undertaking of certain steps for the welfare of the masses. Due to their business mindset, the East India Company directors, undertook only those works, which would have guaranteed enhanced revenue in return rather than the benefit it would afford to the people and the economy.

The first war of Indian independence prompted the British government to step up the developmental works and transfer of power from East India Company to British crown. This also resulted in increasing the gulf between Indian and British business interests. It also signalled a more organized and vigorous penetration and control over the Indian economy by the British manufacturing and banking groups with the help of the consolidated political rule of the crown. In fact, the British set for itself two important goals: a) strengthening of the security of its rule and b) facilitating the business activities of the British
manufacturers, traders and investors. To fulfill these aims rapid development of closer overseas communication between India and Britain and spreading of the administrative network to the farthest and most interior parts of the country was required. The state began to take more active steps for building roads, railways, telegraphic communication, developing of ports and docks, and constructing and maintaining of irrigation works and public buildings etc. Not only this Government also extended its help for educational activity, agricultural research; and improving and expanding the production and sales of certain commodities like cotton, lac etc. As we saw in the initial introduction of railway construction, the government entered into indirect partnership with private sectors by way of assistance, a new form of 'public corporation' was added such as the Port Trusts and Commodity Boards.

The laying of railway lines, which was initially started by the government with the help of private companies gained momentum after the first war of independence. Now the government decided to directly undertake the construction of railways. The state guaranteed systems available to the private companies were completely withdrawn by 1870 but it was later reintroduced to hasten the railway construction in 1880. The enormity of the project could be judged by the fact that by 1870-71, some 5000 miles of railways had been built; this length touched the mark of 7500 miles by 1878. This mileage doubled and crossed 16000 miles between 1880 and 1890 and by 1900, it reached about 25000 miles. This linked the major ports and cities of India. Later around 17000 miles were added to between 1900-1931 to take the total length to 42000 miles. Later, the state
bought several old guaranteed lines such as the East India Railway in 1880, East Bengal Railway 1884, the Sindh, Punjab and Delhi company's lines in 1885-86, the Oudh and Rohilkhand Railway in 1888, the South Indian Railway in 1890, and the Great Indian Peninsular Railway in 1900. Though, the government took over most of the Private companies, still there were few who were interested with the task of constructing Railways in newer regions. Even the government kept on participating directly in the construction.

Until 1891 the total expenditure on the construction of railways could be obtained from the table given:

<table>
<thead>
<tr>
<th>Items</th>
<th>Expenditure in Tens of rupees</th>
<th>Percentage</th>
</tr>
</thead>
<tbody>
<tr>
<td>State Railways made by state</td>
<td>133,546,074</td>
<td>58.7</td>
</tr>
<tr>
<td>State Railways made by companies</td>
<td>28,113,763</td>
<td>12.3</td>
</tr>
<tr>
<td>Guaranteed Companies</td>
<td>49,205,868</td>
<td>21.6</td>
</tr>
<tr>
<td>Assisted Companies</td>
<td>5,607,036</td>
<td>2.5</td>
</tr>
<tr>
<td>Native State Railways</td>
<td>8,600,251</td>
<td>3.8</td>
</tr>
<tr>
<td>Portuguese and French Lines</td>
<td>1,689,068</td>
<td>0.7</td>
</tr>
<tr>
<td>Railways Surveys, Collieries &amp; C.</td>
<td>907,705</td>
<td>0.4</td>
</tr>
<tr>
<td>TOTAL</td>
<td>227,669,765</td>
<td>100.0</td>
</tr>
</tbody>
</table>

Here one thing to be observed is that, though the British Raj constructed the railway lines to tighten its grip on the country and exploit the country to the limit but the linking of several big cities with the interiors of the country also helped in the revival of
economy and growth in business. It helped in the easier mobility of people and exchange of ideas between the people of different regions. This public investment in the guise of railways, helped in turning the economy of many parts of the country from agrarian to industrial. It opened the door for the establishment of new industries, as it was now easy to transport the raw materials. The exploitation and the shipment of natural resources became easier.

After the railways, the British took interests in the canals and irrigation channels. As said earlier the East India Company did nothing to upgrade the canals and reservoirs built by the Indian kings, they did not even try to repair the existing facilities. Lord Hastings took the responsibility of restoring the West Jumna Canal, which was built by the Mughal rulers. In fact, Lord Hastings took interest in the project not because he was overwhelmed by the plight of Indian farmers, rather than he was convinced that the distribution of water and the revenue generated by it would bring huge revenue to the company. This belief of Lord Hastings led to the restoration of West Jumna Canal in the second and third decades of nineteenth century. The successful restoration of Jumna Canals, encouraged the East India Company to work for Ganges Canal. In the same way, old irrigation works of Hindu period in the southern part of India were renovated and improved, as well as some new projects were undertaken.

The policy of East India Company was later pursued by the British Crown after the transfer of power. The British Government extended this canal project to almost every part of the country. The government liberally invested for this project. This could be judged from the fact that the investment in the canal project increased from twelve million sterling in 1880 to twenty four
million by 1901-02\textsuperscript{43}. This investment proved fruitful as previously unyielding land started producing tonnes of grains. The areas benefiting from this project were the areas falling under Bengal, Agra, Oudh, Punjab, Bombay and Madras presidencies. Although, the British government undertook several irrigation projects but the Famine commissions or the Scott-Moncrieff Commission on Irrigation were not satisfied with it, and wanted the government to extend the irrigation facilities. However, the government was very reluctant. The Commission even suggested the setting up of a Central Board to watch and report progresses in irrigation works, as well as, for the construction of new works, even though not ‘directly remunerative’\textsuperscript{44}. This would have directly helped in reducing the curse of famine as well as would have made the cultivation of new fields possible.

Apart from Railways and Irrigation other major investments by British government in the public sector, were in the field of Posts and Telegraph, steam navigation, roads, ordnance factories etc. The introduction of steam navigation in India was the result of special interest taken by Lord Bentick, the British Viceroy and the pressure from the business communities of Bombay and Calcutta. The first Ordnance factory in India was established by the British government in 1834.\textsuperscript{45} Ordnance factories in India were the monopolies of the government. The reasons behind that was the strategic importance of the product and also because of the fact that the government being colonial, could not trust anybody in India to make guns and rifles or gun carriages or the vital parts for the maintenance and spares required by the army.

Other pre-independence landmarks in public sector, which took India on the road of development as well as prosperity were,
setting up of First All India Radio Broadcasting station at Madras in 1924, electrification of short stretch of local railways in Bombay in 1925; Radio-telephone service between India and England in 1939 at the start of second World War; the nationalization in 1942 of the privately owned Hindustan Aircraft Company as part of the war effort; the nationalization of telephone systems in Calcutta, Madras and Bombay in 1943; the nationalization of all the railways (several of which had been owned by private companies) in 1944; and the nationalization in the overseas telecommunication service. Like the British government, the Indian states of Mysore, Travancore and Hyderabad also tried their hands in developing manufacturing industries under state patronage but they were not a success or financially sustainable.

Public Sector Undertakings in India in the post Independence period:

Public Sector Undertakings (PSUs) were adopted as a tool for the overall development of the nation, after intensive debate, which started even before India achieved independence. The struggle for freedom as well as the concern for sound economic development prompted our freedom fighters to adopt state intervention in economic activities. A National Planning Committee was appointed by Netaji Subhash Chandra Bose, under the chairmanship of Pandit Jawaharlal Nehru, to find out the feasibility of state enterprises. The committee held several meetings and came to the conclusion that “State shall control key industries and services, mineral resources, railways, water ways, shipping and other means of transport... the general indication of
congress policy is of vital importance and applies not only to public utilities but to large scale enterprises which are likely to be of monopolistic character. A legitimate extension of the principle would be to apply it to all large scale enterprises. It is clear our plan must proceed on the basis and even if the state does not own such enterprises it must regulate and control them in public interest.

Even the flamboyant leader, Subhash Chandra Bose, was of the view that, "Our principal problem will be to find as how to eradicate poverty. That will require a radical reform of our land system, including abolition of landlordism. Agriculture indebtedness will have to be liquidated and provision made for cheap credit for the rural population. An extension of co-operative movement will be necessary for the benefit of the producers and the consumers. Agriculture will have to be put on a scientific basis with a view to increasing the yield from the land. To solve the economic problems, agricultural improvement will not be enough. A comprehensive scheme of industrial development under state ownership and state control will be indispensable. A new industrial system will have to be built up in place of the old one which has collapsed as a result of mass production abroad and an alien rule at home."

The above statements made by Pandit Jawaharlal Nehru and Subhash Chandra Bose respectively, clearly show the inclination and faith of these great leaders in state ownership for the development of the nation. Keeping these in mind, when India finally was able to break away from colonial clutches, started striving to make state ownership as the backbone of the economy. At the time of independence, industry, though small, had at least
made its beginning and it was well served by an extensive network of railway system. Another plus point was the availability of vast reservoir of manpower- to do the work of rebuilding the nation. This manpower, instead of being a burden could turn into a resource, if used with a touch of imagination.

The task was not merely to touch any fixed or static point, such as improvement in the living standards, but of generating a dynamism in the economy which would lift it to continually higher levels of material well being and of intellectual and cultural achievements. Production was insufficient even for satisfying the minimum essential needs of the population, not only this, large parts of the country were underdeveloped even in relation to the country and there were sizeable population which were almost untouched by the progressive ideas and techniques of that period.

The reason that public sector occupies an important role in the Indian economy could be traced in the preamble and the Directive Principles of the Indian constitution. The Directive Principles of the state policy state that, “the state shall strive to promote the welfare of the people by securing and protecting as effectively as it may a social order in which justice-social, economic and political shall inform all the institutions of economic life.” The government of India’s interest in public sector was very well expressed in Industrial policies and setting up of planning commission in the very first decade of independence. The resolution emphasized the importance of securing a continuous increase in production and its equitable distribution as well as noted that the state must play a progressively active role in the development of industries. This thinking of the government was cemented after the adoption of Socialistic Pattern of Society
as the objective of its social and economic policy by the Indian parliament in December 1954.\textsuperscript{52}

By 'socialistic pattern of society', the emphasis was on determining the lines of advancement, that must not be private profit, but social gain, and the pattern of development and the structure of socio-economic relations should result not only in appreciable increases in national income and employment but also in greater equality in incomes and wealth. Major decisions regarding production, distribution, consumption and investment and in fact, all significant socio-economic relationships must be made by agencies informed by social purposes. The benefits of economic development must address increasingly to the relatively less privileged classes of society, and there should be an attempt at reducing the concentration of incomes, wealth and economic power. The essence of 'socialistic pattern of society' perceived by our statesmen, could be described in one sentence—the idea was to realize small man, who enjoyed little opportunity earlier, to participate in the immense possibility of growth through organized effort and raise his standard of living for himself and increased prosperity for the society.

Later, when Industrial Policy Resolution of 1956, was announced it conceded that, "the adoption of socialistic pattern of society as the national objective, as well as the need for planned and rapid development, require that all industries of basic and strategic importance, or in the nature of public utility services, should be in the public sector. Other industries, which are essential and require investment on a scale, which only the state, in the present circumstances, could provide, have also to be in the public sector. The state has, therefore, to assume direct
responsibility for the future development of industries over wider areas." The finer points of industrial policy resolution of 1956, has already been discussed in the first chapter. In continuance to the above industrial policy, the government gave higher priority to industrialization—both heavy and basic, in the second five-year plan. However, at the commencement of first five-year plan, there were only five\(^54\) public sector undertakings, with a total investment of Rs. twenty-nine crores\(^55\) only. The second five-year plan witnessed the enthusiasm of the government in undertaking projects for the development of basic as well as heavy industries. This resulted in increasing establishment of industries in the field of steel, heavy machine building, metallurgy, non ferrous metals, coal mines, telephones, cables and teleprinters, fertilizers, heavy electrical and similar new and basic industries.\(^56\) When the second five-year commenced, the total investments in the public sector undertaking was Rs. Eighty-one crores and the number of enterprises rose from five in the first plan to twenty-one.\(^58\) At the end of the second plan period there was substantial increase in the investment as well as the number of public enterprises. The break up of public enterprises investment under different plans as well as the number of units are given below.
Growth of Investment

<table>
<thead>
<tr>
<th>Period</th>
<th>Total Investment (Rs. Crore)</th>
<th>Number of Enterprises</th>
</tr>
</thead>
<tbody>
<tr>
<td>As on 1.4.1951</td>
<td>29</td>
<td>5</td>
</tr>
<tr>
<td>As on 1.4.1956</td>
<td>81</td>
<td>21</td>
</tr>
<tr>
<td>As on 1.4.1961</td>
<td>948</td>
<td>47</td>
</tr>
<tr>
<td>As on 31.3.1966</td>
<td>2410</td>
<td>73</td>
</tr>
<tr>
<td>As on 1.4.1969</td>
<td>3897</td>
<td>84</td>
</tr>
<tr>
<td>As on 1.4.1974</td>
<td>6237</td>
<td>122</td>
</tr>
<tr>
<td>As on 31.3.1979</td>
<td>15534</td>
<td>169</td>
</tr>
<tr>
<td>As on 1.4.1980</td>
<td>18150</td>
<td>179</td>
</tr>
<tr>
<td>As on 1.4.1985</td>
<td>42673</td>
<td>215</td>
</tr>
<tr>
<td>As on 31.3.1990</td>
<td>99329</td>
<td>244</td>
</tr>
<tr>
<td>As on 31.3.1991</td>
<td>113234</td>
<td>237</td>
</tr>
</tbody>
</table>

**Source:** Government of India, Bureau Of Public Enterprises, Public Enterprises Survey, 1991-92 (Vol 1).

The growth of investment in public sectors in the above table have been shown only up to 31.3.1991. The investment made by government of India after the above period will be discussed later in this chapter. As for now, we see in the table the investment in public sector in India has been unprecedented and phenomenal. The investment has never decreased as compared to the previous plan, as well as the number of public sector undertakings have only increased in each plan. If we take a close look at the table, we find that the investment since April 1980 has increased by leaps and bounds.
In the table given below, share of public sector undertakings from the first plan to eighth plan is given.

**Public Sector Outlays during the Plan Period**

(Rs. Crore)

<table>
<thead>
<tr>
<th>Period</th>
<th>Total outlays</th>
<th>Public sector</th>
<th>%age share</th>
</tr>
</thead>
<tbody>
<tr>
<td>First plan</td>
<td>3360</td>
<td>1559</td>
<td>46.40%</td>
</tr>
<tr>
<td>Second-plan</td>
<td>6831</td>
<td>3730</td>
<td>54.60%</td>
</tr>
<tr>
<td>Third plan</td>
<td>11280</td>
<td>7185</td>
<td>63.70%</td>
</tr>
<tr>
<td>Annual plans</td>
<td>16089</td>
<td>6571</td>
<td>40.84%</td>
</tr>
<tr>
<td>Fourth plan</td>
<td>22635</td>
<td>13649</td>
<td>60.30%</td>
</tr>
<tr>
<td>Fifth plan</td>
<td>47561</td>
<td>31393</td>
<td>66.00%</td>
</tr>
<tr>
<td>Sixth plan</td>
<td>172210</td>
<td>97500</td>
<td>56.60%</td>
</tr>
<tr>
<td>Seventh plan</td>
<td>348148</td>
<td>110000</td>
<td>51.04%</td>
</tr>
<tr>
<td>Eighth plan</td>
<td>871100</td>
<td>434100</td>
<td>49.80%</td>
</tr>
</tbody>
</table>


In the above table we find that the outlay of public sector has increased from Rs. 1559 crores to Rs. 4,34,100 crores during the eighth plan and the percentage share has increased from 46.40% to 49.80%. In fact, the share of public sector has been on up right from the very first plan. The only period, which witnessed minor decrease, has been during the annual plans between 1966-69.

It is not that, the public sectors have only entertained investment from the government without worrying to pay it back. In fact, public sector undertakings have made significant contribution in improving and increasing the resources of the central government. This it has done through dividends, corporate taxes, excise duty and customs and other duties. This has helped the government in mobilization of funds for financing the needs of
further development. The table below shows the contribution of public sector undertakings to the central exchequer under different heads from sixth-plan to 1990-91. The contribution is showing an upward trend from the very beginning.

**Contribution to the Central Exchequer**

(Rs. In crores)

<table>
<thead>
<tr>
<th>Year</th>
<th>Dividend</th>
<th>Corporate tax provision</th>
<th>Excise duty</th>
<th>Customs duty</th>
<th>Other duties</th>
<th>Total</th>
</tr>
</thead>
<tbody>
<tr>
<td>VI plan period</td>
<td>617</td>
<td>4159</td>
<td>14194</td>
<td>6845</td>
<td>1755</td>
<td>27570</td>
</tr>
<tr>
<td>(1980-85)</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>VII plan period</td>
<td>1985-86</td>
<td>191</td>
<td>1000</td>
<td>4117</td>
<td>3853</td>
<td>9061</td>
</tr>
<tr>
<td></td>
<td>1986-87</td>
<td>297</td>
<td>1338</td>
<td>5545</td>
<td>3006</td>
<td>12084</td>
</tr>
<tr>
<td></td>
<td>1987-88</td>
<td>320</td>
<td>1212</td>
<td>6142</td>
<td>5287</td>
<td>15132</td>
</tr>
<tr>
<td></td>
<td>1988-89</td>
<td>353</td>
<td>1415</td>
<td>6649</td>
<td>5602</td>
<td>16352</td>
</tr>
<tr>
<td></td>
<td>1989-90</td>
<td>323</td>
<td>1444</td>
<td>8598</td>
<td>5773</td>
<td>16264</td>
</tr>
<tr>
<td>Total for VII plan</td>
<td>1484</td>
<td>6409</td>
<td>31051</td>
<td>22821</td>
<td>9128</td>
<td>70875</td>
</tr>
<tr>
<td>1990-91</td>
<td>365</td>
<td>1300</td>
<td>9075</td>
<td>7066</td>
<td>1660</td>
<td>19466</td>
</tr>
</tbody>
</table>


At the time of independence, employment was a major problem of independent India. There was a need to expand employment opportunity, as it was of vital importance for both poverty alleviation and effective utilization of human resources for faster development of the country. The government was well aware that employment opportunities and investment plan could not be viewed separately. As a result, there was a need for diversification of industrial pattern and a policy determining the location of industries, promote geographical and occupational mobility of labour and provision of adequate training facilities. If we include
employment and social welfare in deciding the contribution of public sector undertakings (PSUs) towards national development, then without doubt, it has done exceedingly well. It has been able to contribute significantly in improving the overall employment situation in the country and has emerged as the model employer in terms of providing better wages and other facilities as compared to the private sector.

In several cases, PSUs are situated far away from a city. In these cases, keeping the day-to-day need of its employees, it has spent considerably in developing townships around them, complete with schools, hospitals, shopping complexes etc. Not only this, substantial amount is spent annually on the administrative and maintenance of these townships. Apart from this, the residents of these townships also enjoy medical amenities, subsidized canteen and educational facilities.

In the table below number of employees in public sectors are given.

(Lakh persons as on 31st March)

<table>
<thead>
<tr>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>Central government</td>
<td>31.95</td>
<td>33.95</td>
<td>33.97</td>
<td>34.0</td>
</tr>
<tr>
<td>State governments</td>
<td>56.76</td>
<td>68.29</td>
<td>69.79</td>
<td>71.12</td>
</tr>
<tr>
<td>Quasi-governments</td>
<td>45.76</td>
<td>59.99</td>
<td>61.73</td>
<td>62.22</td>
</tr>
<tr>
<td>Local bodies</td>
<td>20.37</td>
<td>22.38</td>
<td>22.23</td>
<td>23.13</td>
</tr>
<tr>
<td>Total</td>
<td>154.84</td>
<td>184.61</td>
<td>187.72</td>
<td>190.57</td>
</tr>
</tbody>
</table>

It is clear from the table that, there has been a continuous increase in the number of employees in public sectors. As compared to PSUs managed by Central Government, more employees are with public sectors managed by state governments. These sectors (owned by State governments) have shown consistent increase in the number of employees as compared to the previous year. One thing worth mentioning here is that, a large number of employees in public sector are in the community, social and personal services. Employment in sectors like trade, construction, financial services, transport, storage and communication has grown faster than the average and the share of these sectors in the total employment figures has been very significant.

Performance of Public Sector Undertakings:

We know that the rapid growth of PSUs in India is consistent with the dream and vision of Jawaharlal Nehru. All the economic policy resolutions of Indian National Congress in the pre-independence period, where the handicrafts of Nehru and bore the imprint of Nehru’s growing belief and faith in socialism which envisaged such an economic system based on industrialization in which the motive force would be “social service and not profit” Nehru, through industrial policies and resolutions, facilitated the growth of public sector as well as provided infrastructural and financial support to the private sector to play a lesser role in the Indian economy. Public sector grew steadily under the governmental patronage. This helped in bringing self-sufficiency in food, and establishment of industrial base for the economy to flourish. However, even after these significant contributions made
by the public sector, we find that the economic growth rate is not at the desired pace. When we take a closer look at the performance of PSUs, we find that its growth rate is slow and is not bringing desired returns to the capital invested. Instead of becoming a ‘no profit - no loss’ venture as dreamed by Jawaharlal Nehru, it is proving to be a white elephant to the exchequer. Profit performance is the yardstick through which we can measure the viability of public sector from a commercial point of view. In the table below a detailed profile of all the PSUs up to 1991 is given, which points out the total number of public sector enterprises, capital employed, turn over, gross profit etc.

**Profile of Public Sector Undertakings**

<table>
<thead>
<tr>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>No. of PSUs running</td>
<td>163</td>
<td>201</td>
<td>207</td>
<td>201</td>
<td>214</td>
<td>221</td>
<td>226</td>
<td>233</td>
<td>236</td>
</tr>
<tr>
<td>Capital employed (Rs. Crores)</td>
<td>18207</td>
<td>29851</td>
<td>36382</td>
<td>42965</td>
<td>51835</td>
<td>55554</td>
<td>67626</td>
<td>84869</td>
<td>101797</td>
</tr>
<tr>
<td>Turnover (Rs. Crore)</td>
<td>28635</td>
<td>47272</td>
<td>54784</td>
<td>62360</td>
<td>69088</td>
<td>81271</td>
<td>93137</td>
<td>106069</td>
<td>118355</td>
</tr>
<tr>
<td>Gross profit before interest and tax (Rs. crore)</td>
<td>1418</td>
<td>3565</td>
<td>4628</td>
<td>5287</td>
<td>6521</td>
<td>6984</td>
<td>8572</td>
<td>10622</td>
<td>11359</td>
</tr>
<tr>
<td>Interest (Rs. Crore)</td>
<td>1399</td>
<td>2086</td>
<td>2529</td>
<td>3115</td>
<td>3420</td>
<td>3595</td>
<td>4167</td>
<td>5329</td>
<td>7539</td>
</tr>
<tr>
<td>Net profit before tax (Rs. Crore)</td>
<td>19</td>
<td>1480</td>
<td>2099</td>
<td>2172</td>
<td>3101</td>
<td>3389</td>
<td>4405</td>
<td>5293</td>
<td>3820</td>
</tr>
<tr>
<td>Tax (Rs. Crore)</td>
<td>222</td>
<td>1239</td>
<td>1190</td>
<td>1000</td>
<td>1330</td>
<td>1329</td>
<td>1411</td>
<td>1504</td>
<td>1452</td>
</tr>
<tr>
<td>Net profit after tax (Rs. Crore)</td>
<td>-203</td>
<td>240</td>
<td>909</td>
<td>1172</td>
<td>1771</td>
<td>2060</td>
<td>2994</td>
<td>3789</td>
<td>2368</td>
</tr>
<tr>
<td>---</td>
<td>---</td>
<td>---</td>
<td>---</td>
<td>---</td>
<td>---</td>
<td>---</td>
<td>---</td>
<td>---</td>
<td>---</td>
</tr>
<tr>
<td>Net profit (after tax) to capital employed (percent)</td>
<td>-1.1</td>
<td>0.8</td>
<td>2.5</td>
<td>2.7</td>
<td>3.4</td>
<td>3.7</td>
<td>4.4</td>
<td>4.5</td>
<td>2.3</td>
</tr>
</tbody>
</table>


In the above table, we find that there has been a consistent increase in the profit and turnover of PSUs. From the dismal return to the capital employed in 1980-81, it earned a remarkable profit in 1990-91. Though, the return on the capital employed, in terms of percentage has never touched the magic figure of five percent but the showing has been remarkably good as compared to the early eighties. Though, in 1990-91, it again slowed down, but this could be ignored, as the general health of Indian economy was not good. We also find in the table that the investment has increased manifold since 1980-81. However, there was an increase in the capital employed but not much of an upward movement in terms of profits. It is worth mentioning here that not all the public sectors showed profit on the capital employed. There were several undertakings that witnessed continuous losses and showed a negative return on the capital employed. In the table given below, a list of top ten PSUs are given as in 1990-91.
Top Ten Profit Making Enterprises:

<table>
<thead>
<tr>
<th>S. No.</th>
<th>Name of the enterprise</th>
<th>Pre-tax profit</th>
<th>%Share</th>
</tr>
</thead>
<tbody>
<tr>
<td>1.</td>
<td>Oil And Natural Gas Commission</td>
<td>1099.71</td>
<td>15.98</td>
</tr>
<tr>
<td>2.</td>
<td>Indian Oil Corporation Ltd.</td>
<td>907.04</td>
<td>13.18</td>
</tr>
<tr>
<td>3.</td>
<td>National Thermal Power Corporation Ltd.</td>
<td>700.95</td>
<td>10.18</td>
</tr>
<tr>
<td>4.</td>
<td>Mahanagar Telephone Nigam Ltd.</td>
<td>408.42</td>
<td>5.93</td>
</tr>
<tr>
<td>5.</td>
<td>Steel Authority of India Ltd.</td>
<td>248.26</td>
<td>3.61</td>
</tr>
<tr>
<td>7.</td>
<td>Hindustan Petroleum Corporation Ltd.</td>
<td>201.29</td>
<td>2.93</td>
</tr>
<tr>
<td>8.</td>
<td>Indian Railway Finance Corporation Ltd.</td>
<td>114.04</td>
<td>1.66</td>
</tr>
<tr>
<td>9.</td>
<td>Shipping Corporation of India Ltd.</td>
<td>95.25</td>
<td>1.38</td>
</tr>
<tr>
<td>10.</td>
<td>Nevyeli Lignite Corporation Ltd.</td>
<td>95.24</td>
<td>1.38</td>
</tr>
<tr>
<td></td>
<td>Total</td>
<td>4085.75</td>
<td>59.36</td>
</tr>
<tr>
<td></td>
<td>Total Pre Tax Profit of Profit Making Enterprises</td>
<td>6882.91</td>
<td>100.00</td>
</tr>
</tbody>
</table>


In the above table, we see that the top ten profit making enterprises have contributed up to 59.36% of the total profit earned. Among these profit-making undertakings, we find that around half of them are from the oil sector and their share is much more than other undertakings. The only undertaking which stands somewhere near the oil sector is National Thermal Power Corporation with total contribution of Rs. 700.95 Crores. The
contribution of other profit earning public sectors can be well imagined from the fact that in the top ten public enterprises the minimum contribution is 1.38%. It is not important as to how much they gave in return, the more important thing is that they did not prove to be a burden on the exchequer and did not turn themselves into a continuous drain on the coffer. When we talk of profit earning enterprises, it is equally desirable to discuss the loss making units too. The top ten-loss making units and their overall contribution to the losses incurred are given in the table below.

**Top Ten Loss Making Enterprises:**

(Rs. in crore)

<table>
<thead>
<tr>
<th>Sl. No.</th>
<th>Name of enterprise</th>
<th>Net losses</th>
<th>% age share</th>
</tr>
</thead>
<tbody>
<tr>
<td>1</td>
<td>Rashtriya Ispat Nigam Limited</td>
<td>477.55</td>
<td>15.59</td>
</tr>
<tr>
<td>2</td>
<td>Hindustan Fertilizer Corporation limited</td>
<td>231.45</td>
<td>7.55</td>
</tr>
<tr>
<td>3</td>
<td>Delhi Transport Corporation</td>
<td>197.48</td>
<td>6.45</td>
</tr>
<tr>
<td>4</td>
<td>Fertilizer Corporation of India Limited</td>
<td>168.35</td>
<td>5.50</td>
</tr>
<tr>
<td>5</td>
<td>Exports Credit Guarantee Corporation Ltd.</td>
<td>140.73</td>
<td>4.59</td>
</tr>
<tr>
<td>6</td>
<td>Indian Iron and Steel Company Limited</td>
<td>133.55</td>
<td>4.36</td>
</tr>
<tr>
<td>7</td>
<td>Heavy Engineering Corporation Limited</td>
<td>99.51</td>
<td>3.25</td>
</tr>
<tr>
<td>8</td>
<td>Bharat Coaking Coal Limited</td>
<td>96.27</td>
<td>3.14</td>
</tr>
<tr>
<td>9</td>
<td>Western Coal Fields Limited</td>
<td>95.40</td>
<td>3.11</td>
</tr>
<tr>
<td>10</td>
<td>Indian Drugs and Pharmaceuticals Limited</td>
<td>88.26</td>
<td>2.88</td>
</tr>
<tr>
<td></td>
<td>Total</td>
<td>1728.55</td>
<td>56.42</td>
</tr>
<tr>
<td></td>
<td>Total Loss by Loss making Enterprises</td>
<td>3063.68</td>
<td>100.00</td>
</tr>
</tbody>
</table>

In the table above, we find that the top ten loss making enterprises have accounted for as much as 56.42% for the total loss suffered by the PSUs. Among these Rashtriya Ispat Nigam Limited has incurred a total loss of Rs. 477.55 crores. Total loss suffered by public sector was Rs. 3063.68 Crores, of which Rs. 1728.55 Crore was from the above-mentioned companies. If we take the case of Delhi Transport Corporation (DTC), which stands at number three in the top ten, the losses incurred by it could be justified to some extent as it is providing a public utility service, price is a constraint and above all, it has to operate in uneconomic routes also. However, one thing, worth examining would be, out of the above ten, how many undertakings have incurred losses due to social obligations. Moreover, it is not clear which of the loss leaders have had location problems-and how much was its effect on costs are taken into account in price-fixation by government. Apart from DTC, there appears to be no enterprises fulfilling social obligations or their operations relevant to the betterment of the poor of the country. All they have been able to do is their contribution to regional development, earning or saving foreign exchange etc.

To conclude this segment, it is but prudent to discuss, the overall performance of PSUs until 1990-91. We saw earlier that the performance is not bad and has shown some improvement, though the number of loss making units have steadily shot up over the period. If we judge the performance of public sector units by the yardstick of net profit or loss on the capital employed, the picture is very gloomy. The reason could be attributed to the fact that most of the public enterprises were started in those sectors where the profitability is low and gestation period is long. It is not
that the investment in these sectors has been completely drained, in fact these sector has been able to help in creating a basis for industrial expansion in future. It is a common knowledge that the prices in public sector are kept low, even though it adversely affects the profit. The point here is that the performance of public sector should be judged not by the profit they earned but by the total additions they make in the total flow of goods and services in the economy. But these arguments failed to convince the Indian government and they announced the policy of liberalization and the public sector reforms. However, this announcement was more due to the economic crises than out of a general resentment against PSUs. In the following segment of this chapter, we will try to work out the role of public sector undertakings and their contribution in the changing economic scenario of the country.

Public Sector Undertakings in Post Liberalization Period: (1991-Onwards)

Before we analyze the scenario of public sector undertakings in the era of liberalization and privatization, we will take a quick look at the earlier measures taken by the government of India to evaluate the performance of public sector. There were several committees appointed by the government to look into different ailments prevailing in the public enterprises. These committees were Arjun Sen Gupta Committee, Abid Hussain Committee on trade policy, Chakravarty Committee on Monetary policy and Narshimhan Committee on Replacement of Physical Controls.\(^6^0\) Among these, Arjun Sen Gupta Committee stands out, as this committee touched upon several issues relating to the public sector
policy and made many recommendations. Among the recommendations made, a few are mentioned below.\textsuperscript{61}

a) A distinction was made between core sector and non-core sector followed by different sets of participations;

b) The need for redefining the scope of public enterprises portfolio was recognized and the process of taking over of sick units was sought to be avoided;

c) The instrumentality of Memorandum of Understanding (MoU) between government and public enterprises was recommended as a means of ensuring economy with accountability.

d) The holding company structure was also recommended as an important institutional change to add to the efficiency;

e) The question of according price preferences and other privileges to public enterprises was reviewed and the importance of restructuring such preferences was emphasized; and

f) The scope of diversification was considered but held to be not desirable.

However, the government of India did not accept the report in toto but some actions were taken in the matter of economic policy relevant to the public enterprises keeping this report in mind. Government also stopped further expansion of public enterprises unless and until it was considered essential. Budgetary support to the public sector also dipped but at the same time, some enterprises were allowed direct access to the financial market mechanism like, tax-free bonds.
In the early nineties, there was a fiscal problem, encouraging the government to emphasize on infrastructural development. The government also accepted the fact that there was a need to increase the competition in the open market and that centralization should be used as a means for enhancing the efficiency in the public sector and the government must shun away from the policy of exercising sovereign power to favor the public sector. The government also distanced away from granting subsidies to the sectors, which had nothing to do with social objectives. The subsidies could be extended only when it was established that the particular sector is helping in poverty alleviation and is fulfilling certain social obligations. All the above changes in the outlook of the government prompted it to announce the new industrial policy in 1991. The finer points of this policy are already discussed in the first chapter.

Here we will discuss the performance of public sector undertakings in the liberalization era and the attempts being made in the direction of privatization. Economic liberalization means 'reduction of controls prevailing within the economy'. In liberalization there is a shift towards market forces and the extent of this shift depends on the prevailing controls. Economic liberalization in India brought about a broad band delicensing, re-endorsement of capacity and trade liberalization. In fact, there was a prevailing presumption in the government that the Indian economy was inefficient. In addition, the inefficiency of the industry was attributed to high costs, relatively obsolete technology and poor quality of products. This inefficiency was compounded by the belief among the public sector that there was no competition internally or externally. The situation got worse
due to general slowdown of the Indian economy. The then government was left with no option but to open the economy and there was no point in pumping more capital into the public sector which was reluctant to show any improvement whatsoever. The introduction of liberalization was an attempt to correct these lacunae through competitive market conditions. The economic liberalization and its success brought with it the idea of disinvestment from the public sector, which at present is at the top of government agenda. Before we talk of disinvestment in the Indian PSUs, we will take a close look at the working of public sector in the post liberalization period.

In the table given below a year-wise break up of growth of investment of PSUs is given after the policy of liberalization was initiated by the government of India.

<table>
<thead>
<tr>
<th>Year</th>
<th>Year</th>
<th>Capital employed</th>
<th>Number of units</th>
</tr>
</thead>
<tbody>
<tr>
<td>1992-93</td>
<td></td>
<td>1,40,100</td>
<td>239</td>
</tr>
<tr>
<td>1993-94</td>
<td></td>
<td>1,59,800</td>
<td>240</td>
</tr>
<tr>
<td>1994-95</td>
<td></td>
<td>1,62,500</td>
<td>241</td>
</tr>
<tr>
<td>1995-96</td>
<td></td>
<td>1,74,000</td>
<td>239</td>
</tr>
<tr>
<td>1996-97</td>
<td></td>
<td>2,31,200</td>
<td>236</td>
</tr>
<tr>
<td>1997-98</td>
<td></td>
<td>2,49,900</td>
<td>236</td>
</tr>
<tr>
<td>1998-99</td>
<td></td>
<td>2,65,100</td>
<td>235</td>
</tr>
<tr>
<td>1999-00</td>
<td></td>
<td>3,03,400</td>
<td>232</td>
</tr>
</tbody>
</table>

In the above table, we find that there has been no significant growth in the number of public enterprises. Only during 1992-95, there has been an increase in the number of units as compared to the previous year. After that period, there has been a continuous decline though very insignificance in the number of total unit. However, there has been a decline but the paid up capital has never decreased. In fact, it has shown a healthy improvement. The total capital employed by the public sectors in 1990-91 was Rs.1, 13,234 crores and, this has shot up to Rs.3, 03,400 Crore, in just a decade. This increase is almost three hundred percent. The increase in the capital could be due to inflation. We also notice that there has been no attempt by the government to establish new undertakings, hence the reason for non-increase in the number of units.

Though, there was continuous increase in the investment in PSUs but there was significant decline in the annual growth rate of industrial production. The reason which led to the industrial recession was lack of both internal and external demands, continuing high real interest rates, infrastructure bottlenecks in power and transport, lack of reforms in land and labor markets etc. This de-escalation in the production rate has been witnessed right from the year 1992-93. However, this slowdown showed marginal improvement in the succeeding year, touching an all time high in the year 1995-96. But this improvement decreased manifolds in the following years, and dipped to an all time low in the first ten months of 2001-2002. As a remedial measure to revive the ailing economy, the government of India allowed Foreign Direct Investment (FDI) in several sectors. The table below gives us the actual data of total FDI made in Indian
industries until October 2001, this also includes the amount approved and the actual realization made in terms of FDI. The table also shows the number of Foreign Technology Agreements (FTA) approved by the government of India.

**Total Foreign Technology Agreements and Foreign Direct Investment Approvals:**

<table>
<thead>
<tr>
<th>Year</th>
<th>No. of FTAs approved</th>
<th>No. of FDIs approved</th>
<th>Amount approved (Rs. Crore)</th>
<th>Actual inflow of FDI (Rs. Crore)</th>
</tr>
</thead>
<tbody>
<tr>
<td>1991</td>
<td>661</td>
<td>289</td>
<td>534</td>
<td>351</td>
</tr>
<tr>
<td>1992</td>
<td>828</td>
<td>692</td>
<td>3888</td>
<td>675</td>
</tr>
<tr>
<td>1993</td>
<td>691</td>
<td>785</td>
<td>8859</td>
<td>1787</td>
</tr>
<tr>
<td>1994</td>
<td>792</td>
<td>1062</td>
<td>14187</td>
<td>3289</td>
</tr>
<tr>
<td>1995</td>
<td>982</td>
<td>1355</td>
<td>32072</td>
<td>6820</td>
</tr>
<tr>
<td>1996</td>
<td>744</td>
<td>1559</td>
<td>36147</td>
<td>10389</td>
</tr>
<tr>
<td>1997</td>
<td>660</td>
<td>1655</td>
<td>54891</td>
<td>16425</td>
</tr>
<tr>
<td>1998</td>
<td>595</td>
<td>1191</td>
<td>30814</td>
<td>13340</td>
</tr>
<tr>
<td>1999</td>
<td>498</td>
<td>1726</td>
<td>28367</td>
<td>16868</td>
</tr>
<tr>
<td>2000</td>
<td>418</td>
<td>1726</td>
<td>37039</td>
<td>19342</td>
</tr>
<tr>
<td>2000*</td>
<td>339</td>
<td>1494</td>
<td>32631</td>
<td>13810</td>
</tr>
<tr>
<td>2001*</td>
<td>247</td>
<td>1590</td>
<td>23266</td>
<td>16127</td>
</tr>
<tr>
<td>Total##</td>
<td>7116</td>
<td>13640</td>
<td>270064</td>
<td>1045413</td>
</tr>
</tbody>
</table>

Notes:

- Includes approvals for Euro Issues {American Depository Receipt (ADRs)/ Global Depository Receipts (GDRs)/ Foreign Currency Convertible Bond (FCCBs) }
- Totals may not tally because of rounding off on an annual basis
- Includes SIA/FIPB/RBI/RBI’s NRI schemes, acquisition of shares, ADRs/ GDRs/ pending issues of shares etc.
- January – October

We see in the above table that from 1991-2001 (Oct.) the government approved FDI of Rs. 2,70,064 crore, but actual realization was not even 50% of the total amount approved. Initially the inflow of FDI was slow, it gathered momentum only after 1995 but still it did not reach up to the mark, the government of India expected. But, still this inflow of foreign funds gave the necessary boost to the ailing Indian industries. We know that in the early nineties, the general economic health of the country was very poor, but has considerably improved in the recent years. This has been made possible, due to opening up of the sectors and the government pulling itself away from the loss making units. We will come to that part later, when we will discuss the privatization in the Indian public sector. After knowing the trends in the FDIs in industries, we will take a look at the performance of PSUs in the post 1991 period.

There is an old and wise Biblical saying, “by their work, ye shall know them”. This saying applies to the PSUs as well, because there is no other way to judge their overall efficiency. And efficiency is described by Sir Frank Trive, as “an eminently pragmatic virtue and can be judged by no standard other than the objectives that motivate the work”.

Most of the people regard public sector solely as the business enterprise. They tend to forget the social obligations and the environment in which these sectors operate. Again, these obligations and environmental constraints cannot be taken as a reason for loss incurring PSUs. The trick for these sectors is to adjust it’s functioning to the changing tasks, regulatory and general environment. Moreover, it is up to the mangers to convert these constraints into opportunities and make the environment adapt to its goals and objectives. No matter how
adverse the environment is and the constraints are, a satisfactory financial performance of public sector creates a climate of confidence and trust between the government and the public sector. At the same time, it facilitates in ensuring and attaining operational autonomy and choice in undertaking new investment projects. A good financial performance ensures change in the outlook of the government towards public sectors. The governmental stance towards public sector becomes supportive and facilitative. This in turn helps in creating adequate scope for effective strategic management. The following table gives the performance of PSUs from 1991.
### Profitability of Public Sector Undertakings: (Rs. Crore)

<table>
<thead>
<tr>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>1</td>
<td>Number of units</td>
<td>237</td>
<td>239</td>
<td>240</td>
<td>241</td>
<td>239</td>
<td>236</td>
<td>236</td>
<td>235</td>
</tr>
<tr>
<td>2</td>
<td>Paid up capital</td>
<td>53000</td>
<td>59300</td>
<td>63500</td>
<td>65300</td>
<td>67100</td>
<td>69800</td>
<td>72000</td>
<td>76900</td>
</tr>
<tr>
<td>3</td>
<td>Net worth</td>
<td>60300</td>
<td>70500</td>
<td>79500</td>
<td>90000</td>
<td>99200</td>
<td>113900</td>
<td>135100</td>
<td>148100</td>
</tr>
<tr>
<td>4</td>
<td>Capital employed</td>
<td>118000</td>
<td>140100</td>
<td>159800</td>
<td>162500</td>
<td>174000</td>
<td>231200</td>
<td>249900</td>
<td>265100</td>
</tr>
<tr>
<td>5</td>
<td>Gross profits</td>
<td>13700</td>
<td>16000</td>
<td>18600</td>
<td>22600</td>
<td>27600</td>
<td>30900</td>
<td>37200</td>
<td>39700</td>
</tr>
<tr>
<td>6</td>
<td>Profit before tax</td>
<td>4000</td>
<td>5100</td>
<td>6700</td>
<td>9800</td>
<td>13600</td>
<td>15400</td>
<td>19200</td>
<td>19700</td>
</tr>
<tr>
<td>7</td>
<td>Profit after tax (PAT)</td>
<td>2400</td>
<td>3300</td>
<td>4600</td>
<td>7200</td>
<td>9600</td>
<td>10200</td>
<td>13700</td>
<td>13200</td>
</tr>
<tr>
<td>8</td>
<td>Gross margin to capital employed</td>
<td>19</td>
<td>18</td>
<td>17</td>
<td>21</td>
<td>23</td>
<td>19</td>
<td>21</td>
<td>21</td>
</tr>
<tr>
<td>9</td>
<td>Gross profit to capital employed (per cent)</td>
<td>12</td>
<td>11</td>
<td>12</td>
<td>19</td>
<td>16</td>
<td>13</td>
<td>15</td>
<td>15</td>
</tr>
<tr>
<td>10</td>
<td>Pre tax profit to capital employed (per cent)</td>
<td>3</td>
<td>4</td>
<td>4</td>
<td>6</td>
<td>8</td>
<td>7</td>
<td>8</td>
<td>7</td>
</tr>
<tr>
<td>11</td>
<td>PAT (net profit) to net worth (per cent)</td>
<td>4</td>
<td>5</td>
<td>6</td>
<td>8</td>
<td>10</td>
<td>9</td>
<td>10</td>
<td>9</td>
</tr>
</tbody>
</table>

**Source:** Economic Survey 2001-2002, Government Of India, Ministry Of Finance, Economic Division
In the table given above we find that the profits of public sector have increased but it is not good enough in terms of capital employed. In terms of net profit, we see that the maximum profit is generated in 1995-96. The net worth for public sector has increased from a lowly Rs. 60,300 crores in 1991-92 to Rs. 1,61,100 crore in 1999-00, this increase is much more than hundred percent. The gross profit has also increased hundred percent as compared to 1991-92. But the total profit accumulated after paying the taxes has remained almost stagnant at nine percent in the five year period, though this could be due to decrease in the total number of units. But this decrease in the number of units is insignificant because the investment has also increased.

The contribution of PSUs in providing employment has been continuously decelerating since the early eighties to later half of the nineties. This deceleration has been blamed on the slow growth of employment in the agricultural sector. In the table below the growth rates of employment both in private sector and public sector has been given.

**Growth Rates of Employment in Public and Private Sector**

<table>
<thead>
<tr>
<th>Year</th>
<th>Public sector</th>
<th>Private sector</th>
</tr>
</thead>
<tbody>
<tr>
<td>1992</td>
<td>0.80</td>
<td>2.21</td>
</tr>
<tr>
<td>1993</td>
<td>0.60</td>
<td>0.06</td>
</tr>
<tr>
<td>1994</td>
<td>0.62</td>
<td>1.01</td>
</tr>
<tr>
<td>1995</td>
<td>0.11</td>
<td>1.63</td>
</tr>
<tr>
<td>1996</td>
<td>-0.19</td>
<td>5.62</td>
</tr>
<tr>
<td>1997</td>
<td>0.67</td>
<td>2.04</td>
</tr>
</tbody>
</table>
We see in the above table that the public sector has shown a negative growth during the last three years. Whereas in the private sectors though there has been a deceleration but only once, it has recorded a negative growth rate. The highest growth in the last ten years was recorded in 1996 when public sector showed a negative growth rate. In the following table total employment in the public sector is given. This includes the employment in the central, state, quasi government and local body undertakings.

<table>
<thead>
<tr>
<th>Total Employment in the Public Sector</th>
<th>(Lakh person on 31 March)</th>
</tr>
</thead>
<tbody>
<tr>
<td>1</td>
<td>Central government</td>
</tr>
<tr>
<td>2</td>
<td>state government</td>
</tr>
<tr>
<td>3</td>
<td>quasi government</td>
</tr>
<tr>
<td>4</td>
<td>local bodies</td>
</tr>
<tr>
<td>Total</td>
<td>192.10</td>
</tr>
</tbody>
</table>

*Quick estimate

**Source:** Economic Survey 2001-2002, Government Of India, Ministry Of Finance, Economic Division
We see that biggest share in terms of total employment is from the state government. The employment in the central public sector undertakings has remained almost consistent, not showing much improvement. The shares of local bodies are the lowest and these two have remained almost consistent. The share of quasi-governmental undertakings has shown a marginal decline.

**Issue of Privatization:**

The most glaring question, which is looming large on the PSUs, are the issues of privatization. Before we talk of privatization in Indian public sector undertakings, we will try to understand the meaning of privatization and the privatization in the different parts of the world. Privatization is a word of recent origin- and a phenomenon essentially of 1980s. Broadly speaking, any of the following changes in the economy indicates a trend towards privatization. These changes are:

1) A shift in ownership, away from public to private, including denationalization;

2) Introduction or strengthening of competition removing monopolistic elements, particularly those associated with the public sector;

3) Substitution of public funding of activities with private funding (making the beneficiaries pay) and the substitution of public supply or provision with private supply;

4) More generally, reduction in the size of bureaucracy and government’s role,
5) Closure or liquidation of state owned enterprises (SOEs) or leasing SOEs to the private sector or the transfer of management and control to a private enterprise.**69**

Stuart M. Butler has defined privatization as, "the transfer of government asserts or functions to the private sector."**70** In the words D.R. Pendse, "any process which reduces the involvement of the state or the public in the economic activities of the nation is a privatization process."**71** Both the definitions clearly point out to the fact that in privatization, the role the government in economic activity is shunned. On the other hand it can be said that privatization encourages common men of the country to participate in a democratic fashion in the development of their economy and have the resultant prosperity in a proportion that is commensurate with their contribution. Through the above explanation, it is quite clear that privatization could take any shape, it could be in the form of divestiture, denationalization, closure or liquidation of state enterprises etc. In every form, purpose is the same i.e. improving efficiency and competition, reduction of public deficits, cash generation etc.

As said earlier, privatization is a global phenomenon and has caught the imagination of several countries. Though, the country, which has initiated the process of privatization, may be different from others. Difference is sometimes there in terms of socio-economic and political ideologies, but in case of privatization, they share the same enthusiasm. This is a proof enough of its global popularity. It could be pointed here that the ideological impetus for privatization process was provided by Mrs. Margaret
Tratcher’s open advocacy for market economy and dissatisfaction with the ‘welfare state’.  

Before we move on to India, we will take a quick look at the privatization process in some important economies of the world. Japan, one of the leaders in world economy, perhaps has the oldest privatization experience. It has been observed that, immediately after the Meiji restoration in 1868 their came up several state enterprises aimed at introducing European technologies in industries. However, fairly soon, it dawned on them that these industries were incurring serious financial losses. Soon after the realization, the government started divestiture in the enterprises during the period between 1874 and 1896. Japan National Railways, a loss making unit as well as profit earning units like Tobacco and Cigarettes were privatized.

In Malaysia, the term has gained a political commitment. Privatization here represents a new approach to the development of Malaysian economy. Keeping this in view the government of Malaysia has published an official policy document titled ‘Guidelines on Privatization’. The keenness for privatization was expressed by the finance minister in October 1986. The commitment for privatization could be judged from the fact that the government was ready to lease the entire Malaysian Railway System to the lowest bidder, who was ready to operate it on commercial basis. Generating resources for the treasury is Malaysia’s objective number one in privatization, as the ‘guidelines’ state “privatization has a number of major objectives. First, it is aimed at releasing the financial and administrative burden of the government in undertaking and maintaining a vast
and constantly expanding network of services and investments in infrastructure. Secondly..."^^

The table below shows the initiative taken by different countries in promoting privatization all around the world. More aptly, the table shows the industrial economic policy trends.

**Industrial Economic Policy Trends in 1980s in Selected Nations:**

<table>
<thead>
<tr>
<th>Country</th>
<th>Nationalization</th>
<th>Reforms announced</th>
</tr>
</thead>
<tbody>
<tr>
<td>Argentina</td>
<td>1946</td>
<td>Sell SOEs, 1986</td>
</tr>
<tr>
<td>Bangladesh</td>
<td>1971</td>
<td>Sell SOEs 1982</td>
</tr>
<tr>
<td>Brazil</td>
<td>1940s</td>
<td>Sell SOEs, 1983</td>
</tr>
<tr>
<td>Britain</td>
<td>1960s</td>
<td>Sell SOEs, 1979</td>
</tr>
<tr>
<td>Hungary</td>
<td>1949</td>
<td>Pricing, 1980s</td>
</tr>
<tr>
<td>India</td>
<td>1956</td>
<td>Deregulation, 1982, 1986</td>
</tr>
<tr>
<td>Indonesia</td>
<td>1957</td>
<td>Promote POEs, 1980s</td>
</tr>
<tr>
<td>Mexico</td>
<td>1950s</td>
<td>Sell SOEs, 1985</td>
</tr>
<tr>
<td>Nigeria</td>
<td>1960s</td>
<td>Sell SOEs, 1986</td>
</tr>
<tr>
<td>Pakistan</td>
<td>1972</td>
<td>Deregulation, 1979</td>
</tr>
<tr>
<td>Peoples Republic of China</td>
<td>1953</td>
<td>Permit POEs, 1983</td>
</tr>
<tr>
<td>Spain</td>
<td>1939</td>
<td>Sell SOEs, 1980s</td>
</tr>
<tr>
<td>Yugoslavia</td>
<td>1945</td>
<td>Decentralization, 1986</td>
</tr>
</tbody>
</table>

*Includes partial and total nationalization of the industrial sector
SOEs: State Owned Enterprises
POEs: Privately Owned Enterprises

**Source:** Elliot Berg, privatization: developing and pragmatic approach, Financial Express, June 8, 1987, P.6
The table below shows privatization receipts of some of the South Asian countries.

**Privatization in South Asia**

<table>
<thead>
<tr>
<th>Country</th>
<th>Privatization Receipts</th>
<th>Number Of Units Privatized</th>
</tr>
</thead>
<tbody>
<tr>
<td>Bangladesh</td>
<td>$2.0 million a</td>
<td>1083</td>
</tr>
<tr>
<td>Nepal</td>
<td>Rs. 797 million</td>
<td>10</td>
</tr>
<tr>
<td>Pakistan</td>
<td>Rs. 59.6 billion</td>
<td>106</td>
</tr>
<tr>
<td>Sri Lanka</td>
<td>$715 million</td>
<td>75</td>
</tr>
</tbody>
</table>

a: small manufacturing plants over past three years.

**Source**: Country papers presented during the sub-regional meeting on privatization in South Asia, Kathmandu, 24-26 Nov. 1999

When we talk of privatization in India, we find that before 1991, there was no clear-cut policy regarding it. The earlier industrial policies and policy statements of 1948, 1956, 1977 and 1980, had specified only the co-existence of public and private sector. The belief was that the private sector would work within the framework of socio-economic policy of the state and would be subjected to certain regulations. The government was of the belief that the public sector will learn from the dynamism of the private sector and the private sector would be asked to embrace the social conscience of the public sector. Whenever the government felt that the private sector was leading towards concentration and was trying to control the means of development, stick of nationalization was waved. Again, there were no regulations for the erring public sector. For the first time the then Prime Minister,
Mr. Rajiv Gandhi warned the public sector that ‘if they could not set right their performance, either they would be disposed off or their management would be replaced with private sector’.76

The privatization of public sector gained momentum only after the announcement of new economic policy in 1991. The commitment of the government was clear from the fact that for the first time in the history of Indian planning, share of public sector was lower than that of private sector. This happened in the seventh plan period.77 This policy of the government received a lukewarm response from the general public. This emotionally charged feeling against privatization also came from politicians, bureaucrats, trade union leaders, as well as academicians. Initially same emotions were felt in other countries when the idea of privatization was first introduced. Again, after realizing the benefits, the protests slowly died their own death. In India, also the idea of privatization has started gaining the public nod. There is a need of educating the Indian public about privatization. The government can do this through its existing agencies, by publishing views of prominent thinkers, and by organizing seminars on privatization.

The policy of Indian government on disinvestments after 1991 has evolved over a period. Chronologically this could be divided into the following heads:78

A) *Interim budget 1991-92:* This argued in favour of divesting 20% of the government equities in order to improve management, enhance viability of resources.

B) *Report of the Committee on Disinvestments of shares in PSEs (Rangarajan Committee):* April 1993-this committee
emphasized on substantial disinvestments. It recommended for the disinvestments of up to 49% shares in the sectors explicitly reserved for the public sector where it was important to maintain a separate identity in public sector for strategic reasons, disinvestments could be up to 74% and in all other cases it recommended 100% disinvestments. The committee identified only six scheduled industries where government could hold 51% of equity. These industries were Coal and Lignite, Mineral oils, Arms, Ammunitions and Defence equipments, Atomic energy, Radioactive materials and Railway transport. Later, the budget speech of 1999-200, divided public sector undertakings into strategic and non-strategic. It was recommended to privatize non-strategic PSUs through gradual disinvestments or ‘strategic sell’.

It is not that the government, after adopting privatization policies, did nothing to revive it. The fact is that government after 1992-93 has pumped in Rs. 34,104 Crores79 into this sector, in the name of revival or restructuring of PSUs. However, these undertakings failed to show any sign of improvement, instead, it incurred a huge loss of more than Rs.1000 Crores. The government feels that there is no point in throwing away money in these sectors, instead, this money could be used for more vital requisites like water, schools, roads and medicines etc. Below a table of the PSUs is given which shows losses even after the government provided revival packages.
### Illustrations Of PSUs / Rehabilitation Undertaken

<table>
<thead>
<tr>
<th>S.No</th>
<th>PSE</th>
<th>No. of rehabilitation / restructuring attempts made for revival</th>
<th>Approx. amount of waiver/ fresh funds infused *</th>
<th>Paid up Capital</th>
<th>Net Worth (31.3.99)</th>
<th>P.&amp;L. A/C accumulated losses (31.3.99)</th>
</tr>
</thead>
<tbody>
<tr>
<td>1.</td>
<td>Bharat Refractories Ltd.</td>
<td>Two revival packages approved (July 96 and Jan. 99)</td>
<td>61.64</td>
<td>103.90</td>
<td>-28.79</td>
<td>-131.57</td>
</tr>
<tr>
<td>2.</td>
<td>Heavy Engineering Corpn.</td>
<td>Six attempts (1972, 75, 81, 89, 97, 99)</td>
<td>N/A</td>
<td>437.88</td>
<td>-638.40</td>
<td>-1095.35</td>
</tr>
<tr>
<td>3.</td>
<td>Hindustan Cables Ltd.</td>
<td>January 1999</td>
<td>122.60</td>
<td>408.29</td>
<td>-57.02</td>
<td>-520.43</td>
</tr>
<tr>
<td>4.</td>
<td>Hindustan Shipyard</td>
<td>Two attempts since 1995</td>
<td>470.90</td>
<td>96.81</td>
<td>-988.19</td>
<td>-1085.10</td>
</tr>
<tr>
<td>5.</td>
<td>Hindustan Steel Works Constr. Ltd.</td>
<td>1997-99</td>
<td>975.17</td>
<td>20</td>
<td>-1363.26</td>
<td>-1383.28</td>
</tr>
<tr>
<td>7.</td>
<td>Instrumentations Ltd.</td>
<td>Referred to BIFR in 1993</td>
<td>17</td>
<td>24.05</td>
<td>-7.15</td>
<td>-72.94</td>
</tr>
<tr>
<td>9.</td>
<td>Mining and Allied Machinery Corporation</td>
<td>Several attempts (1973, 76, 80, 86, etc.)</td>
<td>134.50</td>
<td>39.19</td>
<td>-881.39</td>
<td>-897.72</td>
</tr>
<tr>
<td>10.</td>
<td>Rashtriya Ispat Nigam Ltd.</td>
<td>Two attempts; Capital restructuring (July 93 &amp; May 98)</td>
<td>N/A</td>
<td>6493.85</td>
<td>3751.69</td>
<td>-4053.83</td>
</tr>
</tbody>
</table>

* Indicates only one part of rehabilitation packages, which included many other concessions as shown below.

Source: [http://divest.nic.in/guidelines/faqs.htm](http://divest.nic.in/guidelines/faqs.htm)
When no measures from the government helped in reducing the losses or reviving the ailing units, it decided to disinvest from these PSUs. The following table indicates the actual disinvestments from 1991-92 to 1999-2000, and the methods adopted for such disinvestments in different CPSUs.

<table>
<thead>
<tr>
<th>Year</th>
<th>No. of PSEs in which equity sold</th>
<th>Target receipt for the year (Rs. in Crores)</th>
<th>Actual receipts (Rs. in Crores)</th>
<th>Methodology</th>
</tr>
</thead>
<tbody>
<tr>
<td>1991-92</td>
<td>47 (31 in one tranche and 16 in other)</td>
<td>2500</td>
<td>3038</td>
<td>Minority shares sold by auction method in bundles of &quot;very good&quot;, &quot;good&quot;, and &quot;average&quot; companies.</td>
</tr>
<tr>
<td>1992-93</td>
<td>35 (in 3 tranches)</td>
<td>2500</td>
<td>1913</td>
<td>Bundling of shares abandoned. Shares sold separately for each company by auction method.</td>
</tr>
<tr>
<td>1993-94</td>
<td></td>
<td>3500</td>
<td>Nil</td>
<td>Equity of 7 companies sold by open auction but proceeds received in 94-95.</td>
</tr>
<tr>
<td>1994-95</td>
<td>13</td>
<td>4000</td>
<td>4843</td>
<td>Sale through auction method, in which NRIs and other persons legally permitted to buy, hold or sell equity, allowed to participate.</td>
</tr>
<tr>
<td>1995-96</td>
<td>05</td>
<td>7000</td>
<td>362</td>
<td>Equities of 4 companies auctioned and Government piggy- backed in the IDBI fixed price offering for the fifth company.</td>
</tr>
<tr>
<td>Year</td>
<td>No</td>
<td>Amount</td>
<td>Proceeds</td>
<td>Description</td>
</tr>
<tr>
<td>----------</td>
<td>----</td>
<td>--------</td>
<td>----------</td>
<td>-------------</td>
</tr>
<tr>
<td>1996-97</td>
<td>01</td>
<td>5000</td>
<td>380</td>
<td>GDR (VSNL) in international market.</td>
</tr>
<tr>
<td>1997-98</td>
<td>01</td>
<td>4800</td>
<td>902</td>
<td>GDR (MTNL) in international market.</td>
</tr>
<tr>
<td>1998-99</td>
<td>05</td>
<td>5000</td>
<td>5371</td>
<td>GDR (VSNL) / Domestic offerings with the participation of FIIs (CONCOR, GAIL). Cross purchases by 3 oil sector companies i.e. GAIL, ONGC &amp; IOC</td>
</tr>
<tr>
<td>1999-00</td>
<td>03</td>
<td>10000</td>
<td>1584</td>
<td>GDR (GAIL) in international market &amp; MFIL's strategic sale. VSNL domestic issue.</td>
</tr>
<tr>
<td>2000-01</td>
<td>03</td>
<td>10000</td>
<td>1868</td>
<td>BALCO, KRL(CRL) &amp; MRL through strategic sale / acquisition</td>
</tr>
<tr>
<td>Total</td>
<td>42</td>
<td>54,300</td>
<td>20,261</td>
<td></td>
</tr>
</tbody>
</table>

* Total number of companies in which disinvestment has taken place so far

The realisations of Rs. 20,261 cr. shown above account for an aggregate disinvestment of about 16% equity of 42 PSEs.

Source: [http://divest.nic.in/performance.htm](http://divest.nic.in/performance.htm)

The PSUs in which disinvestments was made during the year 2001-02 are given in the table below. This table shows the percentage of equity disinvested and proceeds realized or yet to be realized is mentioned.
## Disinvestments Proceeds During 2001-2002

<table>
<thead>
<tr>
<th>Name of PSUs</th>
<th>Percentage of equity disinvested (per cent)</th>
<th>Proceeds realized/ to be realized (Rs. Crore)</th>
</tr>
</thead>
<tbody>
<tr>
<td>H.T.L Limited</td>
<td>74</td>
<td>55</td>
</tr>
<tr>
<td>CMC Limited</td>
<td>51</td>
<td>152</td>
</tr>
<tr>
<td>Indian Tourism Development Corporation</td>
<td>100 in 8 hotels, long term lease cum management contract in 1 hotel</td>
<td>181</td>
</tr>
<tr>
<td>Hotel Corporation of India Limited 3 hotels **</td>
<td>100</td>
<td>**243</td>
</tr>
<tr>
<td>IBP Limited</td>
<td>34</td>
<td>1,154</td>
</tr>
<tr>
<td>Videsh Sanchar Nigam Limited (transfer of cash revenues) ***</td>
<td>25</td>
<td>***3,689</td>
</tr>
<tr>
<td>State Trading Corporation of India Limited (transfer of cash revenues)</td>
<td>-</td>
<td>*40</td>
</tr>
<tr>
<td>Minerals and Trading Corporation of India Limited (transfer of cash revenues)</td>
<td>-</td>
<td>*60</td>
</tr>
<tr>
<td>Total #</td>
<td>_</td>
<td>5,573</td>
</tr>
</tbody>
</table>

**Notes:**
* Decision on withdrawal of reserves taken. Action being taken to implement the decision.
** Proceeds to go to AIR India
*** Includes Rs. 2,250 crores as dividend/special dividend and dividend tax.
# Total may not tally because of rounding off.

**Source:** Economic Survey 2001-2002, Government Of India, Ministry Of Finance, Economic Division
Some of the PSUs are so seriously sick that no amount of effort and money can revive them. The government tried to wash its hands off these PSUs but there were no takers. Subsequently these PSUs were returned to the Department of Heavy Industry/Administrative Ministry as no bidders responded. These units were:

The PSUs in which the government wishes to disinvest are:

1) Air India Limited (AI)
2) Engineering Projects (India) Limited (EPIL)
3) Hindustan Cables Limited (HCL)
4) Hindustan Copper Limited (HCL)
5) Hindustan Organic Chemicals Limited (HOCL)
6) Hindustan Salts Limited
7) Indian Airlines Limited (IA)
8) Madras Fertilizers Limited
9) Minerals And Metals Trading Corporation of India Limited (MMTC)
10) National Fertilizers Limited (NFL)
11) Shipping Corporation of India Limited (SCI)
12) Sponge Iron India Limited (SIIL)
13) State Trading Corporation of India Limited (STC)
14) MECON Limited
15) National Aluminium Company Limited (NALCO)
16) Tungabhadra Steel Products Limited (TSPL)
17) Burn Standard Company Limited
18) Braithwaite & Company Limited

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1. W.D. Lakshman, *Public Enterprises And Employment In The Third World Countries*, International Center For Public Enterprises In Developing Countries, 1984, P.166.


3. Ibid P.19.


5. Ibid P.11.


10. V. Kolesov, op.cit. P.34.


12. Ibid P.83.


14. V. Kolesov, op.cit, P.23.


17. Ibid. P.44.


20. Henry Parris; Pierre Pestieau And Peter Saynor, op.cit. P. 45


24. Ibid PP.5-6.

25. Ibid P.11.


27. W.D. Lakshman, op.cit. P54.

28. Ibid PP.54-55.


35. Ibid. PP.13-14.
36. Dr. V. S. Singh, op.cit, P.757.
37. R. V. Singh, *Public Corporations In India*, The Indian Law Journal, Vol. 1, No.1, January 1957, PP 1-3. Thus for example, the port trusts of Bombay, Calcutta and Madras were set up under the port Trust Act of 1879, 1890, 1905 respectively. The commodity boards such as on cotton, coal, lac, and soft coke were set up in 1923, 1925, 1930 and 1929 (recognized in 1939) respectively.
38. Dr. V. S. Singh, op.cit. P.761.
39. Ibid P.761.
40. Ibid P. 758.
41. Ibid P. 762.
44. Ibid P. 54.
47. K. Ashok Rao, Ten Vital Questions About The Public Sector, President, National Confederation of Officers Association of Central Public Sector Undertakings.


50. Ibid. P.1.

51. Ibid. PP.1-2.


53. Ibid.


56. Ibid.


59. Ibid. P.111.

125


63. Ibid. P.161.


68. Ed. By B. L. Mathur,op.cit P.103.

69. Ibid. P.103.

70. Ibid. P199.


72. Ibid. P.64.

73. Ibid.

74. Ed. By. V.V.N. Samayayilu, op.cit. P.35.

75. Ed. By B. L. Mathur,op.cit P78.


CHAPTER-3
LIFE INSURANCE CORPORATION OF INDIA

All religions and Holy Scriptures exhort man to help his fellow men in distress. Saints and sages have always preached about the eternal truth of 'giving relief to the suffering' and regard it as the best mode of His prayer. Under the veil of commerce, insurance performs these ecclesiastical functions through its manifold branches. It is, in fact, one of the manifestations of the noblest instinct and urge of man 'to bear each other's burden' and that too in a constructive manner. It is a common knowledge that life is an uncertain thing. One never knows what is there in future and the preparation for these unpleasant possibilities have always demanded the utmost resourcefulness, energy and foresight on the part of man. In the past, it was practically impossible to prepare for these unpredictable eventualities. Risks attached to life and property were great and mere adoption of devices for its protection were not sufficient. No doubt state administration worked for the safety and protection of its citizens but it was nonetheless, insufficient. This protection by the state could not be kept in the same bracket as insurance because the government does not pay for the loss or damage they may suffer. Insurance provides compensations in the event of loss or damage. Thus the aim of insurance can be regarded as social because it helps in removing or reducing the hardships, which might befall through accidents and vicissitudes of life. Society and the national economy draw substantial benefits from the operations of insurance mechanism. On the one hand, life insurance and pension provide relief to the members of the society in the event of financial difficulties arising from a
premature death of a bread earner or surviving to old age and meager resources. Burden of the state to provide relief to destitutes and aged citizens are reduced by the insurance mechanisms. Besides these, a large capital becomes available for the periods between the payment of premium and the payment of claims. This capital can be invested in such a manner that the economy develops for the benefit of the society. Moreover, industries and trade would suffer serious setbacks if insurance protection is not available to cover business risks, like fire, floods or any other natural calamity.

There is not much information available about the life insurance or insurance during ancient or medieval periods in the history of civilized nations but there have been mentions in the early scriptures about the system of granting of some protection similar to insurance. Manu, Yajnavalkya, early Syrian and Greek writers have talked about some form of insurance but only in the recent times insurance covers and systems as we know have been evolved. Ancient India enjoyed connections with several countries for trade and commerce. Countries like Babylon and Rome imported Indian goods on large scales. It is argued that in many countries, before the birth of Jesus Christ; insurance was practiced as an aid to vast commercial practices, though in a very crude form. “The marine insurance had, in fact, made its appearance three thousand years ago. The bottomry bond loans, which existed in ancient times, were granted on the condition that in case the maritime venture was a success, the borrower would return to the lender the principal plus interest at a rate much higher than what prevailed in those days, because the borrower was freed of all liabilities if the venture proved a failure.”
When the Jews were uprooted from France they indulged in insurance business on a large scale. Italians introduced various reforms of insurance while Florence, Geneva and Venice became significant centers of insurance business. Progress in the insurance business continued in the western countries. The Belgium government established a chamber of insurance to look after marine insurance business. The Lombard after being driven out from their native cities of northern and central Italy in the middle of the thirteenth century settled themselves in the coastal areas of the continent. They practiced ‘usury’ combined with marine insurance. They elaborated the system of premium. To settle a dispute, a Chamber of Assurance was set up in London. The Lombard affected insurance on the English merchandise from their residence in the Lombard Street. Though the decree passed in 1597, reduced their influence in England but their impact on marine insurance practices continued.

Modern life insurance as we know today commenced first in England and Europe in the sixteenth century. But these attempts, though modern in approach were actually gambling because the basis of life insurance business i.e. mortality tables were practically unknown. Further, the use of loan capital for production purposes did not develop on any large scale till about the beginning of the eighteenth century. Investments of life insurance funds were practically impossible. The life insurance business, which started in England, gained pace due to industrial revolution. The continent of Europe, America and Canada followed suit and in the course of time developed individual systems of their own.
The early history of insurance in India is rather obscure and authoritative information of the same is not available. Late Mr. N.R. Sarkar in his speech as the chairman of the Indian insurance corporation held in Calcutta in 1937 made the following remarks:

"as far back as 1818 an insurance company named Oriental Life Assurance Company, was started in Calcutta mainly by Europeans. Eventually, this company failed in 1834 and was transformed into 'New Oriental'. Let me add here that these company has no connections whatever with our premier Indian company of Bombay. It was through the efforts of Babu Muttyalal Seal that the company was prevailed upon to except Indian lives. Since then Indian enterprise made very good progress in Bengal and leading people of the province such as Dwarkanath Tagore, Ramatanu Lahiri and Rustomji Cowasji took an active part in the development of insurance business in this country. It was also left to a great reformer and eminent son of Bengal, Raja Ram Mohan Roy, to direct the nation's attention to the need of protection of widows and orphans, and as early as 1822, he issued an appeal through the columns of the Calcutta Journal requesting the wealthy Hindus of India to start an institution for the maintenance of poor widows."

Walford in his Insurance encyclopedia quotes, " Bombay Life Assurance Company was founded in Bombay on 1st May 1823. The company issued no whole term life policies. It had three classes of short-term insurance, viz for one year, not renewable without the certificate of health-Premium: Aged 30--3.4 p.c: three years renewable without fresh certificate of health-Annual premium, aged 30-3.7 p.c: For five years renewable without fresh certificate of health-annual premium, aged 30-4 p.c" To quote Walford again, "On the occasion of taking over the business of
Medical Invalid (1860), which had a large connection in India, the 'Albert Life' commenced very active operations there, under the direction of Mr. W.F. Ferguson, who had been the Manager of the New Oriental and Mr. P.M. Tate who had been the Indian Manager of the Medical. In 1861 Indian business of Family Endowment was added in 1865 the business of Indian Laudable. Hence the company had obtained such a position as no British company ever had, or probably will ever obtain there. The profits of that branch were estimated at from £20,000 to £30,000 per annum. The head office was in Calcutta and there were branches in Bombay and Madras.\(^7\)

The above quotes by N.R.Sarkar and Walford gives a glimpse at early history of insurance business in India but this is not enough. For detailed knowledge of history of insurance business in India we will divide it into five periods:

1. The early stage up to 1870, of which little is known
2. The period 1870-1900 – period of stable growth
3. The years from the opening of the twentieth century to 1912—a period of mushroom growth under the auspices of the Swadeshi Movement, resulting in the several failures and the passing of Insurance Act in India.
4. From 1913 to 1930—the period of trial
5. The present era.

**THE EARLY STAGE UPTO 1870:**

The early years of nineteenth century India witnessed instability due to continued invasion from the northwest frontiers. This resulted in disruption of social fabric more than often. But the icing on the cake was that it did not disturb the national trade. The practice of insurance was not unknown but it was present only in crude forms. The real insurance started only after the advent of
British on the Indian scene. Specialized insurers did not exist because of the lack of adequate customs, stable conditions, and permanent economic policies and adequate insurance knowledge. As a result insurance continued to be of primitive nature and rudimentary. When the British firms arrived they introduced general insurance in modern forms. Agency houses were set up in many port towns and the marine insurers were the first to come forward. Several attempts were made to establish Insurance Corporations. According to one authority “most of the Indian insurance companies (existing at the commencement of the 19th century) were established after 1797. There were seven in Calcutta; five at Madras, and at Bombay, one of the Calcutta Company had a branch”.

The first war of Indian independence adversely affected the economic organization. When the British rule firmly took hold of India, several economic institutions started flourishing. The North British and Mercantile provided general insurance relief. With these few Indian funds and companies, predominantly doing life business but undertaking miscellaneous insurance too, were established. But most of them were either liquidated or amalgamated with other insurers. There was no legislation to govern the operations of general insurers. The laws of the country of their origin governed foreign insurers. The Joint- Stock Company Act of 1860 was the first to govern their operations in this country. But it was quite a piece meal measure.

The period of fifty years commencing with 1818 was one in which sincere efforts were made to find ways and means to write life business scientifically. There was no mortality data available, which made the writing of life business haphazard. This period
could be regarded as the period of trial and tribulation as most of the companies operating in this era were either absorbed by other companies or were faced with liquidation. This period could also be regarded as the launching pad for Indian companies. During this period eight Indian companies were established of which only three survived. During the same period twelve foreign companies started operations in India. Out of the twelve six ceased their business in 1870 and four more withdrew later.\(^{10}\)

The Universal Life Assurance Company, which was established in England in 1836, commenced its business in India in 1840. This company enjoyed fairly long run in Indian insurance business till it was taken over by the North British in May 1901. Another life insurance company that was working in India at that period was Colonial Life Insurance Company. This company was established in 1846 under the auspices of the Standard Life Insurance Company. The original prospectus of the Colonial Life Assurance stated, “The Colonial Life Assurance Company has been established for the purpose of extending to the colonies of Great Britain and to India the full benefit of life assurance, and for the purpose of giving increased facilities to persons visiting or residing in foreign countries.”\(^{11}\) The company appointed agents with local boards, which were at first established in Calcutta, Madras, Bombay and Colombo. At the start of the life insurance business, assurances were only accepted on the lives of Europeans or the descendents of Europeans born in India. The premium was very high, though this could be justified due to heavy mortality of troops in India. One thing worth mentioning here is that the business done here was considerable as the field of insurance was yet unexplored and competition nearly non-existent. The increase
in business prompted the Standard Life Assurance Company to absorb the Colonial Life Assurance Company.

Like the Colonial Life Assurance Company, the Royal Assurance Company Ltd., was established in 1885 in U.K and commenced writing fire and life business in India within three years of its registration. Initially this company concentrated on writing only fire business. Like Colonial Life Assurance and Royal Assurance, another company, the Liverpool and London and Globe Insurance Company Limited, was incorporated in UK in 1836. Eventually this company also made its presence felt in the Indian insurance sector. The company was later taken over by Messrs Forbes, Forbes, Campbell and Company. Like earlier British company, this too accepted only European lives. It was much later that they started entertaining Indian lives too. The North British and Mercantile Insurance Company commenced fire business in India in 1861 and began to underwrite life assurance business from 1864. Another company that started life business in the same year was the North British and Mercantile Insurance Company was the London Assurance. Though both these companies never did large volume of business as like any other European companies almost all the policies were written on European lives. Below is given the list of Indian and foreign companies which operated till 1870.
## INDIAN COMPANIES BEFORE 1870

<table>
<thead>
<tr>
<th>S.No</th>
<th>Name of the company</th>
<th>Established</th>
<th>Exit</th>
</tr>
</thead>
<tbody>
<tr>
<td>1</td>
<td>Christian Mutual</td>
<td>1847</td>
<td>-</td>
</tr>
<tr>
<td>2</td>
<td>Tenevelly</td>
<td>1849</td>
<td>-</td>
</tr>
<tr>
<td>3</td>
<td>Bengal Christian Family Pension Fund</td>
<td>1852</td>
<td>-</td>
</tr>
<tr>
<td>4</td>
<td>Agra</td>
<td>-</td>
<td>1833</td>
</tr>
<tr>
<td>5</td>
<td>Bombay Life Assurance</td>
<td>1823</td>
<td>-</td>
</tr>
<tr>
<td>6</td>
<td>Oriental Life Assurance Company</td>
<td>1818</td>
<td>1834</td>
</tr>
<tr>
<td>7</td>
<td>Madras Equitable</td>
<td>1829</td>
<td>1921</td>
</tr>
<tr>
<td>8</td>
<td>Madras Widows and Orphans fund</td>
<td>1833</td>
<td>1926</td>
</tr>
</tbody>
</table>

### FOREIGN COMPANIES

<table>
<thead>
<tr>
<th></th>
<th>Name of the company</th>
<th>Established</th>
<th>Exit</th>
</tr>
</thead>
<tbody>
<tr>
<td>9</td>
<td>Royal Insurance</td>
<td>1860</td>
<td>-</td>
</tr>
<tr>
<td>10</td>
<td>North British</td>
<td>1864</td>
<td></td>
</tr>
<tr>
<td>11</td>
<td>Albert Life</td>
<td>1860</td>
<td>1869</td>
</tr>
<tr>
<td>12</td>
<td>Colonial Life</td>
<td>1846</td>
<td>1869</td>
</tr>
<tr>
<td>13</td>
<td>European Life</td>
<td>-</td>
<td>1871</td>
</tr>
<tr>
<td>14</td>
<td>Family Endowment</td>
<td>1835</td>
<td>1869</td>
</tr>
<tr>
<td>15</td>
<td>Indian Laudable</td>
<td>-</td>
<td>1869</td>
</tr>
<tr>
<td>16</td>
<td>The medical Invalid</td>
<td>1841</td>
<td>1869</td>
</tr>
<tr>
<td>17</td>
<td>The Liverpool and London</td>
<td>1853</td>
<td>1939</td>
</tr>
<tr>
<td>18</td>
<td>The London Assurance</td>
<td>1864</td>
<td>1913</td>
</tr>
<tr>
<td>19</td>
<td>Universal Life Assurance Company</td>
<td>1840</td>
<td>1901</td>
</tr>
<tr>
<td>20</td>
<td>The Standard Assurance</td>
<td>1864</td>
<td>1939</td>
</tr>
</tbody>
</table>

1870-1900- PERIOD OF STABLE GROWTH:

In this era of the stable growth of life insurance business in India, several companies entered the scene. The Government never encouraged these Indian companies. Defying the opinion of the government, some influential citizens of Bombay joined hands and decided to form Insurance companies themselves, so that they could control the business instead of promoters from England. They decided to accept insurance on Indian lives on the same rate as that of Europeans. On 3rd December 1870, seven earnest men of Bombay, shaped the plan for offering insurance to the public without the risk of ruin, and the Bombay Mutual Life Assurance Society came into existence. The selfless ideas of the promoters can be judged from the following words, which was published in the first Article of Association of the society. “All the affairs and every transaction of the society must be open to minute inspection of every member. Each member may take part in management. Business to be conducted with the strictest economy. All profits that may accrue must be awarded exclusively to those whose contribution have caused them and to each in due proportion of his contribution.”

In 1874, Mr. Duncan McLauchlam Slater, a man with considerable experience of insurance in India founded the Oriental Government Security Life Assurance Company Ltd. To provide credibility to the company and instill confidence of the policyholders, definite and original rules were formulated for the administration of the company. These rules provided policyholders with controlling interests, prohibited amalgamation, gave a fixed monetary value to every premium paid by investing 80 percent thereof in Government securities in trust for policy holders as
their sole property, authorized share holders and policyholders to appoint their own trustees, auditors and consulting actuary and provided for investment of all funds in Indian Government securities only. An interesting innovation introduced by the company was the issue along with the Annual Reports of what was called an ‘Audit Sheet’ of life assurance in force during the year, giving the number of each of the policy issued, with the initial of the policyholders and the most complete information regarding each policy including the proportion invested in government securities and the amount of reinsurance premium paid. This practice of the company continued for several years. The company enjoyed so much trust and faith of the policyholders that its name became synonymous with life insurance. The history of Indian insurance became inseparably linked with the history of the Oriental.

Bharat Insurance Company was established in Lahore in 1896. The company was started as an answer to the monopoly enjoyed by the European companies. It was also resentful of the fact that European company charged higher premiums on Indian lives as compared to those of European lives. The high point of this company was its enthusiasm for social causes. The company invested its surplus funds in electric supply and public utility concerns; thereby promoting the welfare of those whom it wished to serve. The other pioneer worker, who championed the cause of Indian insurance, was Ernest Frederick Allum. He came to India as an officer for English Life Office, but taking note of immense potential for the future of life insurance in India founded the Empire of India Life Assurance Company with the cooperation of Rustomji Bharucha in 1896.14
In spite of the prejudice and ignorance of the people regarding life insurance, companies served for themselves a very wide field for expansion, perhaps without parallel elsewhere. The plus point was that the Indian and English Press gave wholehearted support to the cause of insurance. This publicity and coverage attracted the attention of several foreign companies which one after another extended their activities to this country. As stated earlier, there was an absence of mortality data on Indian lives. This was a great constraint as well as handicap for the new entrants. To overcome this they charged high premium on Indian lives and initially entertained only European lives.

The Commercial Union Assurance Co. Ltd., which was established in 1861 in the United Kingdom primarily dealt in general insurance started its operation in India in 1870. Here it showed interest in life business. This company like any other European company accepted insurance only on European lives. This company stayed on Indian Insurance scene for around 70 years, but it never showed enthusiasm for live business. Another European company that made its presence felt in Indian Insurance market was the City of Glasgow, which opened its Branch Office in Calcutta in 1881. This was the first European company to charge the same rates of premium for both Indian and European residents from the very beginning of its functioning. They did considerable business in India but it was amalgamated with the Scottish Union and National in 1913. The potential of new business in India prompted the Equitable Life assurance Society of New York to extend its activities in India. It was the largest life assurance company in the world at that time. The company appointed Mr. Dasborough as its authorized agent. But the
problem with this company was that no one ventured to come out to India from the Head Office at New York, this could be attributed to the fact that three of its agents died within few months after arriving in India. This resulted in the closure of its business in India and the Indian policyholders were transferred to a British fire insurance company in Bombay. This closure was a setback for the life insurance business in India.

The New York Assurance Company, also an American company, commenced its business in India but had to withdraw from the country in 1922. Before bowing out it transferred its Indian liabilities and assets to the Sun Life of Canada. The next company that came to India was floated with clear object of writing business in this country. This was the Sun Life Company of India Ltd. And was registered in England on 20th June 1891. Like the earlier mentioned two companies, it functioned for five years and later it transferred its liabilities and assets to Sun Life Assurance Society of London. Following the footsteps of foreign companies, the Sun Life Assurance Company of Canada was incorporated in 1865 and it commenced its business in 1892 by opening an agency in Bombay. There were several other smaller companies like, the Gresham Life Assurance Society of England, the London and Lancashire Life and General Assurance Association etc. There were several other foreign companies functioning in India but their names and business interests could not be mentioned due to lack of records. The condition of insurance market can be well judged by the extract from a letter written in 1890 by a Branch Secretary of an English insurance office, which was contemplating life business in this country:
“Life insurance in India is still in its infancy, and out of the population of Bombay (now at least 9,00,000) I do not suppose that more than quarter percent, if so many, are actually assured. The Indian portion of these are of all classes and castes, and are employed as clerks, etc., in offices, solicitors, barristers, in government employ, and as few as merchants. No statistics obtainable could give any guidance except in the most general way as to the prospects of life of any of these, but as a rule there expectation would be much better than the average of their respective castes. The mere fact of an Indian seeking life assurance would indicate that he was in a fairly comfortable position in life, likely to have imbibed more or less European ideas as to sanitation and cleanliness, advantage of medical treatment and so forth”.

The above observation clearly indicates that the insuring class was very small and was confined to few occupations and professions only. Most of the Indian companies established during this period particularly in the Presidency of Bombay and Madras were Mutual companies. These companies were promoted mainly for the benefits of the sectarian communities such as Christians or Zoroastrians. The workings of these companies were on very economical basis. This was due to the honorary services of office bearers and generally the near absence of agents. The following table shows the names of some of the companies and their years of commencing business in India.
## INDIAN COMPANIES 1872-1900

<table>
<thead>
<tr>
<th>S.No.</th>
<th>Name of The Company</th>
<th>Year of commencement of business in India</th>
</tr>
</thead>
<tbody>
<tr>
<td>1</td>
<td>Bombay Widows Pension Fund</td>
<td>1876</td>
</tr>
<tr>
<td>2</td>
<td>Indian Christian</td>
<td>1884</td>
</tr>
<tr>
<td>3</td>
<td>Goanese Mutual</td>
<td>1885</td>
</tr>
<tr>
<td>4</td>
<td>Mangalore Roman Catholic</td>
<td>1888</td>
</tr>
<tr>
<td>5</td>
<td>Parsi Zoroastrian</td>
<td>1888</td>
</tr>
<tr>
<td>6</td>
<td>Bombay Zoroastrian</td>
<td>1889</td>
</tr>
<tr>
<td>7</td>
<td>Hindu Provident Fund (Hindu Mutual)</td>
<td>1891</td>
</tr>
<tr>
<td>8</td>
<td>Punjab Mutual</td>
<td>1893</td>
</tr>
<tr>
<td>9</td>
<td>Sind Hindu</td>
<td>1894</td>
</tr>
<tr>
<td>10</td>
<td>Bharat Insurance Company</td>
<td>1896</td>
</tr>
</tbody>
</table>

## FOREIGN COMPANIES

<table>
<thead>
<tr>
<th>S.No.</th>
<th>Company Name</th>
<th>Year</th>
</tr>
</thead>
<tbody>
<tr>
<td>11</td>
<td>The Commercial Union Assurance Co. Ltd.</td>
<td>1870</td>
</tr>
<tr>
<td>12</td>
<td>The City of Glasgow</td>
<td>1881</td>
</tr>
<tr>
<td>13</td>
<td>The Equitable Life Assurance Society of New York</td>
<td>1882</td>
</tr>
<tr>
<td>14</td>
<td>The New York Life Assurance Company</td>
<td>1885</td>
</tr>
<tr>
<td>15</td>
<td>The Sun Life Assurance Company of India</td>
<td>1891</td>
</tr>
<tr>
<td>16</td>
<td>The Sun Life Assurance Company of Canada</td>
<td>1892</td>
</tr>
<tr>
<td>17</td>
<td>The Gresham Life Assurance Society of England</td>
<td>1893</td>
</tr>
<tr>
<td>18</td>
<td>The London And Lancashire Life And General Assurance</td>
<td>1893</td>
</tr>
</tbody>
</table>

The Swadeshi Movement aimed at boycotting British goods and in fact everything, which had any thing to do with Britain. This boycott resulted in mushroom growth of Indian insurance companies. The erstwhile shyful Indian talent and capital was encouraged to participate enthusiastically. Several life insurance companies were established with hundred percent Indian capital and management. This indiscriminate mushroom growth of companies brought with it several evil practices, prompting the British government to pass Indian Life Assurance Act (Act VI) of 1912 based on the lines of the British Assurance Companies Act of 1909. It may be said that the authoritative history of Indian insurance began to be recorded for the first time, when the government of India under this act stared publishing returns of Life Insurance companies in India.

It is the common knowledge that, at the closing years of the century India received a severe jolt in the guise of plague epidemic and famine. The economy was shattered. The number of educated men streaming out of colleges out paced the available government jobs. Growth of unemployment led to frustration and dissatisfaction. The severe political and economic grip enjoyed by the British angered the youth and violent political unrest soon overwhelmed the whole country. There were tremendous upsurge in the nationalism. As said earlier this unrest brought forward several Indian companies. The reason for the growth of insurance market at the time of political upheaval could be attributed to appreciation of insurance by the public. One thing worth mentioning here is that, though there were several Indian
companies, but they were not as patronized as they should have been. In fact foreign companies, specially the British companies, were patronized due to their wide organization in this country.

A few British companies commenced their activities during this period. The Scottish Amicable Life Assurance Society commenced their business in India but seized its operation fairly soon. The second British company that started its business was Scottish Union and National Insurance Co. this company entertained only European lives. The City of Glasgow, of which the reference has already been made, was amalgamated with this company. After amalgamation policies were issued for both European as well as Indian lives, with the same rate of premium. The Liverpool Victoria Insurance Corporation incorporated in 1906 in England, began its business in India right from its inception. Apart from the companies mentioned earlier, there were other foreign companies that were doing their business at that time. Though, some of these companies already had connection with India, specially in fire and marine business. The name of these companies were:

1. English and Scottish Law Life
2. Law Union And Crown (Later Law Union And Rock)
3. Northern Assurance Company
4. Provident Life
5. Phoenix Assurance Company
6. Royal Exchange Assurance
7. Star
8. Scottish Metropolitan

Apart from above mentioned foreign companies, the other companies that were functioning during that period were:

1. Alliance Assurance company
2. Atlas Assurance Company
3. China Mutual
4. London Assurance
5. National Mutual of England
6. Norwich Union Life Insurance Society
7. National Life Mutual Assurance of Australia


Of the above-mentioned companies the Norwich Union Life Insurance Society and the National Mutual Life Association acted as the local representatives to look after and settle claims of the London Scottish Life Office. Several of the companies mentioned above, seized to transact business after the passing of the Insurance Act of 1912.

The name of some of the largest and soundest Indian companies, which sprouted up during this period with the name of the province of its origin are mentioned below:
<table>
<thead>
<tr>
<th>S.No.</th>
<th>Name of The Company</th>
<th>Year of Commencement</th>
<th>Province of Origin</th>
</tr>
</thead>
<tbody>
<tr>
<td>1</td>
<td>United India Life Assurance Company</td>
<td>1906</td>
<td>Madras</td>
</tr>
<tr>
<td>2</td>
<td>National Indian Life Insurance Company</td>
<td>1906</td>
<td>Calcutta</td>
</tr>
<tr>
<td>3</td>
<td>National Insurance Company</td>
<td>1906</td>
<td>Calcutta</td>
</tr>
<tr>
<td>4</td>
<td>Hindustan Co-Operative Insurance society</td>
<td>1907</td>
<td>Calcutta</td>
</tr>
<tr>
<td>5</td>
<td>Indian Equitable Insurance Company</td>
<td>1908</td>
<td>Calcutta</td>
</tr>
<tr>
<td>6</td>
<td>Co- Operative Assurance Company</td>
<td>1906</td>
<td>Lahore</td>
</tr>
<tr>
<td>7</td>
<td>General Assurance Society</td>
<td>1908</td>
<td>Ajmer</td>
</tr>
<tr>
<td>8</td>
<td>Swadeshi Life (Later Changed To Bombay Life Of Bombay)</td>
<td>1908</td>
<td>Bombay</td>
</tr>
</tbody>
</table>


Side by side with the comparatively large joint stock companies, there sprang up over 500 Provident Societies—small uneconomic units sought to cater to the needs of small income groups and failed miserably in their task of consolidating the savings of their constituents. Among these companies, there grew a tendency to conduct business on actuarially unsound principles, and this was not good for the general health of the Indian Insurance sector. Many of these bubble companies by means of glossy advertisements and cheap rates on premium collected large
amounts and in due course shut down their activities, not to be found again. Fraud was rampant against the common people.

**FROM 1913 TO 1930: THE PERIOD OF TRIAL:**

This was indeed a period of trial for the life insurance industries in India. The first world war had started during this period and had disastrous effect on the overall economic condition of the country. Though, the trade and industry tried their best to accept this cruel reality and adjusted their businesses accordingly. War profits were plunged back into the industries to strengthen it and minimize the effect. Money markets in India went out of gear; the normal credit channel dried up and liquidation of industries were alarmingly high. This statement could be adjudged from the fact that – 55 during 1913-1914, 11 in 1915, 13 in 1916 and 82 before 1924, were liquidated. This general failure of money market affected insurance industries disastrously. This failure in insurance business was compounded after several companies wrapped up their business after the passing up of Insurance Act 1912. The general public lost much of its faith in Indian life insurance that the Swadeshi Movement of the first decade of the century had stimulated.

At a time, when the prospect of Indian insurance was definitely gloomy, help came from unexpected quarters. Father of the nation Mahatma Gandhi, who had entered the political scene by then, called for general boycott of British goods. And this time the boycott for British goods and institutions were widespread and effective. And the Indian life offices received the much-needed boost for its sustenance. Not only this voices in support of Indian offices were raised from political platform and legislative
councils. National leaders, declared, "It is the duty of every Indian to support only Indian insurance.... The key note of all our Swaraj is in placing all our insurance with Indian companies."

This raising of slogans by aggressive leaders blended with patriotic fervor resulted in converting the cause of Indian insurance to national cause. This upsurge in nationalism led to much constructive thoughts. Sharing the Mahatma's views on political, social and economic problem that faced the country, the middle class intelligentsia realized the benefits of thrift and saving and overcame their resistance to life insurance.

The enthusiasm shown by the Indian public for the Indian insurance companies, were not the same on the part of the Government. The step-motherly treatment extended by the then Indian Government can be measured by the fact that, though the government exerted severe control on the Indian companies through the Insurance Act of 1912 but never supported or encouraged them. They were not protected against the ever-increasing foreign competition. On the other hand, the lack of control over foreign offices and the indifference of the authorities towards the future or the prosperity of Indian insurance companies placed them in a none too comfortable position. All this discrimination led to the cry for the immediate need of amending the insurance law so as to disclose details of the business carried on by non-Indian companies. This stance for the cause of Indian insurance companies were taken up by the public bodies, commercial association as well as the national leaders made it an issue in their campaign for independence.

No doubt the period of 1913 to 1930 was a period of international turmoil, but there were few foreign companies, who
braving all this odd commenced business in India. Few of them were: Royal London Mutual Insurance Society, Yorkshire Life Insurance Company, the Shanghai Life Insurance Company Ltd., the Crown Life Insurance Company of Canada etc. Of the above mentioned companies the Shanghai Life Insurance Co. Ltd. was incorporated under extra-territorial laws in China with Head Office in Shanghai. The business of this company was taken over by the China Mutual Life Insurance Company after amalgamation. The Allianz und Stuttgarter Life Insurance Bank, the largest European company was established in Germany. This company ventured in India and did commendable business right from the beginning. But this company didn’t remained on the Indian scene, owing to the out-break of second world war as the prime reason. The reason for the increased participation in the Indian insurance market by the foreign companies was due to post-war prosperity. The table below shows the name of some of the foreign companies, which started their business during 1913-1930, with their year of commencing business in India and the year of exit.

### FOREIGN COMPANIES 1912-1930

<table>
<thead>
<tr>
<th>Name Of The Company</th>
<th>Entry In Indian Market</th>
<th>Exit</th>
</tr>
</thead>
<tbody>
<tr>
<td>Yorkshire Life Insurance Company</td>
<td>1915</td>
<td>-</td>
</tr>
<tr>
<td>Royal London Auxilliary</td>
<td>1915</td>
<td>1922</td>
</tr>
<tr>
<td>Great Eastern</td>
<td>1916</td>
<td>-</td>
</tr>
<tr>
<td>Shanghai Life Insurance Co. Ltd.</td>
<td>1916</td>
<td>1920</td>
</tr>
</tbody>
</table>
China Underwriter | 1924 | -
---|---|---
Prudential | 1924 | -
Allianz Und Stuttgarter | 1929 | 1939
Crown Life | 1930 | -


The period 1930-1939 in Indian insurance history can be compared to the period 1834-1868 in the British insurance history from the point of view of the large number of companies ceasing operations. In both countries, these developments prompted the respective governments to enact legislation for regulating the operations of the insurance companies. The legislation and amendments were taken up as and when problem arose. The Great Depression of thirties also had its affect on the Indian insurance but the severity was not the same as felt in the rest of the world. Though, foreign companies operating in India bore the brunt most and several opted out. The Indian companies sailed happily through this troubled time, mainly due to the sweeping nationalism ignited by Civil Disobedience Movement. All these generated tremendous boost in the business of Indian insurance companies.

The period 1939-55 has been marked by the following events affecting economy in general and insurance business in India in particular:

i) World war II

ii) A series of amendments to the Insurance Act, 1938
iii) Appointment of Sir Cowasji Jehangir to enquire into and to recommend measures to check certain trends and undesirable features in the management of insurance companies.

iv) The findings of the Sub-Committee on Insurance under the National Planning Committee. Pandit Jawaharlal Nehru headed the committee and Sir C.V. Mehta was the Chairman. He was aided by Professor K.T. Shah, who was the Honorary General Secretary of the National Planning Committee.

v) Partition of India

vi) Devaluation of Rupee on 18th September 1949.

vii) The Insurance Amendment Act of 1950 abolishing Principal Agencies and setting an expense ratio in general business.

viii) Interest yield suggesting to the lowest level of 3 percent and remaining at that level over 1947-1948-1949.

ix) The rate war between insurance companies, cut throat competition.

x) The recommendation of ruling political party, the Indian National Congress, to the Government that life sector of insurance business be nationalized. (The recommendation was made by Mr. H.D. Malviya on behalf of the Congress in his book, Insurance Business in India, with a foreword by Mr. Shriman Narayan, the then General Secretary of Indian National Congress).
xi) The founding of Jivanlal Chimanlal Setalwad Memorial-the Federation of Insurance Industries.

xii) The Ordinance of January 19, 1956, nationalizing the life sector of insurance business.

The events listed above amply justifies for the promulgation of the nationalization ordinance on 19th January 1956. Of all the Indian and foreign companies working during that period, record of number of insurers was scandalous. As the business of insurance could be started with a small capital, a number of operators took advantage of this and resorted to all sorts of malpractices. After the second world war the interest rate in India fell to an all-time low level of 3 percent and continued for a couple of years. This prompted several Indian companies to increase their premium rates. It was a step in haste. Though, this folly of increasing the premium was soon realized and the rate was scaled down. This to some extent reflects the shortsighted and self-centered policy of Indian insurers. The establishment of federation of Insurance Institutes was a positive measure toward inculcating insurance-mindedness among the people. Nationalization, just when the federation was being established, somewhat clouded its prospects but the new public corporation did not neglect it all together, though the federation did not develop on the lines of that greatest of the insurance organization, the Chartered Insurance Institute of London. However, the period 1939-1955 laid the foundation for the excellent take off for the Life Insurance Corporation of India.

The advent of independence and adoption of five-year plans took the country on the road to development and prosperity. The
people of India moved towards attaining economic independence and there were clear belief among the masses at changing agrarian society in to an industrialized society. The thrust was given on increasing the standard level of education. This increase in the level of education proved a boon for the insurance society as the insurance consciousness among the people improved. The domestic companies witnessed tremendous confidence and indulged themselves in vigorous developmental programmes. Huge amount of capital was available with the insurers and government found it hard to resist the idea of utilizing these funds to developmental plans as well as providing better security for the investing public. This change in the outlook of the government was also prompted from the fact that several companies were indulging in malpractices and misappropriation of these funds. Seeing all this the government initiated the nationalization process of life businesses and ordinance was passed on 19th January 1956, nationalizing all life insurance businesses. The Life Insurance Corporation was established on 1st September 1956 under the Life Insurance Corporation Act, 1956. The prime objective of this historic move was spelt out by Finance Minister, Mr. C. D. Deshmukh, in his broadcast to the nation on the eve of nationalization, as, "The nationalization of Life Insurance is a further step in the direction of more effective mobilization of the people's savings. It is a truism, which nevertheless cannot be too often repeated, that the nation's savings are the prime mover of its economic development. With the second plan in the offing, involving an accelerated rate of investment and development, the widening and deepening of all possible channels of public's
savings has become more than ever necessary. On this process the nationalization is a vital part.”

When moving the Life Insurance (Emergency Provision) Bill, 1956 in the House of People on 29th February 1956, the Finance Minister stated, “insurance is a essential social service which a welfare state must make available to its people and the state must assume responsibility for rendering this service once it is clear beyond reasonable doubt that it cannot be provided in any other manner. So; while it is the failure of the general run of insurance companies to live up to the high traditions demanded of them that has led government to take this step, I would like to emphasize that nationalization in this field in itself is justifiable. With the profit motive eliminated, and the efficiency of service made the sole criterion under the nationalization, it will be possible to spread the message of insurance as far and as wide as possible, reaching out beyond the more advance urban areas and its hitherto neglected, namely, rural areas” The nationalization was regarded as a tool at the strengthening the concept of socialistic pattern of society that country had adopted. Nationalization of life insurance was conceived in a genuine spirit of service to the people and to introduce in to the lives of millions in the rural areas a new sense of awareness of building for the future in the spirit of calm confidence which insurance alone could provide.

The move initiated by the government to nationalize the insurance sector was not welcomed by every quarter. This can be judged from the observation made by Dr. Om Prakash, when he stated, “nationalization was a political necessity on the eve of the General Election to enable the Congress Party to steal a march
over certain other political parties which has been professing a
greater degree of socialism." Whatever the criticism the
nationalization enjoyed mass support. People knew that the
nationalization would make their investment secure from any kind
of misappropriation. They were well aware that life insurance, if
successfully developed, lays strong foundations for politically and
socially stable and an economically viable society. Apart from
providing a sense of security for the insured family it garners
maximum resources form small savings for planed socio-economic
development of a country.

At the time of inception Life Insurance Corporation (L.I.C.)
of India had 5 zones, 34 Divisional Offices and 216 Branches. The
Corporation took off with 2,19,000 Agents with only 89,000 active
one. In all there were 5000 Field Officers on the rolls. The
Corporation absorbed 154 Indian insurers and 16 non-Indian
insurers as well as 75 Provident Societies. The base with which
the Corporation started are stated below.

<table>
<thead>
<tr>
<th>New business</th>
<th>Rs. 216 crores.</th>
</tr>
</thead>
<tbody>
<tr>
<td>Total business</td>
<td>Rs. 1220 crores</td>
</tr>
<tr>
<td>Total premium</td>
<td>Rs. 59 crores</td>
</tr>
<tr>
<td>Life fund</td>
<td>Rs. 355 crores</td>
</tr>
<tr>
<td>Expenses</td>
<td>31.8 %</td>
</tr>
<tr>
<td>Renewable expenses</td>
<td>17.3 %</td>
</tr>
<tr>
<td>Gross interest rate</td>
<td>3.51 %</td>
</tr>
<tr>
<td>Lapses: 0 year</td>
<td>5.2 %</td>
</tr>
<tr>
<td>1 year</td>
<td>23.8 %</td>
</tr>
<tr>
<td>2 year</td>
<td>9.6%</td>
</tr>
<tr>
<td>all year</td>
<td>7.6 %</td>
</tr>
</tbody>
</table>
Population of India | 40 crores  
---|---
Per capita insurance | Rs. 30  
Monthly wage bill of staffs | Rs. 93,81,000  
Yearly bill | Rs. 5,25,72,000  


The L.I.C., as a custodian and trustee of the funds of millions of policyholders and as the largest single investor in the country is the foremost non-banking financial intermediary and an important constituent of the Indian capital market. As an organization with monopoly for doing life business in the country, it has a vital role to play in transforming savings into productive investment in the economy. This task has to be achieved with utmost efficiency, at low cost, and without producing the evil consequences of the exercise of monopoly power i.e. higher 'price' and welfare loss to the society.

It is almost forty-six years since life insurance business was nationalized in India. Since then it is providing service to the policyholders and to the nation. The Corporation has, thus, have been carrying on life insurance business for a fairly long period of time as to warrant a critical look at its operation with a view at finding out the major achievements and failure particular in the light of the objectives led out at the time of nationalization.

Now we will take a look at the evolution of L.I.C. from 1957 to the present day. In the table below the figure is given for the
first five years and the last five years of the activities of the Corporation.

<table>
<thead>
<tr>
<th>Year</th>
<th>New Business in India</th>
<th>New Business out of India</th>
<th>Total New Business</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>No. of policies (in lakh)</td>
<td>Sum assured (Rs. In crore)</td>
<td>Annual premium receivable (Rs. In crore)</td>
</tr>
<tr>
<td>Dec. 1957*</td>
<td>9.53 (7.89)</td>
<td>329.25 (277.67)</td>
<td>N.A.</td>
</tr>
<tr>
<td>Dec. 1958</td>
<td>9.54</td>
<td>339.06</td>
<td>N.A.</td>
</tr>
<tr>
<td>Dec. 1959</td>
<td>11.43</td>
<td>419.70</td>
<td>N.A.</td>
</tr>
<tr>
<td>Dec. 1960</td>
<td>12.49</td>
<td>487.84</td>
<td>N.A.</td>
</tr>
<tr>
<td>Dec. 1961</td>
<td>14.61</td>
<td>593.61</td>
<td>N.A.</td>
</tr>
<tr>
<td>1996-97</td>
<td>122.68</td>
<td>56740.50</td>
<td>3345.39</td>
</tr>
<tr>
<td>1997-98</td>
<td>13.11</td>
<td>63617.69</td>
<td>3841.12</td>
</tr>
<tr>
<td>1998-99</td>
<td>148.44</td>
<td>75316.28</td>
<td>4863.41</td>
</tr>
<tr>
<td>1999-00</td>
<td>169.77</td>
<td>91214.25</td>
<td>6008.28</td>
</tr>
<tr>
<td>2000-01</td>
<td>196.57</td>
<td>124771.62</td>
<td>8851.89</td>
</tr>
</tbody>
</table>

* 16 months

Note: Figures in parenthesis against 1957 relate to January 1 to December 31,1957.


In the above table we find that during the first five years, the progress of life insurance business in India was modest but with time it gained momentum and progressed slowly and steadily. We
see in the table that in the first five years total number of policies sold by the Corporation was in the tune of 50-55 lakhs. When we compare these figures with that of the last five years, we find a sea difference. This difference in itself point out to the growth and development, the Corporation has achieved.

After taking a look at the trend in new life business, we will take a look at the total business in force in India as well as out of India. The details of this are given in the table below.

**BUSINESS IN FORCE: INDIVIDUAL INSURANCE (EXCLUDING ANNUITIES)**

<table>
<thead>
<tr>
<th>Year</th>
<th>In India</th>
<th></th>
<th>Out of India</th>
<th></th>
<th>Total</th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>No. of policies (in Lakh)</td>
<td>Sum assured &amp; Bonuses (Rs. Crore)</td>
<td>Premium income (Rs. In crore)</td>
<td>No. of policies (in Lakh)</td>
<td>Sum assured &amp; Bonuses (Rs. Crore)</td>
<td>Premium income (Rs. In crore)</td>
</tr>
<tr>
<td>1995-96</td>
<td>708.78</td>
<td>294336</td>
<td>12093.63</td>
<td>0.82</td>
<td>1422</td>
<td>65.41</td>
</tr>
<tr>
<td>1996-97</td>
<td>776.66</td>
<td>343018</td>
<td>14499.50</td>
<td>0.84</td>
<td>1601</td>
<td>73.87</td>
</tr>
<tr>
<td>1997-98</td>
<td>849.15</td>
<td>398959</td>
<td>17065.64</td>
<td>0.88</td>
<td>1789</td>
<td>81.00</td>
</tr>
<tr>
<td>1998-99</td>
<td>916.37</td>
<td>457435</td>
<td>20234.05</td>
<td>0.89</td>
<td>1766</td>
<td>81.83</td>
</tr>
<tr>
<td>1999-00</td>
<td>1012.99</td>
<td>534589</td>
<td>24540.37</td>
<td>0.90</td>
<td>1862</td>
<td>90.00</td>
</tr>
</tbody>
</table>


The table gives us an idea about the total business in force at the end of each year. We find in the table that total number of policies have increased in every year. Though this increase has not been much but significant. But there has definitely been healthy increase in the total premium income and the sum assured. This
increase holds significance also because of the fact that after the implementation of Insurance Regulatory Act (I.R.A) Bill and entry of foreign players the going has became little tough for the Corporation. But again the consolidating fact is that even in this scenario the L.I.C. has shown growth in each and every year.

SETTLEMENT OF CLAIMS:

The L.I.C. has 2048 branches throughout the country, which helps in rendering all the necessary services to the policyholders. The service of any insurance company is judged by the speediness in settling claims, and here the L.I.C. has emerged as the winner. During the year 1999-00, the Corporation settled 66.24 Lakh claims for Rs. 9211.30 crore compared to 59.83 Lakh claims for Rs. 7583.18 crore in the previous year.

The efficiency and speed with which the claims are settled are by and large, indicated by the proportion of claims settled during a year to the claims intimated during the same year. As for the first five years data about the claims intimated and settled is not available. Whatever the data available about the amounts to be settled and settled during this period points to the fact that the Corporation was very prompt in this area. But in spite of this promptness the outstanding claim is pretty sizeable. When we take a look at the claim settlement during the last five years, we find that the performance of the Corporation has improved by leaps and bounds. We find in the table that, during the year 2000-01, the corporation settled 75.86 lakh claims for Rs. 11637.98 crore compared to 66.24 lakh claims for Rs. 9211.30 crore in the previous year. The percentage of claim outstanding at the end of the year to the claims payable during the year is 1.67% by number
and 3.58% by amount on 31st March 2001 compared to 2.36% and 4.19% respectively as on 31st March 2000.

### CLAIMS SETTLEMENT OPERATION

<table>
<thead>
<tr>
<th>Year</th>
<th>Number (in lakhs)</th>
<th>Amount (Rs. in crore)</th>
<th>Number (in lakhs)</th>
<th>Amount (Rs. in crore)</th>
<th>Number (in lakhs)</th>
<th>Amount (Rs. in crore)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Dec. 1957 *</td>
<td>N.A</td>
<td>28.70</td>
<td>N.A</td>
<td>24.96</td>
<td>N.A</td>
<td>13.03</td>
</tr>
<tr>
<td>Dec. 1961</td>
<td>N.A</td>
<td>34.11</td>
<td>N.A</td>
<td>32.57</td>
<td>N.A</td>
<td>13.93</td>
</tr>
<tr>
<td>1996-97</td>
<td>49.42</td>
<td>5,277.38</td>
<td>49.49</td>
<td>5,691.49</td>
<td>1.60</td>
<td>315.59</td>
</tr>
<tr>
<td>1997-98</td>
<td>56.51</td>
<td>6,673.07</td>
<td>56.52</td>
<td>6,677.04</td>
<td>1.59</td>
<td>315.62</td>
</tr>
<tr>
<td>1998-99</td>
<td>60.07</td>
<td>7,615.78</td>
<td>59.83</td>
<td>7,583.18</td>
<td>1.83</td>
<td>348.22</td>
</tr>
<tr>
<td>1999-00</td>
<td>66.19</td>
<td>9,266.25</td>
<td>66.42</td>
<td>9,211.30</td>
<td>1.60</td>
<td>403.17</td>
</tr>
<tr>
<td>2000-01</td>
<td>75.55</td>
<td>11,666.82</td>
<td>75.86</td>
<td>11,637.98</td>
<td>1.29</td>
<td>432.01</td>
</tr>
</tbody>
</table>

*16 months

N.A. - Not Available


We see in the above table that the claim settlement performance of L.I.C. is improving consistently and is catching
up with the best insurer in the world. In fact in the last two years the L.I.C. has been able to bring down in the number of outstanding claims, quite considerably. Though, the amount outstanding has increased a bit but this is well under control. In spite of this commendable job, the Corporation needs to improve in this department because the insurance market is changing day by day and the new players are world players, who have entered the Indian market to capture the business. And they know very well that they can win the hearts of Indian customers, only with better services.

In order to assess the role of L.I.C. in mobilizing Household Savings in the country, the study of annual accretions to the Corporation’s Life Fund is essential. The table below gives the data about the total Life Fund at the end of each year.

**LIFE FUND OF LIC INDIA**

<table>
<thead>
<tr>
<th>Year</th>
<th>Fund</th>
</tr>
</thead>
<tbody>
<tr>
<td>Dec. 31 1957</td>
<td>410.47</td>
</tr>
<tr>
<td>Dec. 31 1958</td>
<td>447.81</td>
</tr>
<tr>
<td>Dec. 31 1959</td>
<td>495.29</td>
</tr>
<tr>
<td>Dec. 31 1960</td>
<td>560.38</td>
</tr>
<tr>
<td>Dec. 31 1961</td>
<td>331.59</td>
</tr>
<tr>
<td>Mar. 31 1996</td>
<td>72780.06</td>
</tr>
<tr>
<td>Mar. 31 1997</td>
<td>87,759.96</td>
</tr>
<tr>
<td>Mar. 31 1998</td>
<td>1,05,832.89</td>
</tr>
</tbody>
</table>
We see in the table that growth in the life insurance fund is increasing right from its inception. In the first five years the growth rate is very modest but keeping in view the economic condition of that period, this growth can be termed as good. The growth in first five years from 9.1% reached to 14.1%.

In the last few years growth rate has remained almost consistent. The total Life Fund witnessed an increase of 20.92% in 1999-00 in comparison to the previous year. For the year 1998-99, this was 20.37%. Thus we see marginal increase in life funds in two years. In 2000-01, the life fund was Rs.1,86,024.57 crores registering an increase of 20.76%. Though, the increase is marginal but nonetheless significant, because even this increase add huge amount of money to the fund.

| Mar. 31 1999 | 1,27,389.06 |
| Mar. 31 2000 | 1,54,043.73 |
| Mar. 31 2001 | 1,86,024.75 |

STRUCTURE, FUNCTIONING AND MANAGEMENT OF L.I.C:

Structure:

A typical life insurance company, which is going to operate in the whole country, has to have multiple tier organizational structure. The top end of the organization has to be the corporate office, which is headed by an executive chairman who also is the chairman of the board of directors. They oversee the functioning of specific the departments. Each of such departments is headed by an Executive Director. The main function of the corporate office is headed by the core departments viz., Actuarial, Marketing, Finance and Accounts. The other departments are Investments, Group and Superannuation and certain others handling specific areas viz. Personnel, Buildings, Audits, Inspection Department and Vigilance Department. The broad functions of each of these departments are highlighted below.

Actuarial Department:

This department could be termed as the heart of insurance business as it provides the specific basis of insurance. It lays down the methods and standards for underwriting of lives along the lines of most recent developments. This can be done only through comprehensive research and frequent analysis of international market. This department also underwrites large sum assured proposals, which is beyond the limits of subordinate offices. This is a common knowledge that for any life insurance policy, the premium determination and benefits specifications are too be often analyzed. This premium rate in turn is fixed after evaluating Mortality, Interest and Expenses. This department constantly studies all this. It has to get data from the various
operating offices regarding mortality experience on standard and sub-standard lives, analysis of lapsation and details of product preferences of policyholders.  

Apart from formulating the policy conditions and updating the premium rates, the department comes out with new plans of insurance as per the need of insuring public. The complex task of valuing the assets and liabilities is mandatory, and it must be done once in two years as per the Insurance Act 1956. The Chief Actuary has to decide the basis of valuation, obtain the data from the operating units, satisfy about the dependability and purity of the data and work out the net surplus for distribution between the government and the policyholders. This direction is given in Chapter VI of the Life Insurance corporation Act, 1956, when it states that, "the Corporation shall, once at least in every two years cause an investigation to be made by actuaries in to the financial condition of the life insurance business of the Corporation, including a valuation of liabilities of the Corporation in respect thereto and submit the report of the actuaries to the Central Government."  

**MARKETING DEPARTMENT:**

The primary task of marketing department at the corporate office is to finalize the plans of development of new business. It has to guide and co-ordinate the preparation of performance budget of the units and study the need for opening new offices for greater spread and penetration by studying the potential of various areas. The marketing department handles the task of opening new offices, recruits marketing officials to develop sales force, arranges for their training as well as training material.
This department organizes research work connected with marketing and comes out with data related with customer preferences as well as help the actuarial department in developing need-based products. When new product is launched the task of promoting the product and educating and training the agents is done by this department.

The field personnel of L.I.C. of India are of two tiers. One is the development officers and the other agents. The marketing department has to handle all matters relating to the norms of performance and compensation packages for development officers. As we know, the agents are the front end of the selling organization and it has the same importance in L.I.C., this department devices innovative methods of selection and for training motivations for the newly recruits.

Finance and Accounts Department:

One of the tasks of this department is to lay down the accounting procedure to be followed by various offices. As the L.I.C. services in almost every part of the country as well as in some foreign countries, the procedure and forms are standardized. Periodically, accounting return from all the offices are received, which in turn is coordinated, scrutinized and consolidated by this department. The annual statutory accounting returns are finalized on the basis of return from the operating offices. Fiancé and Accounts Department, prepares and submits a report of the Corporation's activities during the financial year. Not only this, the department also arranges for the audit by the statutory auditors and meets the various requirements of the auditors. The Life Insurance Corporation Act, 1956 in its Chapter VI, Act 25
(2), clearly points out about the accessibility the auditors should have, when it states, "every auditor in the performance of his duties shall have all the reasonable time access to the books, accounts and other document of the Corporation."  

**Groups and Superannuation Department:**

There are several plans like Group, Gratuity, Group Pension etc., which comes under superannuation. The L.I.C. have several schemes and policies to cover all the above-mentioned plans. This is because of the fact that there is tremendous potential for the business and its still growing. To manage the vast market, a separate department has been created to manage as well as promote this line of product. in fact this department undertakes the same function as the marketing department does for conventional insurance business.

**Personnel Department:**

The personnel department deals with all policy matters relating to all categories of staff regarding recruitment, promotion, posting, transfer, disciplinary action etc. it also takes into consideration the demands of the employee as well as the various organization representing them. This department also lays down the general procedure to be followed by sub-ordinate offices for the recruitment of clerical and subordinate staffs. The activities related to the training of staffs and officers are controlled by this very department.

**Investment Department:**

The Life insurance business is such that large funds get accumulated with insurance companies. The insurance contracts
have long gestation period and the funds belong to the people so it needs to be carefully invested to ensure safety as well as earn maximum possible yield. The investment policy has to be within the framework of statutory requirement. To efficiently discharge the function of investment, the department has to conduct research in different areas, study of market trends, analysis of performance of various companies, industries and management groups and projection of profitability in future, are undertaken by this department.

It is the duty of this department to maintain records related to investment and keep ledger for different investments. This is required for follow up of dividends, interest payments, rights and bonus issued and redemption. It also helps in the preparation of different statutory returns of investments required to be furnished.

Apart from the above mentioned, there are several other departments such as Legal Department, Mortgage Department for granting loans to staff and policyholders, the construction of houses and internal audit and Inspection, to monitor the transaction, disbursement and investment. At the zonal level, the departments are more or less the same as at the central office. The only difference is that at this level the thrust is more on operations than on policymaking.

**Grievance Redressal System:**

In a vast organization like L.I.C, catering to the various needs and aspirations of millions of policyholders, grievances of customers do arise occasionally. In order to reduce these grievances L.I.C. has established an elaborate grievance redressal
machinery. This machinery is very comprehensive and is easily accessible to the customer. The details of it is given under.¹⁴

a) **Redressal Officers**: Grievance Redressal Officers have been designated at all levels of organization. At the Branch level: The Sr/Branch Manager, at the Divisional level: the Marketing Manager, at the Zonal level: the Regional Manager (marketing) in case of ordinary policies. The Regional Manager (pension and group schemes) in case of pensions and group schemes. And at the central level: the Additional Executive Director/Chief (marketing customer services) in case of ordinary policies. Chief (pension and group schemes) in case of pension and group schemes. Policyholders can contact these designated officials and seek redressal of their grievances.

b) **Complaint Cells**: In present day, the life is very hectic and is not possible for everybody to meet the Redressal Officer in person. For the benefit of such policyholders, a separate complaint cell has been established at central, Zonal, Divisional level. The customer can send their complains in writing to these offices without bothering to meet the authority in person. These complaint cells are registered and monitored with the respective servicing units for proper redressal.

c) **Claims Review Committee**: In case of death claims, it becomes the duty of the Corporation to give the assured sum to the genuine claimant. But, sometimes the claimants are not satisfied with this, to address such dissatisfaction regarding repudiation claims review committee has been established at all the seven zonal offices and central office. These
committees comprise of senior officials of the Corporation and also the retired judges of High Court and District Court.

d) Complaint Received Through the Government: Some of the aggrieved policyholders, instead of writing to the respective complaints cell, write directly to the government of India seeking redressal of their grievances. To entertain such complains, special cell has been set up at central office level.

e) Policyholder Councils and Zonal Advisory Boards: In all the hundred Divisional Centers, policyholder’s Councils have been established. Three policyholders of the area represent the interest of the policyholders and interact with the Divisional Management on consumer concerns. Similarly, at all the seven Zonal centers, Zonal Advisory Boards are functioning. Many consumer-activists are inducted as member to these courts to protect the rights of the consumers.

f) Consumer Affairs Committee: A consumer affairs committee has been constituted at the board level with many eminent consumer activist and members of public joining as members along with the Chairman and the Managing Directors of the Corporation. This committee looks in to the various areas of consumer interest and advice the Corporation.

g) Citizen’s Charter: L.I.C. has adopted a citizen’s charter through which it reiterates its commitment to the customers and the standards of the general procedures, the standards of policy servicing, the procedure for easy access to information for customers and the standards for fairness in dealing with the customers have been laid down.
Insurance Ombudsman:

The L.I.C. established the insurance ombudsman in each of the headquarters of the zones to receive and consider complains. The appointment of Insurance Ombudsman was done through a notification issued by the Central Government under Section 114 of the Insurance Act of 1938. The Ombudsman is empowered to receive and consider complaints under any partial or total reperdition of claims by an insurer, any dispute in regard to premium paid or payable in terms of the policy, any despite on the legal construction of the policies in so far as such dispute relate to claims, delay in settlement of claims and non-issue of any insurance document to customers after receipt of premium. Any person who has grievances against the Corporation may himself or through his legal heirs can make a complaint in writing to the ombudsman within whose jurisdiction the Branch Office is located.\[35\]

Functioning:

In the Life Insurance Corporation Act, 1956, Chapter III, Act 6 (1), it is clearly stated, “subject to the rules, if any, made by the central government in this behalf, it shall be the general duty of the corporation to carry on life insurance business, whether in or outside India, and the corporation shall so exercise its power under this act as to secure that life insurance business is developed to the best advantage of the community.” This Act clearly pinpoints its basic function of L.I.C. the duty assigned to the Corporation has been duly fulfilled and the business completed by the Corporation has shown continuous rise since its inception. The progress made by the Corporation in overall
increase to the national economy has been way ahead. In fact the increase in the new businesses of the corporation has been several hundred times better than of overall economic progress. Though, initially the growth of the corporation was steady and slow. In fact, in the first decade of Life Insurance Corporation, the progress achieved by it fall short as far the expectation. This can be verified from the fact that, at the time of nationalization, the union Finance Minister, anticipated its business to grow to Rs. 8000 crore in ‘a decade or even less’, but to cross that mark it took around 15 years for the corporation.

No doubt the corporation failed to achieve the target envisaged by the Finance Minister but it will be unfair to blame this shortfall on the corporation solely. The main hindrance for the L.I.C to achieve its target of increasing per capita life insurance business was the explosive growth rate of the population. Any way all this deterrent did not perturbed the Corporation in its goal of emerging as the number one insurer of the country and the justify the steps of the government ion nationalizing the insurance business. One thing more worth enquiring in the context of functioning of the L.I.C. will be to find the extent to which it has been able to spread the message of life insurance to uninsured section of the society and particularly to the rural areas of the country. In the early days of L.I.C, in the reply of a questionnaire of the working group on life insurance administration of the Administrative Reforms Commission, the Corporation admitted that it lacks data on the number of individual or families in India who hold life insurance policies and also on how many house holds or individuals hold more than one policy. Instead, it relied on the NCAER studies on the Urban
Commenting on the lack of availability of data, the Working Group observed: “we are constrained to state that the Corporation’s approach to the basic problem of spreading the message of insurance to every nook and corner of the country is not constructive and lacks the zeal required of a nationalized undertaking specially charged with this responsibility. It is indeed a pity that even after twelve years of its establishment the Corporation has no statistics of its own regarding the number of individuals or families who held life insurance policies.” The scenario is no different now. The L.I.C does not provide any information on the number of individuals or families who have life insurance policy. The only detail it provides is about the total number of policies issued by the Corporation and the sum assured. Below analysis of functioning of L.I.C. is given.

Rural Business:

Sustained and conscious efforts are made to carry the message of life insurance to the rural areas, specially the backward and remote areas. As a result of this sustained effort there has been steady growth in new businesses. The new business from rural areas amounts to a sum assured of Rs. 17,955.88 Crore under 35,33,694 policies representing a 18.18% of the policies and a 14.59 percent share of the sum assured completed during the year 2000-01. This is as per the definition of rural/social sector as stated by the Insurance Regulatory and Development Authority. for the purpose of comparability with the performance of the earlier years and prior to the definition given by the IRDA, rural business as a percentage of the total new
business was 55.35% on the number of policies, 47.76% on sum assured and 45.34% on the first premium income. The detailed analysis of the working of L.I.C. in India is given in the table below.

**GROWTH OF RURAL BUSINESS:**

<table>
<thead>
<tr>
<th>Year</th>
<th>Number of policies (in lakh)</th>
<th>Sum assured (Rs. in Crore)</th>
<th>Growth rate</th>
<th>Share of the rural new business in total new business.</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td></td>
<td></td>
<td>Policies</td>
<td>Sum assured</td>
</tr>
<tr>
<td>1995-96</td>
<td>52.57</td>
<td>21263.59</td>
<td>7.2</td>
<td>-1.4</td>
</tr>
<tr>
<td>1996-97</td>
<td>60.33</td>
<td>24278.73</td>
<td>14.8</td>
<td>14.2</td>
</tr>
<tr>
<td>1997-98</td>
<td>68.40</td>
<td>27550.69</td>
<td>13.4</td>
<td>13.5</td>
</tr>
<tr>
<td>1998-99</td>
<td>81.23</td>
<td>35372.94</td>
<td>18.8</td>
<td>28.4</td>
</tr>
<tr>
<td>1999-2000</td>
<td>97.04</td>
<td>44168.19</td>
<td>19.5</td>
<td>24.9</td>
</tr>
</tbody>
</table>

Average Growth Rate

<table>
<thead>
<tr>
<th>Total</th>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>359.57</td>
<td>152634.14</td>
<td>14.74</td>
<td>15.92</td>
<td>52.1</td>
</tr>
</tbody>
</table>

**Source:** 43rd Annual Report, 1999-2000, Life Insurance Corporation of India, P.17

The above table gives the total number of policies and total sum assured in the rural areas. The growth rate in terms of policies and sums assured is also given. The share of rural business in total business carried out by the L.I.C. India is also
given. We find in the table that there has been no substantial but steady increase in the total policies sold. In the year 1995-96 total number of policies sold was 52.57 lakhs, this increase to 97.04 lakh in 1999-2000. Overall increase in the number of policies sold in 1995-96 and 1999-2000 was 44.47 lakh i.e. total increase of 84.59%. Total number of policies sold between 1995-96 to 1999-2000 was 359.57 lakh.

The total sum assured between the year under preview was Rs. 1,52,634.14 crore. This witnessed an overall increase of 107.7%. The average growth rate of new policies has remained almost consistent barring the year 1995-96, which reported only 7.2% growth rate. But if we consider the growth rate between 1995-96 and 1999-2000, it is very substantial, i.e. 170.8%. The share of new business done in the rural areas has remained significant all through the last five years. The share of rural business in terms of policies and sum assured is 52.1% and 44.56% respectively.

Zone-Wise Analysis:

The performance of the L.I.C. in procuring new business has been different in different zones of the Corporation. The table below provide data on Zone-Wise new business completed. In the table we see that in 1999-2000, eastern zone has topped the table in procuring maximum number of policies but up to 31st March 2000, western zone was slightly ahead of the eastern zone. One thing worth mentioning here is that the population of eastern zone as per the 1991 census was much larger than the western zone, or for that matter much more than any other zone. In terms of sum assured, the eastern zone again proved to be the leader. As far as
average sum assured on the policies is concerned, the western zone led the pack in this category.


<table>
<thead>
<tr>
<th>Zone</th>
<th>Population in lakh as per 1991 census</th>
<th>Number of policies</th>
<th>Sum assured (Rs Crore)</th>
<th>Average sum assured per policy (Rs)</th>
<th>First year premium income Rs. in lakh</th>
</tr>
</thead>
<tbody>
<tr>
<td>Northern</td>
<td>1,015.09</td>
<td>22,43,292</td>
<td>13,968.41</td>
<td>62,267</td>
<td>80,577.13</td>
</tr>
<tr>
<td>North-central</td>
<td>1,376.38</td>
<td>18,24,698</td>
<td>8,907.59</td>
<td>48,817</td>
<td>53,173.84</td>
</tr>
<tr>
<td>Central</td>
<td>640.52</td>
<td>8,45,519</td>
<td>4,197.40</td>
<td>49,643</td>
<td>25,209.24</td>
</tr>
<tr>
<td>Eastern</td>
<td>2,141.11</td>
<td>39,57,141</td>
<td>18,855.19</td>
<td>47,649</td>
<td>1,04,919.29</td>
</tr>
<tr>
<td>Western</td>
<td>1,210.47</td>
<td>28,14,149</td>
<td>18,583.37</td>
<td>66,035</td>
<td>91,574.57</td>
</tr>
<tr>
<td>Southern</td>
<td>821.69</td>
<td>25,38,740</td>
<td>13,273.34</td>
<td>55,283</td>
<td>66,191.40</td>
</tr>
<tr>
<td>South-central</td>
<td>1,142.11</td>
<td>27,53,243</td>
<td>13,428.95</td>
<td>48,775</td>
<td>72,842.60</td>
</tr>
<tr>
<td>Total</td>
<td>8,347.37</td>
<td>1,69,76,782</td>
<td>91,214.25</td>
<td>53,729</td>
<td>4,94,488.07</td>
</tr>
</tbody>
</table>

Source: 43rd Annual Report, 1999-2000, Life Insurance Corporation of India, P.71
### Business in Force as on 31\textsuperscript{st} March 2000

<table>
<thead>
<tr>
<th>Zone</th>
<th>No. of policies in thousands</th>
<th>Sum assured with business Rs. crore</th>
<th>First year and renewable premium income Rs. in lakh.</th>
</tr>
</thead>
<tbody>
<tr>
<td>Northern</td>
<td>13,017</td>
<td>82,710.37</td>
<td>4,07,678.27</td>
</tr>
<tr>
<td>North-central</td>
<td>10,077</td>
<td>51,517.03</td>
<td>2,59,480.48</td>
</tr>
<tr>
<td>Central</td>
<td>4,759</td>
<td>24,731.78</td>
<td>1,18,508.86</td>
</tr>
<tr>
<td>Eastern</td>
<td>20,811</td>
<td>98,993.43</td>
<td>4,58,640.37</td>
</tr>
<tr>
<td>Western</td>
<td>21,897</td>
<td>1,26,549.41</td>
<td>5,22,183.93</td>
</tr>
<tr>
<td>Southern</td>
<td>13,984</td>
<td>71,116.01</td>
<td>3,06,353.58</td>
</tr>
<tr>
<td>South-central</td>
<td>16,753</td>
<td>78,970.97</td>
<td>3,39,959.73</td>
</tr>
<tr>
<td>Total</td>
<td>1,01,298</td>
<td>5,34,589.00</td>
<td>24,12,805.12</td>
</tr>
</tbody>
</table>

**Source:** 43rd Annual Report, 1999-2000, Life Insurance Corporation of India, P.71

It is not that the life insurance business picked up as soon as it was nationalized. In the first year of its existence the L.I.C was not able to make inroads in to the rural area. The business done by it in comparison to the urban areas were very low and inconsistent. Replying to the working Group, the L.I.C gave a number of reasons for its inability to spread the business.\(^3\)

a) Life insurance is not as essential in rural areas as in urban areas because of among other reasons, the prevalence of the joint-family system

b) Incapacity of a large proportion of rural households to effect any saving;
c) Preference of the rural population for saving in liquid assets and;

d) Annual fluctuations in income of agricultural population which makes saving in life insurance difficult.

To overcome all the above-mentioned odds and take the message of life insurance to the rural folks, L.I.C evolved suitable special schemes to meet the needs of the rural population. These schemes meant for the rural population will be discussed in the later chapter.

**Management:**

For the smooth functioning of a mammoth organization like the L.I.C, management holds the key. If not for an efficient managerial team the organization will run haywire and things will be bizarre. To stop this the Corporation has an efficient management system. This management set up of L.I.C is discussed below.

**Offices, Branches and Agencies:**

The Life Insurance Corporation Act, 1956, Section 18(1) states that there will be a Central Office of the Corporation at a place, which the Central Government may, by notification in the Official Gazette, specify. The Central Office of the Corporation is situated in Mumbai in Maharashtra. Apart from the Central Office, the Corporation has the right to establish Zonal Offices under section 18(2), of L.I.C Act, 1956. Initially there were five Zonal Offices, situated in Calcutta, Delhi, Kanpur, Mumbai and Chennai. The Corporation is free to establish zonal offices at other places as it thinks fit. When the business grew and became difficult for
these five zonal offices to cope, two more offices were established in Bhopal and Hyderabad. The Corporation determines the territorial limits of these zones.

The Managers of these zones are at liberty to establish as many Divisional Offices and Branches as they think fit for smooth functioning. Below is given the list of all the Zones and the number of Divisions and Branches coming under it. In all there are 7 Zones, 100 Divisional Offices and 2048 Branch Offices.

<table>
<thead>
<tr>
<th>S.No.</th>
<th>Zone</th>
<th>Divisional Offices</th>
<th>Branch Offices</th>
</tr>
</thead>
<tbody>
<tr>
<td>1</td>
<td>Northern (Delhi)</td>
<td>15</td>
<td>320</td>
</tr>
<tr>
<td>2</td>
<td>North-Central (kanpur)</td>
<td>11</td>
<td>247</td>
</tr>
<tr>
<td>3</td>
<td>Central (Bhopal)</td>
<td>7</td>
<td>140</td>
</tr>
<tr>
<td>4</td>
<td>Eastern (Calcutta)</td>
<td>18</td>
<td>363</td>
</tr>
<tr>
<td>5</td>
<td>South-Central (Hyderabad)</td>
<td>16</td>
<td>314</td>
</tr>
<tr>
<td>6</td>
<td>Southern (Chennai)</td>
<td>12</td>
<td>261</td>
</tr>
<tr>
<td>7</td>
<td>Western (Mumbai)</td>
<td>21</td>
<td>403</td>
</tr>
<tr>
<td>Total</td>
<td></td>
<td>100</td>
<td>2048</td>
</tr>
</tbody>
</table>


Managing Directors:

About the appointment of Managing Directors, the L.I.C. Act, 1956 states, "the Corporation may appoint one or more persons to be the Managing Director or Directors of the
Corporation, and every Managing Director shall be whole-time officer of the Corporation, and shall exercise such powers and perform such duties as may be entrusted or delegated to him by the Executive Committee or the Corporation."

**Zonal Managers:**

The Zonal Manager is appointed by the corporation and is entrusted with the job of directing affairs and businesses of zonal office. These Zonal Managers could be the member of the Corporation. In some cases even the non-member is entrusted with this task. The Corporation also appoints a Board to advise the Zonal Manager on the matter, which is referred to it under the regulation, made by the Corporation.

Apart from the Board, the Corporation also constitutes an Employee and Agents Relations Committee, with representatives of the Corporation as its members as well as of employees and agents. The number of representatives is same as that of the Corporation. The job of this Committee is to advise the Zonal Manager on subjects related with the welfare of the employees and agents. The Committee seeks to promote amity and good relations between them and the Corporation.

**Staff of the Corporation:**

To smoothly discharge the functions entrusted to the Corporation under the Life Insurance Corporation Act, 1956, it has the right to employ any number of persons as it thinks fit. These employees are liable to serve anywhere in India.
Committees of the Corporation:

Provisions have been made for the constitution of various committees of the L.I.C. Under Section 19(1) an Executive Committee consisting of not more than five of the L.I.C. members has been entrusted with the general superintendence and direction of the affairs of the L.I.C. It may be delegated all powers and the duties as the L.I.C. thinks fit within the term of the Act. There are fortnightly meetings of the committee. In all about 25-30 meetings are held every year.41

Board:

Under Section 4, the L.I.C. may have not more than 15 directors on its Boards, one of whom is appointed the whole time Chairman of the L.I.C. Before appointing a person as a member of the Board, the Central Government satisfies itself that he has no such financial or other interest as is likely to affect prejudicially the exercise or performance by him of his functions as a member, and the Central Government itself, from time to time, with respect to this provision. The member shall furnish such information to the Central Government, as it considers necessary for the performance of his duties as a member. A member who is in any way, directly or indirectly, interested in a contract, made or proposed to be made by the L.I.C. shall, as soon as possible after the relevant circumstances have come to his knowledge, disclose the nature of his interest to the L.I.C.; and the member shall not take part in any deliberations or discussions of the L.I.C. with respect to the contract. On an average there are about 10-15 meetings of the Board every year.42
The Chairman is the Chief Executive and may, subject to such general or special direction as the Executive Committee may give, exercise all such powers and do such things as are done by the Executive Committee. In an emergency the Chairman is competent to exercise the powers of the Executive Committee also. Thus the provisions of the Act are very sound for ensuring efficient and honest administration.

**OPENING UP OF THE INSURANCE SECTOR:**

Soon after the independence, the country’s policy makers found everything wrong with private sector, whether Indian or foreign. The country swore by the public sector as the key to self-reliant development. The insurance industry, which was in the private sector, was nationalized in 1956, giving L.I.C. a monopoly. Nationalization of the insurance was visualized as a step towards more effective mobilization of profit savings.

To quote C D Deshmukh, the then Finance Minister in 1956, “even in insurance, which is a type of business, ought to fail even if properly run, we find that during the last decade, as many as 25 life insurance companies went into liquidation and another 25 have so frittered away their resources that their business had to be transferred to the companies as a loss to the policy holders. The amount of capital required for starting an insurance company is extremely as compared to the total life fund that it may come to control. Once, however the control is secured, the tendency has been utilized the funds to meet the capital requirements of enterprises in which the managements are interested rather than those which are clearly in the interests of the policy holders”.
The above statement should be regarded as a warning as it states about the practices private insurance indulged themselves in before nationalization. Insurance is an area, which can never bring loss, no matter, it is government control or free. When LIC was started, the capital contributions of the government were more than Rs.5 crore, and now this mere investment has yielded Rs.150 crores. If we take this onto account, it becomes hard to understand the urgency of the government to open up the insurance sector. Even GIC has not only rectified the alarming situation that developed in the private sector but also enabled huge resources to be mobilized year after year for national development. While at the same time fully protecting the interest of the insuring public the laudable social objectives underlining their formation were scrupulously fulfilled. At a time when the nationalized institution posed for further spectacular growth, the industry is threatened with destabilization in the process of opening it up to the very forces that had exploited the industry for private profit before nationalization.

**INSURANCE REGULATORY AUTHORITY (IRA)**

The Insurance Regulatory Authority (IRA) Bill seeks to open the insurance sector to the private and foreign companies. As stated earlier the record of private insurers prior to nationalization was very poor and their only motive was profit. In the post nationalization period the insurance business has grown on an annual rate of around 20 percent, generated huge surpluses, provided good returns to the policyholders and the government and made available enormous funds for national development benefiting the common people. The nationalized insurance sector provides funds for socially purposive schemes such as housing,
electricity, water supply, sewage etc. It is very doubtful if the foreign or Indian private players will provide the same.

The IRA Bill is based on the recommendations of R.N. Malhotra Committee, which had submitted its report to the then Finance Minister Manmohan Singh in January 1994. The main recommendations of the Committee are as follows:

a) Structure-

• Government stake in the companies to be brought down to 50%
• Government should take over the holdings of GIC and its subsidiaries so that these subsidiaries can act as independent corporations.

b) Competition-

• Private Companies with a minimum paid up capital of Rs. 1 billion should be allowed to enter the industry.
• No company should deal in both life and general insurance through a single entity.
• Foreign companies may be allowed to enter the industry in collaboration with the domestic companies.
• Postal life insurance should be allowed to operate in rural market.
• Only one state level Life Insurance Company should be allowed to operate in each state.

c) Regulatory Body:

• The Insurance Act should be changed.
• An Insurance Regulatory body should be set up.
• Controller of Insurance (currently a part of the Finance Ministry) should be made independent.
d) Investments:
- Mandatory Investments of L.I.C Life Fund in government securities to be reduced from 75% to 50%.
- GIC and its subsidiaries are not to hold more than 5% in any company (their current holdings to be brought down to this level over a period of time).

Customer Service:
- L.I.C. should pay interest on investments beyond 30 days.
- Insurance Companies must be encouraged to set up unit linked pension plans.
- Computerization of operations and updating of technology to be carried out in the insurance industry.

It was felt by the Committee that in order to improve the customer service and increase the coverage of insurance, competition should be [promoted in the industry. But again, Committee, felt that the need to exercise caution as any failure on the part of new entrants could shatter the confidence of public. To reduce this, the Committee recommended completion in a limited way by stipulating the maximum capital investment of Rs. 1 Billion. The Committee also felt the need to provide greater autonomy to insurance companies in order to improve the performance and enable them to act as independent companies with economic motives. For this purpose, it had proposed setting up an independent regulatory body. Though, the Committee has recommended on several aspects but it cannot be treated as comprehensive. There are several questions, which need to be answered. We will come to that later. First we will take a look at the IRA proposals.
The Insurance Regulatory Authority (IRA), under the Chairmanship of N. Rangachary was set up in January 1996. IRA is the sole authority, which is responsible for the awarding of licenses i.e. little or no government or political interference in licensing process.

The main proposals of IRA were:

- New players should commence business within 15-18 months.
- Trafficking of license should not be permitted.
- IRA seek business plan with 5-year protections for all applicants.
- Promoters share not transferable without IRA’s approval.
- Window of 90 days for receiving applications.
- A system of direct brokers to be introduced.
- IRA to vet top management appointment.

At the start of the Chapter we saw the growth of L.I.C. and the data presented is a proof enough that the Corporation has registered unprecedented growth since its inception. Apart from raking huge profits the Corporation has made available enormous surpluses for national development and their claim settlement record is also very good. Now the opening up of the industry to private participation has hampered this progress, as the motive of both the foreign companies and Indian companies is profit rather than the service to the people as well as the nation. The thrust of foreign companies will be only on profitable areas ignoring social orientation. As for now, the Insurance Industry in highly monopolized. The foreign players are financial giants against whom L.I.C stands little chance. These companies can afford to
take initial losses for the Indian market till the L.I.C is completely wiped out. In fact the competition has turned unethical. One thing worth mentioning here is that, the regulators world over have failed to rein in thee private insurance and finance companies and prevent insurance misdemeanors and outright frauds from being perpetrated.

The claim of the Government that opening up of the insurance sector will ensure foreign investments, hold little ground. We saw in the previous chapter that even Foreign Direct Investment is not up to the expectations. Whatever the foreign inflow, it has been utilized for acquisitions and mergers rather than for socially oriented ventures. The experience of ten years of economic liberalization of the Indian economy reveals that whatever the investments have come have come in non-priority areas like luxury cars, soft drinks, cosmetics, consumer products, like color TVs and in social and physical infrastructure like electricity.

Before summing up it can be said that the Malhotra Committee’s report did not envisage the impact of the withdrawal of the government guarantee given to the eight crore policyholders of the L.I.C and GIC who have reposed faith in the nationalized insurance sector. There is an imminent danger to the lifetime savings of these eight crore policyholders, in L.I.C particularly. This is an area, which cannot be ignored.
REFERENCES

2. Ibid P.2
3. Ibid PP. 3-4
7. Ibid. P3
8. S.P. Sharma, op.cit. P.58
9. Ibid. P59
10. G.R. Desai, op.cit. PP. 3-4
11. R.M. Ray, op.cit. P. 9
13. Ibid. P4
14. Ibid. P5
15. R.M. Ray, op.cit P18
16. “47 Years Ago” from Empinda, November, 1937
19. “The business of the Crown Life was transferred to the Law Union in 1892. Similarly, the business of the Rock Life was
transferred in 1909, when the company again changed its name to the Law Union and Rock. This later was absorbed by the London and Lancashire in 1919."—Bourn's Year Book, (it is not known if the Crown Life and Rock life had separate existence in India).


21. Ibid. P10


23. G.R. Desai, op.cit. P 41


26. Ibid. P.7


30. The Life Insurance Corporation Act, 1956 (18th June, 1956) Section 26


32. The Life Insurance Corporation Act, 1956 (18th June 1956)


38. 44th Chairman's Review, Working Results 2000-2001, L.I.C. India, P II


42. Ibid. PP102-103


NATION BUILDING AND L.I.C.

The huge evergreen Banyan tree, which symbolizes growth, provides protective shade and fruit for birds. The Life Insurance Corporation of India had also recorded tremendous growth over years and protection to the millions of policyholders like a banyan tree. Apart from providing protection to the policyholder the corporation works consistently to ameliorate the general conditions of masses. By investing handsomely in different plans, which are socially oriented, it has proved time and again the theory 'peoples’ money for people’s welfare'.

The L.I.C., while deciding its investment policy, not only considers the interests of the policyholders but also the general welfare of the community at large. With the objective of promoting public welfare and contributing its share to financing the developmental projects included in the plans by the Central Government, the Corporation invests its funds in schemes of social importance, such as housing development, electricity generation and distribution, water supply and sewerage in the urban and rural areas. When we take a look at the performance of the Corporation in the above-mentioned schemes, we witness continuous and commendable increase year after year. It is not that the Corporation blindly invests in these schemes, it keeps in mind the rational priorities and obligation of reasonable returns. The investment by the Corporation is made after meeting the liabilities towards the claims, management and other expenses.

It is everybody’s dream to secure a good shelter during one’s own lifetime. But, everybody is not fortunate. There are millions
who spend their life living in rented houses and some even on the pavements. The dream home very much depends upon status and economic position of the person concerned. The problem of securing a good accommodation seems to be further drifting away from bad to worse due to various factors like continuous rise in the population, urbanization, industrialization and non-availability of adequate finance as well as financing agencies. The modern concept of housing does not limit itself to the idea of housing merely for shelter. Today, housing means provision of comfortable shelter and such surroundings and sources which could keep a man healthy and cheerful all along.

Thus, for decades, the addition of the housing stock has never been able to keep pace with the ever-growing population of the country. The government of India estimated in the late eighties that housing shortage in the country is about 25 million units. Quality wise, a third of the housing stock in the country consists of *kutchha* structures made of non-durable materials like thatch, leaves, etc. About 8 million such units in the rural areas and another 2 million in the urban areas are considered 'unserviceable' and therefore, requires immediate replacement. This figure estimated by the government must have increased by several percent in the last one and half decades.

There is a woeful inadequacy in the availability of household amenities and facilities like drinking water, sanitation, electricity etc. Only about 5 per cent of the rural households, and 67 per cent of the urban households have access to tap water supply. Others are depending on 'unprotected' and 'untreated' sources of water supply like rivers, streams, canals, ponds, wells etc. Hence, phenomenal rises in the cases of water borne diseases
have occurred year after year. About 92 per cent of the households in rural areas and 33 per cent in the urban areas do not have facilities for latrines. Over crowding and congestion is yet another aspect of the deficient housing situation. The number of persons per dwelling unit which was 5.60 per cent in 1951 increased to 5.83 in 1961 and had crossed 6.06 in 1981.

L.I.C. and Housing Development:

The housing problem as detailed above is of a very severe magnitude. The housing situation in India is particularly deficient in large urban centres. These centres have grown at a much faster rate and have attracted a large part of migratory populations from the rural areas. A multipronged approach is what the planners have envisaged for solving this problem. It warrants a massive reconstruction programme involving repair and reconstruction directed towards old and dilapidated structures in order to make them livable for longer periods. There is a need to provide for future requirements. As a result of growth in population, new family formation etc. the investments needed would be colossal.

The funds raised by the primary-co-operative societies through shares and contribution towards the cost of construction are to the extent of only 25 to 40 per cent of the total capital requirement. The members normally depending upon the co-operatives for loans are not in a position to meet the entire cost of construction. The base level societies are not in a position to float debentures or deposits from members. These primary societies which ranges around 40,000 in number all over the country look towards the apex housing finance societies which are the credit
dispensing agencies, depend upon the L.I.C. on the HUDCO for their financial requirements.

The L.I.C. is the traditional source of funds for the apex housing finance societies. It has serviced this sector handsomely for so long. The corporation started, as early as 1959, the mortgage scheme for investment in housing. A number of other schemes were formulated and introduced at different points of time keeping in view the loan requirement of housing sector. The important schemes of the Corporation are; Loans to state governments, loans to Apex Housing Finance Societies and Loans to the HUDCO. The L.I.C. has also introduced a mortgage scheme thereby providing loans to individual policyholders. It has also taken up building activities in the form of construction of public housing as well as staff quarters of various companies. As on 31st March 2000, the total investment made by the L.I.C. in various housing schemes was Rs.15,874.31 crores. The Corporation also invested Rs.204.87 crores on construction of its own buildings, staff quarters and township development.

The table at the end of this section shows the contribution of L.I.C. to housing development. The contribution of L.I.C. to housing development has increased from Rs.1,271.26 crores in 1981-82 to Rs.2,163.26 crores in 1986-87, indicating an overall increase of nearly 70.1 per cent during the period. This figure rose to Rs.15,874.31 crores in 2000. In the last fifteen years this increase is in the range of 633.8%. This spectacular increase in itself speaks of the commitment on the part of the Corporation for social development viz a viz nation-building. Thus, it is clear from the above explanation that the contribution of L.I.C. to housing development has increased gradually in the last decade. It is also
evident from the table that the loans to apex Co-operative Housing Finance Societies and loans to the HUDCO is much higher as compared to other categories. This could be attributed to the fact that the Government has given more attention to apex co-operative finance for the welfare of the entire society in the country.

Investments in loans on mortgage and other similar loans by life insurance companies satisfies the canons of investment and serves a very useful social and economic purpose. It helps in the construction and acquisition of houses and makes multi-family housing possible. It also helps the nation in raising its standard of living and in financing building operations essential to its productive capacity. Such loans provide much reduced finance to agriculture in the shape of farm mortgages and thus alleviate the problem of food supply.6

The mortgage schemes (except for schemes meant for the staff) formulated by the Corporation not only fulfilled the social purpose but also generated a fair return on a part of its investible funds. Mortgage loans are not given as business proposition by the Corporation which is in contrast to the conventional modes adopted by private financers. The Corporation does not look merely to the adequacy of securities for the purpose of judging the mortgage loan applications but also to the repaying capacity. This is as it should be, since it is the aim of the Corporation keeping with socially purposeful thinking to render financial assistance to members of the public to enable them to tide over their temporary difficulties. The staff schemes are in the nature of welfare measures.
The mortgage schemes can be broadly divided into two groups. Firstly, schemes for advancing loans for house construction exclusively to the policy holders or potential policyholders of the L.I.C. Secondly, schemes for advancing loans for the construction of houses or commercial and office buildings to others whether they are policyholders or not and also to institutions. The mortgage scheme designed to help policyholders are, "own your home" scheme and 'own your apartment' scheme under which loan is advanced for acquiring already built apartment flat in buildings which are subjected to the provisions of Apartment Ownership Act of the concerned states.

The Own Your Home (OYH) scheme, introduced in 1964, is in operation at all the places where the L.I.C. had a Branch Office, provided property to be mortgage is within the municipal limits. The scheme allows ever fresh policies to be offered as collateral security and also envisages repayment of loan either out of the proceeds of the endowment assurances policies or by equated monthly investment with a life cover under a Mortgage Redemption Policy under some other acceptable plan of the corporation. The purpose of the 'Own Your Home' scheme is to help the policyholders to construct houses or to make extensions, on existing properties, owned by them, or to purchase a recently constructed house.

Property Mortgage Scheme (MI) under which loans are advanced for construction of nursing homes, cinema theatres in mufassil areas as also for construction or extension of hotels. The loans are also granted for the purpose or repayment of existing debt and for investment in business. When a loan is granted for construction or purchase of a house for residential purposes the
value of the property should not exceed Rs.5 lakh, including the cost of the land. The percentage of land to the value of property should not exceed 50 per cent under any circumstances subject to the minimum and maximum stipulated under the scheme. The loans under the scheme can be availed by an individual, group of individuals, public limited companies, private limited companies, or by any other approved institutions or organizations.

**Contribution to Housing Development**

<table>
<thead>
<tr>
<th>Sr. No.</th>
<th>Category</th>
<th>1981-82</th>
<th>1986-87</th>
<th>As on 31(^{st}) March 2002</th>
</tr>
</thead>
<tbody>
<tr>
<td>1.</td>
<td>Loans to State Governments</td>
<td>433.42</td>
<td>696.37</td>
<td>3,636.84</td>
</tr>
<tr>
<td>2.</td>
<td>Loans to Apex Co-operative Housing Finance Societies and other Authorities</td>
<td>609.87</td>
<td>1013.12</td>
<td>2,705.05</td>
</tr>
<tr>
<td>3.</td>
<td>Loans to Mortgage of Houses</td>
<td>61.18</td>
<td>99.93</td>
<td>276.59</td>
</tr>
<tr>
<td>4.</td>
<td>Loans under “Own Your Home” Scheme</td>
<td>85.30</td>
<td>128.09</td>
<td>983.93</td>
</tr>
<tr>
<td>5.</td>
<td>Loans to Public Limited companies</td>
<td>5.43</td>
<td>7.99</td>
<td>12.05</td>
</tr>
<tr>
<td>6.</td>
<td>Loans to Co-operative Societies of Employees of Public Limited Companies</td>
<td>2.19</td>
<td>2.19</td>
<td>3.42</td>
</tr>
<tr>
<td>7.</td>
<td>Loans to Co-operative Housing Societies of the Corporation Employees</td>
<td>17.13</td>
<td>22.44</td>
<td>47.95</td>
</tr>
<tr>
<td></td>
<td>Loans to Individual Employees of the Corporation</td>
<td>32.74</td>
<td>63.85</td>
<td>650.39</td>
</tr>
<tr>
<td>---</td>
<td>------------------------------------------------</td>
<td>-------</td>
<td>-------</td>
<td>--------</td>
</tr>
<tr>
<td>9</td>
<td>The Own Your Apartment Scheme</td>
<td>0.77</td>
<td>0.90</td>
<td>2.24</td>
</tr>
<tr>
<td>10</td>
<td>Scheme for the grant of Loans to Agents (Club members) of the Corporation</td>
<td>0.50</td>
<td>1.58</td>
<td>98.68</td>
</tr>
<tr>
<td>11</td>
<td>Loans to Individual Employer float Scheme</td>
<td>0.18</td>
<td>3.39</td>
<td>208.60</td>
</tr>
<tr>
<td>12</td>
<td>Corporation's Own Banking Construction</td>
<td>22.55</td>
<td>33.61</td>
<td>204.87</td>
</tr>
<tr>
<td>13</td>
<td>Loans to Housing Boards</td>
<td>-</td>
<td>10.15</td>
<td>10.15</td>
</tr>
<tr>
<td>14</td>
<td>Loans to HUDCO</td>
<td>-</td>
<td>78.00</td>
<td>1378.00</td>
</tr>
<tr>
<td>15</td>
<td>Loans to Co-operative Societies of Employees of Public Sector Undertakings</td>
<td>-</td>
<td>0.11</td>
<td>0.11</td>
</tr>
<tr>
<td>16</td>
<td>Loans to Public Sector Undertakings for Construction of Staff Quarters</td>
<td>-</td>
<td>0.84</td>
<td>0.84</td>
</tr>
<tr>
<td>17</td>
<td>Loans to Public Limited Companies /PSU for construction of Commercial Buildings mainly for their own use</td>
<td>-</td>
<td>0.70</td>
<td>4.19</td>
</tr>
<tr>
<td></td>
<td><strong>Total</strong></td>
<td><strong>1271.26</strong></td>
<td><strong>2163.26</strong></td>
<td><strong>9629.10</strong></td>
</tr>
</tbody>
</table>

*Source: 43rd Annual Report, Life Insurance Corporation of India, p.33*

Apart from the schemes mentioned in the table the Corporation invested handsomely in HDEC, LIC Housing Finance
limited, Bima Niwas Yojna, Police Housing Corporations etc. Among the above mentioned the LIC Housing Finance Limited grabbed the highest share of total investments made by the Corporation with Rs.3,814.42. National Housing Bank also enjoyed good investment with Rs.1,267.00 crores. Amount advanced to Police Housing Corporations were Rs.34.00 crores. We see in the table that their has been a phenomenal increase in investments by the Corporation since 1981-82 but the loans advanced to co-operative societies of Public Sector Undertakings and the loans to public sector undertakings for the construction of staff quarters have remained static and haven’t changed in the last fifteen years. Although, no reason was extended by the Corporation for the losses but their repayment record is not good.

Data set out in the table below shows the amount sanctioned by the Corporation under various mortgage schemes. We see in the table that the sanctioned amount has increased from 1,862.65 lakhs in 1981 to Rs.4,081.39 lakhs in 1987, including an overall increase of more than 119 per cent.

**Amount sanctioned under various mortgage schemes**

<table>
<thead>
<tr>
<th></th>
<th></th>
<th></th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>1. Property Mortgage</td>
<td>485.32</td>
<td>1207.45</td>
<td>1152.46</td>
</tr>
<tr>
<td>2. Own Your Home</td>
<td>791.54</td>
<td>1372.63</td>
<td>982.93</td>
</tr>
<tr>
<td>3. Public Limited Company Staff Quarter</td>
<td>54.57</td>
<td>80.05</td>
<td>12.05</td>
</tr>
<tr>
<td>4. Cooperative Societies of LIC Employees</td>
<td>125.38</td>
<td>335.31</td>
<td>47.95</td>
</tr>
<tr>
<td>5. Co-operative Societies of Employees of Public Limited Companies</td>
<td>7.12</td>
<td>-</td>
<td>3.42</td>
</tr>
</tbody>
</table>
There has been a steady and continuous good showing by the Corporation year after year. In fact in the last couple of years, this granting of loans under mortgage schemes have increased by several hundred percent in the last fifteen years. This once again proves the high aim it sets for itself for securing shelter for each and every Indians. Though the Corporation has increased the amount in almost all the schemes, but the greatest beneficiaries are in the schemes under Property Mortgage and Own Your Home. We also see in the table that the granting or extending of loans to Government companies is not in the same league as other schemes. In fact, this has never shown much improvement as compared to other schemes. It is beyond doubt that the Corporation is treating its employees with gloved hands and is marking them for special treatment. The advancement of loans by the Corporation under various schemes meant for housing projects of its employees have received generous loans from the Corporation.

The table below shows the individual loans sanctioned by the L.I.C. under Own Your Home Scheme, M-1 (Non-housing and commercial) and BNY (Bima Niwas Yojna) schemes. The figure shown in table is from 1994-95 to 1999-2000. The table indicates the number of loans sanctioned as well as the amount.

<table>
<thead>
<tr>
<th>6. Individual Employees</th>
<th>389.58</th>
<th>1047.79</th>
<th>208.60</th>
</tr>
</thead>
<tbody>
<tr>
<td>7. Own your apartment</td>
<td>1.62</td>
<td>2.16</td>
<td>2.24</td>
</tr>
<tr>
<td>8. Agents</td>
<td>7.52</td>
<td>36.00</td>
<td>-</td>
</tr>
<tr>
<td>Total</td>
<td>1862.65</td>
<td>4081.39</td>
<td>2410.65</td>
</tr>
</tbody>
</table>

Individual Loans Under OYH, M-1 & BNY Schemes

<table>
<thead>
<tr>
<th>Year</th>
<th>No. of loans sanctioned</th>
<th>Amount sanctioned (Rs. in crore)</th>
<th>No. of loans disbursed</th>
<th>Amount disbursed (Rs. in crore)</th>
</tr>
</thead>
<tbody>
<tr>
<td>1994-95</td>
<td>288</td>
<td>4.72</td>
<td>1392</td>
<td>14.32</td>
</tr>
<tr>
<td>1995-96</td>
<td>98</td>
<td>2.27</td>
<td>680</td>
<td>5.71</td>
</tr>
<tr>
<td>1996-97</td>
<td>54</td>
<td>1.44</td>
<td>151</td>
<td>1.68</td>
</tr>
<tr>
<td>1997-98</td>
<td>34</td>
<td>1.02</td>
<td>38</td>
<td>1.48</td>
</tr>
<tr>
<td>1998-99</td>
<td>21</td>
<td>0.85</td>
<td>23</td>
<td>0.79</td>
</tr>
<tr>
<td>1999-2000</td>
<td>5</td>
<td>0.23</td>
<td>9</td>
<td>0.33</td>
</tr>
</tbody>
</table>

Source: 43\textsuperscript{rd} Annual Report, 1999-2000, Life Insurance Corporation of India, p.44.

We see in the table a steep decline in the number of loans disbursed and amounts in succeeding years. In fact this drop has been alarming. The decline in the sanctioning of loans under the above schemes, indicates two things, either the Corporation is finding it hard to recover the loans advanced earlier to the customer or for that matter general public does not find it attractive or lucrative. If the Corporation would have felt that the above schemes are not bringing in the desired returns, it would have scrapped it long before. The second reason sounds more appropriate. In today's competitive market there are several housing finance banks with lucrative schemes, all of them are jostling for space. It is the customer who ultimately decides what to vouch for. Whatever be the reason this drop of disbursement of amount from Rs.14.32 crores in 1994-95 to 0.33 crores in 1999-2000 warrants an explanation on the part of the Corporation. If the
Corporation does not find the above schemes feasible, it is better to scrap it altogether.

**L.I.C. AND REGIONAL DEVELOPMENT:**

One of the principal aims of the planning in India has been to correct the regional economic imbalances and bring about a balanced growth of all regions. This all round development of the nation is necessary to achieve economic, social and political stability. As a government institution, it is mandatory on the part of the L.I.C. to play an active role to fulfill the commitment of the government. But one thing, which needs attention, is that L.I.C. is principally a business organization and it must adopt such policies that must ensure security of investment and steady returns to the investment made. It invests in backward regions only when it finds that such investments are profitable from the business point of view. Because of legal restraints and even otherwise, it is not in a position to pioneer new ventures and new industries and hence its contribution to remove existing regional imbalances is extremely limited. Moreover, it will be hardly consistent with its primary duty to policyholders in making a sound investment of life fund. It will be too much to expect from the Corporation to assume the responsibility of the Central and State Governments which alone are competent to take effective steps to correct regional imbalances in the economy.¹⁰

Moreover, geographic diversification of investment depends upon the industrial and economic development of the states and regions and since it is never possible, the opportunities for investment there are correspondingly unequal. So far as stock exchange securities are concerned, they are purchased from all the
exchanges in the country, subject to the availability of suitable scripts, but that does not serve the purpose beyond which the Corporation cannot go. In this context, the observation made by the then finance Minister, needs to be mentioned. He said, "It (L.I.C.) will take no parochial view. Its funds are drawn from all over India and they will as far as practicable and if other conditions allow, be invested for the good of the country. Thus there will be a studied diversification of its investible funds which is an essential requirement of any insurer, particularly the sole insurer of a country."\(^{11}\)

Attention has been drawn by the Reserve Bank of India\(^{12}\) to the limited role the financial institutions can play in correcting regional economic imbalance and removing backwardness. Financial institutions can facilitate and stimulate development but they cannot initiate it. They can only finance viable and self contained projects. In each area the programme of development has to be based on its potentialities and possibilities. It is taken as granted that development means the setting up of large number of heavy industries. The L.I.C. helps State Electricity Boards but even there, the magnitude of the resources needed for power programme is so large for financial institutions to be in a position to make anything but a marginal contribution.

The financial assistance provided by the corporation for power generation projects by way of loans/subscriptions of their bonds stood at Rs.13609 crores up to 31\(^{st}\) March 2000.\(^{13}\) The total investment in the year 2000 alone was Rs.640.54 crores. Out of Rs.640.54 crores, the Eastern Zone was the biggest beneficiary with Rs.169.10 crores.\(^ {14}\) In North Central Zone, the Corporation made no investment. In the Eastern Zone the state of Bihar and
West Bengal, received Rs.57.96 crores and Rs.81.89 crores respectively. After Easter Zone, the bulk of the investment was made in the Northern Zone, which received Rs.167.31 crores, and the state to profit most of these investment was Rajasthan, with its share of Rs.100.15 crores. The biggest investment by the Corporation in the power sector in terms of particular state was in the Southern Zone, in the state of Tamil Nadu. Apart from investing in state power Corporations and Boards, the Corporation has also invested with Private Companies for Power Generation. The investment in the year 2000 in Privates companies for power generation stood at Rs.232.40 crores. As per the corporation’s aim of ameliorating the condition of rural flocks, it invested Rs.21.96 crores in Rural Electrification Corporation.

L.I.C. and Local Bodies:

As per its agenda of reaching out to the masses and assisting in their welfare schemes, L.I.C. is actively investing in the local bodies. These investments are regulated by the Government from time to time to benefit the people at large by providing basic amenities like potable water, drainage, electrification and transport. We in India are well aware of the problem and scarcity of drinking water. Almost all the big cities are faced with this evil every summer. This problem is compounded when the monsoon is late. Most of the water reservoirs run dry and the water level is receding on annual basis. There is an acute problem of water pollution as well as its distribution is faulty, hence, it cannot reach the general public. Next after the problem of drinking water is, another menace that seems to be present in almost all the major cities as well as municipalities. Is the problem of drainage system and sanitation. Lack of it results in several infectious diseases.
Thousands of lives are lost annually and there seems to be no solution in sight in the near future. It is in these areas that L.I.C. is providing assistance and is continuously trying to raise the living standards by helping the civic bodies to extend basic water and drainage facilities to the public.

Under the Corporation scheme of providing financial assistance for piped water supply and drainage schemes, 1,960 urban/local bodies in 23 states and Union Territory of Chandigarh have benefited. In addition to this, 507 Zilla Parishads in 7 states are also receiving financial assistance from the Corporation for piped water supply schemes. The investment in this sector up to 31st March, 2000 was Rs.3001 crores. In 1999-2000 alone the Corporation invested Rs.488.52 crores in municipalities and Zila Parishads for their water supply and sewerage schemes.

Today’s man is very mobile and is always on the move for greener pastures. The reasons for this mobility can be attributed to poverty, unemployment, lack of opportunities etc. There are large sections of rural population who march towards cities in the time of distress or any other natural calamities. This addition of large population in big cities create the problem of transportation. It becomes very difficult to reach the destination in the absence of efficient transport service. Realizing this plight of urban folks the Corporation has invested in the road transport system with the state Government to make the life of people a little easier. In 1999-98 the scope of Socially Oriented Sector was widened to accommodate infrastructure projects pertaining to Ports, Railways, Roads, Highways and Airports.
In the road transport sector, the Corporation has been assisting its development by providing financial assistance to State Road Transport Corporation for augmenting their fleet of buses. The total investment in the sector upto 31st March, 2000 was Rs.736 crores. In the year 1999-2000, the Corporation invested Rs.65.29 crores. These huge investments again certified the sincere interest, the Corporation takes in making the life better for the people of India. It can be safely said that through these investments the Corporation is not only improving the life easier but also working continuously for the advancement of the country. It can be regarded as the most glaring example of 'nation-building' efforts on the part of the Life Insurance Corporation of India.

SOCIAL SECURITY SCHEMES:

Though, for the last fifty-years the Government of India is trying hard to turn the country from agrarian based to industry based and it can be regarded as quite a successful attempt if we compare it with the scenario of pre-independence period. Whatever may be the degree of development, but is still a hard fact that majority of population is dependent on agriculture or other nominal work. Income from agriculture is so low that it barely fulfills the need of the family and generally, the family is too big than the standard norm of two children. Under the circumstances it will not be fair to think that these peasants have enough savings to meet the unforeseen hazards of future. In most of the cases, during the times of distress these poor folks have to part away with their small piece of land or some other precious thing. So, ultimately, they are left with nothing but to look towards the sky for divine help. Realizing the plight of these
millions the L.I.C. of India has floated several schemes, which could prove helpful for farmers and peasants in their times of need. Some of the schemes in this area are:

**JANASHREE BIMA YOJNA/SOCIAL SECURITY GROUP SCHEMES:**

On 10th August, 2000 the Janashree Bima Yojna, a group insurance scheme was launched in order to extend the benefit of social security and life insurance cover to poorer segments of the population. This scheme is implemented with the help of non-governmental organizations and self help groups who will help in identifying the groups of persons to be covered. In addition to persons below the poverty line, persons marginally above the poverty line also can be covered under the scheme. 50% of premium is subsidized for Social Security Fund maintained by the L.I.C. and the balance 50% is contributed by members/Nodal Agencies/State Governments.

Persons aged between 18 and 60 years are covered for insurance of Rs.20,000/- under this scheme. In case of death or permanent disability (including loss of 2 eyes/2 limbs) due to accident, sum of Rs.50,000/- and in case of partial / permanent disability (loss of 1 eye / 1 limb) due to accident, a sum of Rs.25,000/- is payable to the nominee. During 2000-01, 3,35,052 lives were covered under the 40 approved occupations pertaining to the social security schemes and the Janshree Bima Yojna. The occupations covered under this scheme are Cobblers, Fishermen, Beedi makers, Brick-kiln workers, Safai Karamcharis etc.

**LALGI SCHEME:**

All landless Agricultural Labourers numbering about 1.20 crores have been covered for a uniform sum assured of Rs.2000/-
(payable to the family of the deceased labourer). The entire premium is met from Social Security Fund maintained by LIC.

**SWARNAJAYANTI GRAM SWAROJGAR YOJANA:**

This is a scheme designed for borrowers under the Central Governments IRDP scheme where beneficiaries are covered from a sum of Rs.5,000/- payable on the death of the member and Rs.10,000/- in case of death due to accident. No premium is charged to the beneficiaries.

Apart from the Social Security Schemes which are aimed at ameliorating the conditions of the poor folks there are several other schemes investments from which the Corporation earns no significant profit but the general public benefits immensely. Some of the policies aimed around these philosophies are:

(a) **Plans for Handicapped Dependents:**

(i) **Jeevan Aadhar:** This is a limited payment whole life policy with guaranteed addition at the rate of Rs.100/- per thousand sum assured p.a. where the claim amount is paid partly in the lump sum and partly in the form an annuity. Income Tax relief under Section 80DD of Income Tax Act 1961, as also available as per current IT Rules.

(ii) **Jeevan Vishwas:** This is an Endowment type plan designed for handicapped dependents whose degree of handicap may not fulfill the definition of disability laid down for **Jeevan Aadhar** plan. The benefit is payable partly in lump sum and partly in the form of
an annuity. The plan also provides for guaranteed and loyalty additions.

(b) **New Jana Raksha:**

Ideal for people with no regular income. It provides for death cover for a period of 3 years from the first unpaid premium, provided 2 full years premium have been paid.

(c) **Jeevan Chhaya:**

An ideal plan to provide for Children’s higher education.

(d) **Jeevan Sanchay:**

This is a without - Profit Money Back type plan with provision for Guaranteed Additions at the rate of Rs.70/- per thousand sum assured p.a. and Loyalty Addition payable on maturity or death, which ever is earlier.

(e) **Jeevan Asha II:**

This plan is an improved version of *Jeevan Asha* Plan. The plan provides benefits for specified minor/major surgeries and biennial survival benefits with the first payment due at the end of third policy year. The plan gives an option to accumulate the periodical survival benefits so as to have enough lump sum in an emergency to meet hospital expenses. On maturity, the sum assured together with Guaranteed and Loyalty Additions will be payable after deducting the benefits paid, if any, for surgeries and survival benefits on the death of the policyholder. The full sum assured is payable without any such deductions along with accrued Guaranteed Additions and Loyalty Additions, if any. The plan also offers, optional double/triple accident benefits.
(f) **Bima Nivesh Plan:**

It is a single premium plan of assurance with compound Guaranteed Additions and Loyalty Additions. The objective of the plan is to mop-up liquid funds from the policyholders. The plan also suits the requirements of retiring people searching for avenues to invest their Provident Fund and Gratuity amounts for short terms.

**Employment of Physically Handicapped:**

With a view to rehabilitating the physically handicapped persons, the Corporation has identified jobs for the recruitment of the blind, deaf and orthopaedically handicapped. The total reservation of vacancies relating to the jobs / parts identified in Classes III & upper age limit up to 10 years has also been provided. Persons who are blind and orthopaedically handicapped recruited under the reserved quota are also granted conveyance allowance as per rules.

**Gujarat Earthquake Relief Measures:**

On 26\textsuperscript{th} January 2001, the day when the whole country was celebrating the Republic Day, the people of the State of Gujarat experienced nature's devastating force in the form of an earthquake. The devastation caused by the quake was so deadly that the international help was sought to bring relief to the grieving people. All the government machineries were mobilized, as well as the non-governmental organizations and individuals came forward to provide a helping hand. Life Insurance Corporation of India, was not to be left behind in giving the much needed healing hand.
The Corporation set up special task force to identify and approach claimants and policyholders affected by the earthquake so as to speed up settlement of the claims arising out of death or disability. The procedures for settlement of claims were simplified and rules relaxed, for instance, certificates of death issued by the local authority, were accepted where Municipal Death Certificates could not be produced. Production of evidence of life insurance, like the policy bond, was removed and a letter of declaration from the claimants was accepted. The offices situated in the affected areas were empowered to deal with the situation. The alacrity and empathy shown by the Corporation in dealing with the unusual situation has been exemplary.

By 31st March 2001, 1,310 claims from a total amount of Rs.11.63 crores, which included Rs.4.67 crores paid as Double Accident Benefit was settled. Though, the help extended by the L.I.C. could be regarded as a drop in the ocean, but given the extent of devastation caused by the killing earthquake, it was nevertheless significant and a welcome relief.

**State Wise Distribution of L.I.C.'s Investments:**

The income of the Corporation is derived from the policyholders scattered throughout the length and breadth of the country and it is only proper that the policyholder’s savings are utilized for the economic development of the country as a whole. Besides, for a sound investment policy, it is essential that investments should be geographically diversified, as it is also one of the aims of the Corporation to remove regional disparities.

The table below gives the total investment of the Corporation in all the states in the country in 1957 and 1999-2000.
The investment has been made in several fields in these states. The major investments include stock-exchange investment, state government housing schemes, housing boards, sugar co-operative societies, electricity boards, state road transport corporation, municipalities, social sector investments etc. In fact the investments made by the Corporation are in the areas that helps in bringing all round development of the state. The areas mentioned where the investment is being made are vital for the sound development and for improving the living standards of the general public. These investments also hold significance due to the reason that the Government of India is trying hard to correct economic imbalances among various states. The L.I.C, as a Government-Owned institution and as the single largest investor in the country, modulates its investment policy with the sound intention of reducing, as far as possible, imbalances in the economic development of different states.
## STATE-WISE DISTRIBUTION OF INVESTMENTS BY LIC

<table>
<thead>
<tr>
<th>STATE</th>
<th>1957 (Rs. in Crores)</th>
<th>Percentage</th>
<th>1999-2000</th>
<th>Percentage</th>
</tr>
</thead>
<tbody>
<tr>
<td>Andhra Pradesh</td>
<td>5.84</td>
<td>4.17</td>
<td>3267.05</td>
<td>5.85</td>
</tr>
<tr>
<td>Assam</td>
<td>1.08</td>
<td>0.78</td>
<td>779.94</td>
<td>1.40</td>
</tr>
<tr>
<td>Bihar</td>
<td>8.57</td>
<td>6.12</td>
<td>1779.65</td>
<td>3.19</td>
</tr>
<tr>
<td>Delhi</td>
<td>0.91</td>
<td>0.66</td>
<td>5195.49</td>
<td>9.30</td>
</tr>
<tr>
<td>Gujarat</td>
<td>45.02</td>
<td>32.17</td>
<td>3920.28</td>
<td>7.02</td>
</tr>
<tr>
<td>Maharashtra</td>
<td>N.A.</td>
<td>N.A</td>
<td>15530.07</td>
<td>27.81</td>
</tr>
<tr>
<td>Kerala</td>
<td>1.54</td>
<td>1.10</td>
<td>2331.47</td>
<td>4.17</td>
</tr>
<tr>
<td>Madhya Pradesh</td>
<td>3.14</td>
<td>2.24</td>
<td>2311.70</td>
<td>4.14</td>
</tr>
<tr>
<td>Madras</td>
<td>12.69</td>
<td>9.07</td>
<td>N.A.</td>
<td>N.A.</td>
</tr>
<tr>
<td>Mysore</td>
<td>5.54</td>
<td>3.89</td>
<td>N.A.</td>
<td>N.A.</td>
</tr>
<tr>
<td>Orissa</td>
<td>2.02</td>
<td>1.45</td>
<td>1517.60</td>
<td>2.72</td>
</tr>
<tr>
<td>Punjab</td>
<td>0.93</td>
<td>0.67</td>
<td>1311.72</td>
<td>2.35</td>
</tr>
<tr>
<td>Rajasthan</td>
<td>0.63</td>
<td>0.46</td>
<td>2378.07</td>
<td>4.26</td>
</tr>
<tr>
<td>Uttar Pradesh</td>
<td>14.37</td>
<td>10.26</td>
<td>4163.31</td>
<td>7.47</td>
</tr>
<tr>
<td>West Bengal</td>
<td>37.74</td>
<td>26.96</td>
<td>2544.78</td>
<td>4.56</td>
</tr>
<tr>
<td>State</td>
<td>-</td>
<td>-</td>
<td>Total</td>
<td>%</td>
</tr>
<tr>
<td>-----------------------</td>
<td>-----</td>
<td>-----</td>
<td>--------</td>
<td>-------</td>
</tr>
<tr>
<td>Jammu &amp; Kashmir</td>
<td>-</td>
<td>-</td>
<td>449.06</td>
<td>0.80</td>
</tr>
<tr>
<td>Haryana</td>
<td>-</td>
<td>-</td>
<td>744.74</td>
<td>1.33</td>
</tr>
<tr>
<td>Goa</td>
<td>-</td>
<td>-</td>
<td>193.51</td>
<td>0.35</td>
</tr>
<tr>
<td>Pondicherry</td>
<td>-</td>
<td>-</td>
<td>10.56</td>
<td>0.02</td>
</tr>
<tr>
<td>Tamil Nadu</td>
<td>-</td>
<td>-</td>
<td>3503.11</td>
<td>6.27</td>
</tr>
<tr>
<td>Karnataka</td>
<td>-</td>
<td>-</td>
<td>2366.57</td>
<td>4.24</td>
</tr>
<tr>
<td>Himachal Pradesh</td>
<td>-</td>
<td>-</td>
<td>635.16</td>
<td>1.14</td>
</tr>
<tr>
<td>Manipur</td>
<td>-</td>
<td>-</td>
<td>87.43</td>
<td>0.16</td>
</tr>
<tr>
<td>Meghalaya</td>
<td>-</td>
<td>-</td>
<td>135.50</td>
<td>0.24</td>
</tr>
<tr>
<td>Nagaland</td>
<td>-</td>
<td>-</td>
<td>191.35</td>
<td>0.34</td>
</tr>
<tr>
<td>Tripura</td>
<td>-</td>
<td>-</td>
<td>213.14</td>
<td>0.38</td>
</tr>
<tr>
<td>Sikkim</td>
<td>-</td>
<td>-</td>
<td>89.99</td>
<td>0.16</td>
</tr>
<tr>
<td>Mizoram</td>
<td>-</td>
<td>-</td>
<td>125.78</td>
<td>0.23</td>
</tr>
<tr>
<td>Chandigarh</td>
<td>-</td>
<td>-</td>
<td>51.10</td>
<td>0.09</td>
</tr>
</tbody>
</table>


It is clear from the table that the total investment of the Corporation in all the states in the country has increased from
Rs.140.2 crores in 1957 to Rs.55850.57 crores in 1999-2000. This increase is couple of thousands in terms of percentage. The share of the state of Andhra Pradesh went up from a mere Rs.5.84 crores in 1957 to Rs.3267.05 crores in 1999-2000. This increase in itself is five hundred times more than the total found invested by the Corporation is 1957. The percentage share of Andhra Pradesh has also increased from 4.17 percent to 5.85 percent. Similarly, the share of Bihar, one of the most backward states of India in every term had increased from Rs.8.57 crores to Rs.1779.65 crores with the total share down from 6.12 to 31.9 percent. We see in the table that the biggest beneficiary is the state of Maharashtra and Gujarat. In 1957, the funds allocated to both these states were one because it was undivided then. In 1999-2000 also the state of Gujarat received commendable investment with Rs.3920.28 crores, though the share in total investment standing at only 7.02 percent. But again, as we know Gujarat is already way ahead in terms of development than any other Indian state. In the year 1999-2000, the state of Maharashtra received Rs.15530.07 crores the biggest in terms of any other state of India. Instated of investing in already developed states the Corporation needs to take the case of underdeveloped states of North Eastern part of the country. The table clearly shows that these north-eastern states have been given rather step-motherly treatment.

It may also be seen that nearly one fourth of the total investments of the Corporation were made in the two states of Maharashtra and Gujarat. This gives an impression that the policy of promoting balanced regional economic development of the country as enunciated by the Planning Commission has been overlooked perhaps because, it is important to recognize the basic
limitations of the L.I.C. It should be appreciated that L.I.C. has inherited a large part of investment from the previous insurers, who have their head offices in certain regions, preferred investment in those areas.\textsuperscript{18} This approach certainly led to the concentration of investment in certain regions. The new investment by Corporation cannot at once diffuse that concentration. Similarly, it should be realized that the objective of diversifying investment satisfies the requirements of safety of the capital and the yield. Certain regions of the country are industrially well developed and offer greater opportunities for suitable investment than other regions. Thus, the three states of Maharashtra, Tamilnadu and West Bengal have about 76 percent of the total number of Joint Stock Companies and 81 per cent of the paid up capital of all companies at work in the country as on 31\textsuperscript{st} March 1958.\textsuperscript{19} The combined share of West Bengal and Maharashtra in the total number as well as in the total paid up capital was much higher than the combined shares of the remaining states. The states of West Bengal, Maharashtra and Gujarat accounted for 32.96 per cent of the total shares.\textsuperscript{20}

**L.I.C. AND INDUSTRIAL DEVELOPMENT:**

It is well understood that industries are the tools with the help of which a country marches on the road to development and prosperity. The government of India recognized this and is constantly trying to develop it on the model of industrialized nations. The L.I.C. being a government institution is directed to invest for the development of industries. The corporation has indeed fulfilled this in the number of diversified sectors in almost all the parts of the country. This investment by the Corporation is increasing year after year and has also shown the desired results.
It has been possible through the constant help of the Corporation that the people of even far-flunged areas of the country have been able to savour the taste of development. The investment of the Corporation in the industry sector which was just Rs.69.14 crores in 1957 has gone up to Rs.30879.16 crores. Earlier the investment was made only in the selected fields but now it has been designed to envelop to as many industries as possible. The investments are made in public sector, Private Sector, Co-operative Sector, Joint Sector etc. The table below shows the investments made by the Corporation in different industries in 1957 and 1999-2000.
### DISTRIBUTION OF L.I.C.'s INVESTMENT AMONG VARIOUS INDUSTRIES

**Rs. in Crores**

<table>
<thead>
<tr>
<th>INDUSTRY</th>
<th>1957</th>
<th>1999-2000</th>
</tr>
</thead>
<tbody>
<tr>
<td>Aluminium</td>
<td>-</td>
<td>318.24</td>
</tr>
<tr>
<td>Iron &amp; Steel</td>
<td>5.48</td>
<td>3206.16</td>
</tr>
<tr>
<td>Cement</td>
<td>3.65</td>
<td>497.60</td>
</tr>
<tr>
<td>Coal</td>
<td>1.91</td>
<td>21.04</td>
</tr>
<tr>
<td>Dyes, Chemicals &amp; Pharmaceuticals</td>
<td>1.19</td>
<td>-</td>
</tr>
<tr>
<td>Cotton</td>
<td>6.90</td>
<td>390.50</td>
</tr>
<tr>
<td>Electricity</td>
<td>8.29</td>
<td>624.66</td>
</tr>
<tr>
<td>Electric Goods</td>
<td>-</td>
<td>240.68</td>
</tr>
<tr>
<td>Engineering</td>
<td>7.14</td>
<td>1966.72</td>
</tr>
<tr>
<td>Insurance</td>
<td>1.35</td>
<td>0.37</td>
</tr>
<tr>
<td>Investment Trusts</td>
<td>0.50</td>
<td>7512.53</td>
</tr>
<tr>
<td>Jute</td>
<td>4.14</td>
<td>5.20</td>
</tr>
<tr>
<td>Mining</td>
<td>0.33</td>
<td>45.33</td>
</tr>
<tr>
<td>Mineral Oil</td>
<td>-</td>
<td>751.45</td>
</tr>
<tr>
<td>Paper and Paper products</td>
<td>3.09</td>
<td>311.70</td>
</tr>
<tr>
<td>Plantation</td>
<td>1.35</td>
<td>-</td>
</tr>
<tr>
<td>Industry</td>
<td>0.70</td>
<td>1.21</td>
</tr>
<tr>
<td>---------------------------------------</td>
<td>------</td>
<td>------</td>
</tr>
<tr>
<td>Railways</td>
<td>0.70</td>
<td>-</td>
</tr>
<tr>
<td>Shipping &amp; Transport</td>
<td>1.21</td>
<td>-</td>
</tr>
<tr>
<td>Sugar</td>
<td>-</td>
<td>-</td>
</tr>
<tr>
<td>Basic Industrial Chemicals</td>
<td>-</td>
<td>-</td>
</tr>
<tr>
<td>Rubber and Rubber products</td>
<td>-</td>
<td>-</td>
</tr>
<tr>
<td>Banks</td>
<td>-</td>
<td>-</td>
</tr>
</tbody>
</table>

- = Nil or negligible


While at the end of 1957, textile industry, with an outstanding investment amounting to Rs.12 crores out of the total of Rs. 69 crores occupies the first place but in the year 1999-2000 this was taken over by the other sector giving higher returns to the Corporation. In the year 1999-2000, Investment Trusts grabbed the first place with total investment of Rs.7512.53 crores and next was Iron and Steel with Rs.3206.16 crores. Whatever the sectors, almost all of them have received tremendous increase in their allocation. This investment made by the Corporation is in almost all the states of India but the bulk of funds has gone to the Western and Southern States of the country. Here again the North-Eastern part of the country failed to attract the attention largely because of lack of industries in these areas.
REFERENCES

2. Ibid. p.31.
8. Ibid. 85.
12. Reserve Bank of India, Note to the Committee of National Development Council, September, 1986.
17. 44th Chairman’s Review, Life Insurance Corporation of India, p.42.


CHAPTER-5
CONCLUSION AND SUGGESTIONS

Preceding chapters was an attempt to study the contribution of public sector undertakings in the overall development of India. The study also attempted to find out the feasibility of continuing with the public sector. The question about disinvestments or privatization as the only methods to remove all the ills ingrained in PSUs? The type of implications it is going to make on the general public? To find out the contribution of PSUs, its economic operations were taken into consideration as well as investments made by them in various developmental works of the country. Probe was also made to find out the changes that have taken place after the policy of liberalization was announced by the government. In order to analyze what has been discussed until now we will talk about the public sector in general and later the role and performance of L.I.C. will be discussed.

We saw in the very first chapter that our nationalist leaders have been very enthusiastic about adopting the public sector as a tool for development. All the plans and findings were directed towards achieving this goal. In fact the foremost concern that played in their mind was the improvement in the overall economic conditions of India. This concern for development led to several positive steps in the right direction. Several Indian companies were formed to benefit from it as there were the millions of people to be tapped. The then British Government also in a manner helped the Indian National Movement through the work it carried out. The introduction of Railways and other means of communication which was chiefly aimed at consolidation. All the leaders who were...
working in different parts of the country to achieve independence of the 'motherland', were able to come on one platform. If we take this angle into consideration then it wont be blasphemy to say that the public sector of pre-independent India played significant role in bringing independence to the country. If not for the Railways and some such PSUs independence could have been a distant dream.

The efforts made to implement planning in pre-independence period also helped to achieve national self sufficiency by giving particular emphasis upon agricultural and industrial production, reduction of unemployment, elimination of illiteracy etc. Even the concept of five year plans that was introduced after the attainment of independence very much focused on the above mentioned issues. The only difference being that the plans were more scientific and systematic. One of the lofty aims of five year-plans – to remove regional disparities, is yet a distant dreams. And this is very much understandable because of the vast size of the country and lack of resources at the disposal of the exchequer. But this cannot be taken as an excuse because it is more than fifty years since we gained independence. A long period of half a century by no standards could be regarded as short and insufficient.

The Industrial Policy Resolutions of 1948 and 1956 took into its purview almost all the key industries and brought them under governmental control. Though this was a tremendous set back for the Private investors but none-the-less it bore the fruit and India was very much able to fulfill the dreams of self-sufficiency in a number of areas. The restriction imposed by the government on foreign companies were lifted with the Industrial Policy
Resolution of 1991. Number of sectors which enjoyed the monopoly of the government were thrown for private investment. This opening up witnessed a flood of foreign companies eager to grab the Indian market. The focus shifted from government companies to foreign companies. The government forgot one thing, though the foreign companies entering the Indian market will bring funds to the exchequer and the Indian public will have more to choose from. But foreign companies in no way will bother themselves with the removal of regional disparities and will make efforts to make the country self reliant. The only motivational force for them will be profit and given the large Indian market, it won't be tough for them to earn handsomely.

We came across in the second chapter, the position of PSUs in different countries of the world. One thing that readily grabs the attention is that, the third world countries which adopted the public sector soon after independence is more eager to privatize them. The western world which never encouraged the public sector have shown more enthusiasm for this. Though, these companies are mostly working in the field of basic services but nonetheless they are important. These government companies, though under the governmental control but is good enough to give any private sector a run for their money. No, this is something which raises a question. Why this could not be true for the Indian public sector undertaking also? In India, right from the year 1951 to 1999-2000, there has been a constant increase in the number of public sector units as well as the investment made by the government. And in almost all the five-year plans, these PSUs have been able to get maximum allocations from the government. When we take a look at the performance of these companies and returns given by them,
the result is very sordid. Barring for the few companies in the public sector with most of them are witnessing a continuous decline in their profits and in a large number of have also been reporting undertakings which have reported losses year after year.

In the post liberalization period, though there has been hardly a new addition in the number of public enterprises but the capital being invested has definitely touched a new high. The returns coming from these is not even worth mentioning. The rates in the growth of employment which should have been better that the private companies given the number of units is also no better. The fact is that instead of showing improvement it has remained almost stagnant and is sometimes seen to be registering a negative growth continuously. On the contrary, in the private sector the situation is much better as it has shown improvement on the regular basis. All the available data shown in tables point towards only one thing, a very large number of PSUs have been a complete failure and are a clear burden on the exchequer. Despite a dismal bun the performance of the public sector one thing that should not be forgotten is the contribution of PSUs towards the development of the country and the role played by them in achieving, to some extent, the aims enshrined in the prospective planning being adopted and employed in the country.

One of the greatest issues that has caught the fancy of the public and which has also generated a tremendous heat is the problem of restructuring of PSUs. Given the findings we came across in the present research this sounds to be the most wise thing to do. The proposal for restructuring of PSUs has a gained a lot of importance because of the change in overall market dynamics due to the opening up of the Indian economy. With the population
crossing one billion mark, the entire world is looking for business opportunities in India. All this debate has definitely increased awareness among the people as more and more demands from the customers have compelled some PSUs to acquire a competitive edge and contemplate restructuring and look for new business processes. To achieve higher productivity, increased market share and fool proof strategies, the orientation of the organizational values and processes have to be focused towards customers, innovation, knowledge and technology. Disinvestment from the public sector or partial privatization is aimed to introduce more professionalism in the boards of PSUs.

The government has adopted the policy of strategic sale for the public sector. The strategic sale route focuses more on handling over management and control of the undertakings. The strategic sale, though good, has proved difficult for those in charge of the disinvestments. It has been very difficult on the part of the government to present the case of those undertakings, which are not running into losses. There has been an alarming number of dropouts, that is short listed, buyers backing off at the last stage, as we saw earlier in second chapter that there are some PSUs for which no private company is willing to bid. It is suggested that the government, instead of selling these companies out right should give them another life by rectifying shortcomings and also by investing some more funds into dying units. Another drawback of the sale of PSUs is that there could be a general lack of direction in the affairs of PSUs, this is understandable because they will not know who their new owners would be and what work culture the buyers will bring in with them which may not be compatible with the existing one. The biggest consequence will be on the morale of
the employees, especially at the top management levels. Most of them will migrate if they have a chance to move ahead in search of greener pastures.

The plus points about the restructuring of PSUs and the arguments in its favour can run into hundreds of pages given the sloppy market structure of the Indian economy. In India the public sector companies have always been the milch cows for politicians and bureaucrats and their exploitation is nothing new. What is new is that liberalization has increased competition, which has eroded their monopolies, debilitating giveaways proposed by various ministers, red tape and interference in business decisions are together pushing these companies into the red and making them a drain on the economy. The plunder of public sector undertaking is not confined only to the politicians but even the bureaucrats heading them are not far behind. The drain on national resources due to public sector undertakings have now reached a stage where one is no longer worried about selling the family silver. The sensible option is to simply get rid of the ills that have befallen them so that these companies are no longer a drain on the exchequer and may no longer be open to pilferage by unthinking politicians, corrupt bureaucrats and petty clerks. But that too will depend on non existent political will rather than pressure from the masses.

Other benefits which the government thinks would bring to the Indian economy through disinvestments are that it would become more efficient and survive on their own financial and economic strength. They would be able to respond to the market forces much faster and cater to the business needs in a more professional manner. It would also facilitate in freeing the PSUs
from the Government Control. The disinvestments would also result in wider distribution of wealth through the offer of shares of privatized companies to small investors and employees. There will also be beneficial effects on the capital market that would increase floating stock and in return would give the market more depth and liquidity. Opening up the public sector to appropriate private investment would no doubt increase economic activity and shall have an overall beneficial effect on the economy, employment generation and increase in the revenues both in the medium and the long term.

After looking at the pluses of disinvestments it becomes obvious to look at the likely negative impact of privatization and then to find out whether there is a way out or not? It has been a common practice in India that in order to meet the budgetary deficits, national assets are expected to generate resources. The reason behind this is that there seems to be hardly any alternative. Several commissions and committees were formulated to look into the ills of PSUs. Recommendations and suggestions were made, but everything was lost in the bureaucratic tangle. Instead of proving to be of any benefit, PSUs made the exchequer poorer by several crores. All this gloom presents a sordid story of mal-administration and mismanagement of our valuable national assets. These assets (PSUs) have not come to being our right. There has gone a lot of sweat of our ancestors into it. Once these assets have been put on sale, without worrying for creating new assets, the federal finances will go into the shambles. We have to sell our family jewellery to meet the grocer’s bill.

Today the government is talking constantly of disinvestment and privatization but has miserably failed to give indications about
the reinvestment of these funds. There is an urgent need to invest in the field of human welfare, for education, for health, particularly in the rural and backward areas. The present government talks about SNADESHI but is adamant to invite investors even in those sectors which are of strategic importance for the country. The defence sector which looked unaffected from the evils of privatization has also been opened up for the grabs. This is nothing but a compromise with the national security.

The government is making tall claims about the foreign direct investment. We saw in the second chapter that the FDI has never touched the expected amount, the government wishes to achieve. Whatever the case, the FDI has come into the country and definitely is not in the basic sectors, they are mostly in consumer sectors such as color TVs., cars, soft drinks etc. Even the amount the government is expecting from disinvestments has never touched the estimated figure. This can be attributed to the non-performance on the part of those who are at the helm of affairs.

So, the question now arises as to where all the money realized from FDI or disinvestments has gone? Simply speaking, investigations reveal that the money has gone down the drain. In a country where the largest number of poor people in the world live today, also a country with the largest volume of illiterate people in the world, the money was not spent to build up the social infrastructure which still remains the bane of all ills. There has not been any improvement in the productive structure either as not a single power station was built in the last decade; not a single school was set up; not even a hospital was established; nor a meter of rural road was constructed. The economic fundamentals have
not improved. Or to say that the yield has not been utilized to improve the economic fundamentals.

Even the reports of Reserve Bank say that the economic recession continues unabated. The declaration in the industrial production has been at a low as never seen before. There has been contraction in manufacturing growth, fall in power generation marginally, decline even in the much glorified service sector. In a situation of unmitigated economic crisis, unmanageable fiscal gap and unprecedented mismanagement of federal finances, disinvestment has become a convenient tool for the government which has already mismanaged the economy to reach a point that is dangerously low.

The general feeling among the people of the country is that the government through disinvestments is merely squandering away the assets that the previous generation had built up. These assets have come with the help of thousands of working people in the country. It is the sign of inept handling of the national finances. It gives a wrong signal of creeping insolvency.

As said earlier the L.I.C. has emerged as one of the premier PSU of India. As we saw earlier while discussing the performance of L.I.C. that, it has never run into losses and still continues with its spectacular performance day after day and year after year. The corporation, which started with much heartburn on the part of private players and with little funds, fulfilled the faith shown into it by the planners. It is not that the Corporation has always given rosy picture. In fact, the performance it gave in the first fifteen years of its inception disappointed even the most hardened supporters of nationalization. The growth has been slow but steady.
No matter how efficiently any institution discharged its functions but creeping in some maladies is bound to happen. Before making suggestions to improve its efficiency, we will take a look at the problems the Corporation is facing today. The foremost problem that is too glaring to miss is related with the settlement of claims. There are thousands of complaints made to the insurance department of the Government of India regarding delay and harassment by the servicemen in settlement and payment of claims. But to blame the Corporation singularly for this will be unfair. The policyholders are to be blamed equally for this. The fault which looks obvious on the part of the policyholders are that their nominees delay in informing the Corporation about the death of policyholders, don’t submit relevant documents required in time for the consideration of claim and also there is absence sometimes of valid nomination and therefore, clear title for receiving the claim payment is missing. Last but not the least, delay in completion of early claim investigation cannot be overlooked. All these causes are beyond the control of any insurance company. The only thing the corporation can do is to render assistance and help in getting the settlement claim hastened.

It is more than forty-five years since the insurance business was nationalized in India but still it has not reached effectively to the rural flocks. If we take into consideration the claims made by the Corporation that it has made major inroads in the rural areas, then pour enough a cursory glance over the low number of policyholders present in these areas tell a different story. The rural India is predominantly an agricultural society with low income and low standard of living. The savings are not enough to pay the premium for any type of insurance policy. This situation
worsens if we take into account the high rates of premium being charged by the life insurance corporation of India. As a result rural people are not attracted towards life insurance. The very objective enshrined at the time of its nationalization has been lost. The major problems being faced by the corporation can be stated as under:

- Delay in settlement of claims.
- High premium rate.
- Investment pattern of L.I.C. faulty that should be modified so as to incorporate as many untouched fields as possible.
- The percentage of surplus payable to the Central Government is too high and therefore should be reduced and the amount so left should be utilized, besides other things, for promoting insurance habits among the people.
- Agents should be trained to motivate the people for savings.
- There is a need to promote life insurance as basic social necessity both for rural and urban households not only to food clothing and shelter but in all their endeavors.
- There is a need to exploit the rural market with renewed thrust.
- More lucrative schemes for salaried class needed.
- There is shortage of agents in rural areas; hence no significant development has taken place.
- The investments by L.I.C. should be aimed towards rural areas, i.e. investment should be in the field of agriculture, rural housing etc.
The opening up of insurance sector and the introduction of IRDA Bill has invited protests from every quarter. Though the reservations pointed out are not insignificant and should be analyzed critically. The first thing that comes to mind is that the opening up of the sector will expose the L.I.C. to financial giants and they will in no time swallow up the market presently being captured by the corporation. On the other hand it is also claimed that the entry of more insurance companies in the Indian market is in the national interest as this will result into increase in the insurance products, more resources for infrastructure needs and increase in the number of insured public. The other apprehension is that, with the decline in the role of L.I.C. in insurance sector, there will be an increase in the number of companies; the number of insurance workers will automatically increase. The new entrants are not going to recruit agents from their own country. Moreover, the international companies will help in building local professionals with world-class expertise, thereby enhancing the standard of service being provided by the Life Insurance Corporation of India.

In the wake of IRDA Bill following observations could be made:

1. The threat of new players taking over the market has been overplayed.

2. Nationalized players (L.I.C. & G.I.C.) will continue to hold strong market share positions, but there will be enough business for new entrants to make the business profitable.
3. Opening up the sector will certainly mean new products, better packaging and improved customer service.

4. A middle market approach tapping segments and riches that are currently under-served will be profitable for the new entrants.

5. Both new and existing players must explore new distribution and marketing channels.

The contribution of Life Insurance Corporation of India in building the nation cannot be overlooked. Since its inception it has worked hard to fulfill both its financial as well as social objectives enshrined in the Act. This argument is not being given out of the blue. We saw in the chapter four of this thesis that the L.I.C. has made a major contribution and in some cases better than any other PSU in the socially oriented schemes. The area it covers through its socially oriented programmes touches almost every activity of day-to-day life. Be it the field of housing, transportation, charity, electricity, sewerage, drinking water, nothing seems to be untouched by the Corporation. There are several schemes which have been launched specially keeping in mind the rural population like social security scheme. Though the duties pertaining to social services have been very commendable on the part of the Corporation, but it needs to pay even more attention towards it. This is one area that makes it different from other insurance companies jostling for space in the Indian market.

Though we have tried to make this thesis exhaustive but still there might be some areas and aspects which may have been left out. However, in the light of the findings I would like to make
certain suggestions which may be of help in making the L.I.C. better and people friendly.

1. The corporations approach for taking insurance to the villages of India needs to be pursued more aggressively.

2. The Corporation should give equal weightage to the rural market in terms of campaigning for its products.

3. The corporation should target the salaried class and must launch policies which adhere to their needs and fulfills their long term planning. This could be achieved by initially launching products which warrants low premium and gives better return. The employees who belong to low income groups are still uninsured. They could prove to be major prospect for the Corporation.

4. For the conservation of rural business and proper servicing premium should be collected right at the doorstep of policyholders at intermittent interval as and when agricultural incomes are available.

5. The Corporation can make the policies more inviting for the rural population by bending its rules a bit. For example in the case of policyholders who have not attended any school and who are residing in villages. The certificate about age from either the revenue official or by the village panchayat official in the statement that has to be countersigned by the residents of the village should be accepted for purposes of age admission.

6. The Corporation's correspondence with the policyholders, and particularly with the rural policyholders, should be as far as possible be in the regional language.
7. There is a lack of good pension plans under the present policies being marketed by the Corporation. There is a lack of comprehensive social security system combined with willingness to save, means that Indian demand for pension products will grow large. The current penetration is very poor, hence the Corporation needs to harvest these untapped opportunities.

8. Health insurance is another segment with great potential because existing Indian products are insufficient or altogether missing.

9. In fulfilling its social obligations, the Corporation, instead of investing in the already developed states, should concentrate on the more needy states. The objective of removing regional disparities should be kept in mind when disbursing the funds.

10. The investments being made in socially oriented schemes are not enough keeping in view the vast majority of poor scattered all round the country. The Corporation should also concentrate on investing in the programmes, which are meant for education, health and sanitation of rural population.

Keeping all the problems and suggestion made in this research work, we expect substantial shift in the distribution of insurance in India. But, at the same time, we do hope that the Life Insurance Corporation continues to discharge its economic and social duties as handsomely as it has done till now.
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APPENDICES
APPENDIX-A

INDUSTRIAL POLICY RESOLUTION

New Delhi, 6 April, 1948

No. 1(3)-44(13)/48-The Government of India have given careful thought to the economic problems facing the country. The nation has now set itself to establish a social order where justice and equality of opportunity shall be secured to all the people. The immediate objective is to provide educational facilities and health services on a much wider scale, and to promote a rapid rise in the standard of living of the people by exploiting the latent resources of the country, increasing production and offering opportunities to all for employment in the service of the community. For this purpose. Careful planning and integrated effort over the whole field of national activity are necessary: and the Government of India propose to establish a National Planning Commission to formulate programmes of development and to secure their execution. The present statement, however, confines itself to Government's policy in the industrial field.

2. Any improvement in the economic conditions of the country postulates and increase in national wealth: a mere redistribution of existing wealth would make no essential difference to the people and would merely mean the distribution of poverty. A dynamic national policy must, therefore, be directed to a continuous increase in production by all possible means, side by side with measures to secure its equitable distribution. In the present state of the nation's economy, when the mass of the people are below the subsistence level, the emphasis should be on the expansion of production. Both agricultural and industrial; and in particular on the production of capital equipment of goods satisfying the basic needs of the people and of commodities the export of which will increase earnings of foreign exchange.

3. The problem of State participation in Industry and the conditions in which private enterprises should be allowed to operate must be judged in this context. There can be no doubt that the State must play a progressively active role in the development of industries, but ability achieve the main objectives should determine the immediate extent of State responsibility and the limits to private enterprise. Under present conditions, the mechanism and the resources of the State may not permit it to function forthwith in industry as widely as may be desirable. The Government of India are taking steps to remedy the situation; in particular, they are considering steps to create a body of men trained in business methods and management. They feel, however, that for some time to come, the State could contribute more quickly to the increase of national wealth by expanding its present activities wherever it is already operating and by concentrating on new units of production in other fields, rather than on acquiring and running existing units. Meanwhile, private enterprise, properly directed and regulated, has a valuable role to play.

4. On these considerations the Government have decided that the manufacture of arms and ammunition, the production and control of atomic energy, and ownership and management of railway transport should be the exclusive monopoly of the Central Government. Further in any emergency, the Government would always have the power to take over any industry vital for national defence. In the case of the following industries, the state which in this context, includes Central, Provincial and State Governments and other Public Authorities like Municipal Corporations will be exclusively responsible for the establishment of new undertakings, except where, the national interest, the State itself finds it necessary to secure the co-operation of private enterprise subject to such control and regulation as the Central Government may prescribe:

1. Coal (the India Coalfields Committee's proposals will be generally followed).
2. Iron and Steel.
3. Aircraft manufacture.
4. Shipbuilding.
5. Manufacture of telephone, telegraph and wireless apparatus, excluding radio receiving sets.

While the inherent right of the State to acquire any existing industrial undertaking will always remain, and will be exercised whenever the public interest requires it, Government have decided to let existing undertakings in these fields develop for a period of ten years, during which they will be allowed all facilities for efficient working and reasonable expansion. At the end of this period, the whole matter will be reviewed and a decision taken in the light of circumstances obtaining at the time. If it is decided that the State should acquire any unit, the fundamental rights guarantee by the Constitution will be observed and compensation will be awarded on a fair and equitable basis.

Management of State enterprise will, as a rule, be through the medium of public corporations under the statutory control of the Central Government, who will assume such powers as may be necessary to ensure this.

5. The Government of India have recently promulgated a measure for the control by the State of generation and distribution of electric power. This industry will continue to be regulated in terms of measures.

6. The rest of the industrial field will normally be open to private enterprise, individual as well as co-operative. The State will also progressively participate in this field; nor will it hesitate to intervene whenever the progress of an industry under private enterprise is unsatisfactory. The Central Government have already embarked on enterprises like large rivervalley developments which are multipurpose projects of great magnitude, involving extensive generation of hydro-electric power and irrigation on a vast scale, and calculated in a comparatively short time to change the entire face of large areas in this country. Projects like the Damodar Valley Scheme, the Kosi Reservoir, the Hirakund Dam, etc. in a class by themselves and can stand comparison with any of the major schemes in America or elsewhere. The Central Government have also undertaken the production of fertilizer on a very large scale, and have in view other enterprises like the manufacture of essential drugs, and of synthetic oil from coal; many Provincial and State Governments are also proceeding on similar lines.

7. There are certain basic industries of importance, apart from those mentioned in paragraph 4, the planning and regulation of which by the Central Government is necessary in the national interest. The following industries whose location must be governed by economic factors of All-India import, or which require considerable investment of a high degree of technical skill, will be the subject of Central regulation and control:

1. Salt
2. Automobiles and tractors
3. Prime movers
4. Electric engineering
5. Other heavy machinery
6. Machine tools
7. Heavy chemicals, fertilizers and pharmaceuticals and drugs
8. Electro-chemical industries
9. Non-ferrous metals
10. Rubber manufactures
11. Power and industrial alcohol
12. Cotton and woolen textiles
13. Cement
14. Sugar
15. Paper and Newsprint
16. Air and Sea transport
17. Minerals
18. Industries related to defense

The above list cannot obviously be of an exhaustive nature. The Government of India, while retaining the ultimate direction over this field of industry, will consult the Governments of the Provinces and States at all stages and fully associate them in the formulations and execution of plant. Besides these Governments, representatives of Industry and Labour will also be associated with the Central bodies which they propose to establish, as recommended by the Industries Conference.

8. Cottage and small-scale industries have a very important role in the national economy. Offering as they do scope for individual, village or co-operative enterprise, and means for the rehabilitation of displaced persons. These industries are particularly suited for the better utilisation of local resources and for the achievement of the local self-sufficiency in respect of certain types of essential consumer goods like food, cloth and agricultural implements. The healthy expansion of cottage and small scale industries depends upon a number of factors like the provision of raw materials, cheap power, technical advice, organised marking of their produce, and where necessary, safeguards against intensive competition by large scale manufacture, as the education of the worker in the use of the best available technique. Most of these fall in the Provincial sphere and are receiving the attention of the Governments of the Provinces and the States. The Resolution of Industries Conference has requested the Central Government to investigate how far and in what manner these industries can be co-ordinate and integrated with large scale industries. The Government of India accept this recommendation. It will be examined, for example, how the textile mill industry can be made complementary to, rather than competitive with the handloom industry, which is the country's largest and best organised cottage industry. In certain other lines of production, like agricultural implements, textile accessories, and parts of machine tools, it should be possible to produce components on a cottage industry scale and assemble these into their final product at a factory. It will also be investigated how far industries at present highly centralised could be decentralised with advantage.

The Resolution of the Industries Conference has recommended that Government should established a Cottage Industries Board for the fostering of small scale industries. The Government of India accept this recommendation and propose to create suitable machinery to implement it. A Cottage and Small Scale Industries Directorate will also be set up within the Directorate General of Industries and Supplies.

One of the main objectives will be to give a distinctly co-operative bias to this field of industry. During and before the last war, even a predominantly agricultural country like China showed what could be done in this respect and her mobile industrial co-operative untis were of outstanding assistance in her struggle against Japan. The present international situation is likely to lessen to a marked degree our chances of getting capital goods for large scale industry and the leeway must be made up by having recourse to small-size industrial co-operative throughout the country.

9. The Government, however, recognise that their objective, viz securing the maximum increase in production will not be realised merely by prescribing the respective spheres of the State and of Private enterprise in industry. It is equally essential to ensure the fullest co-operation between labour and management and the maintenance of stable and friendly relations between them. A resolution on this subject was unanimously passed by the Industries Conference which was held in December last. Amongst other things, the resolution states:

".... The system of remuneration to capital as well as labour must be so devised that, while in the interest of the consumers and the primary producers excessive profits should be prevented by suitable methods of taxation and otherwise, both will share the product of their common effort, after making provision for payment of fair wages to labour, a fair return on capital employed in the industry and reasonable reserves for the maintenance and expansion of the undertakings."

Government accept this Resolution. They also consider that labour's share of the profits should be on sliding scale normally varying with production. They propose, in addition to the over – all regulation of industry by the State, to establish machinery for advising on fair wages, fair remuneration for capital,
and conditions of labour. They will also take steps to associate labour in all matters concerning industrial production.

The machinery which Government propose to set up will function at different levels, central regional and unit. At the centre, three will be Central Advisory Council, which will cover the entire field of industry, and will have under it Committees for each major industry. These Committees may be split up into sub-committees dealing with specific questions relating to the industry eg. Production, industrial relations, wage fixation and distribution of profits. The regional machinery under the Provincial Governments will be Provincial Advisory Boards which like the Central Advisory council, will cover the entire field of industry within the Province; they will have under them Provincial Committees for each major industry. The Provincial Committees may also be split up into various sub-committees dealing with specific questions relating the production, wage fixation and industrial relations. Below the Provincial Committees will come the Works Committees and the Production Committees attached to each major industrial establishment.

The Works Committees and the Production Committees will be bi-partite in character, consisting of representatives of employers and workers only, in equal numbers. All other Committees will be tri-partite, with representatives of Government, employers and workers.

Government hope that the machinery proposed will substantially reduce the volume of industrial disputes. In the case of unresolved conflicts. Government trust that management and labour will, in their own interests and in the larger interests of the country, agree to settle them through recognised channels of conciliation and arbitration, which will be provided by Government. The Industrial Relations Machinery, both at the Centre and in the Provinces, is being strengthened, and permanent industrial tribunals are being established for dealing with major disputes.

The Government of India are also taking special steps to improve industrial housing as quickly as possible. A scheme for the construction of one million workers' houses in ten years is under contemplation, and a Housing Board is being constituted for this purpose. The cost will be shared in suitable proportions between Government, employers and labour, the share of labour being recovered in the form of a reasonable rent.

In order to ensure quick decisions on the various matters arising out of Industrial Truce Resolution, Government are appointing a special officer.

10. The Government of India agree with the view of the Industries Conference that, while it should be recognised that participation of foreign capital and enterprise, particularly as regards industrial technique and knowledge, will be of value to the rapid industrialisation of the country, it is necessary that the conditions under which they may participate in Indian industry should be carefully regulated in the national interest. Suitable legislation will be introduced for this purpose. Such Legislation will provide for the scrutiny and approval by the Central Government of every individual case of participation foreign capital and management in industry. It will provide that, as a rule, the major interest in ownership, and effective control, should always be in Indian hands; but power will be taken to deal with exceptional cases in a manner calculated to serve the national interest. In all cases, however, the training of suitable Indian personnel for the purpose of eventually replacing foreign experts will be insisted upon.

11. The Government of India are fully alive to their direct responsibility for the development of these industries which they have found necessary to reserve exclusively for State enterprise. They are equally ready to extend their assistance to private or cooperative enterprise in the rest of the industrial field, and in particular, by removing transport difficulties and byfacilitating the import of essential raw-materials to the maximum possible extent. The tariff policy of Government will be designed to prevent unfair foreign competition and to promote the utilisation India's resources without imposing unjustifiable burden on the consumer. The system of taxation will be reviewed and readjusted where necessary to encourage saving and productive investment and to prevent undue concentration of wealth in a small section of the population.

12. The Government of India hope that this elucidation of their intentions on fundamental aspects of industrial policy will remove all misapprehensions, and they are confident that a joint and intensive effort will now be made by labour, capital and the general public, which will pave the way for the rapid industrialisation of the country.
APPENDIX - B

INDUSTRIAL POLICY RESOLUTION

New Delhi, 30th April 1956

No.91/SF/48-The Government of India set out in their Resolution dated 6.4.48 the policy which they proposed to pursue in the industrial field. The Resolution emphasised the importance to the economy of securing a continuous increase in production and its equitable distribution, and pointed out that the State must play a progressively active role in the development of industries. It laid down that besides arms and ammunition, atomic energy and railway transport, which would be the monopoly of the Central Government, the State would be exclusively responsible for the establishment of new undertakings in six basic industries except where, in the national interest, the State itself found it necessary to secure the cooperation of private enterprise. The rest of the industrial field was left open to private enterprises though it was made clear that the State would also progressively participate in this field.

2. Eight years have passed since this declaration on industrial policy. These eight years have witnessed many important changes and developments in India. The constitution of India has been enacted, guaranteeing certain fundamental rights and enunciating Directive Principles of State Policy. Planning has proceeded on an organised basis, and the first Five Year Plan has recently been completed. Parliament has approved the socialist pattern of society as the objective of social and economic policy. These important developments necessitate a fresh statement of industrial policy, more particularly as the Second Five Year Plan will soon be placed before the country. This policy must be governed by the principles laid down in the Constitution, the objective of socialism, and the experience gained during these years.

3. The Constitution of India, in its preamble, has declared that it aims at securing for all its citizens:

"JUSTICE, social, economic and political;

LIBERTY, of thoughts, expression, belief, faith and worship;

EQUALITY of status and of opportunity; and to promote among them all;

FRATERNITY, assuring the dignity of the individual and the unity of the Nation."

In its Directive Principles of State Policy, it is stated that –

"The State shall strive to promote the welfare of the people by securing and protecting as effectively as it may a social order in which justice, social, economic and political, shall inform all the institutions of the national life."

Further that-

"The State shall, in particular, direct its policy towards securing:

a. that the citizens, men and women equally, have the right to an adequate means of livelihood;

b. that the ownership and control of the material resources of the community are so distributed as best to subserve the common good;

c. that the operation of the economic system does not result in the concentration of wealth and means of production to the common detriment;

d. that there is equal pay for equal work for both men women;
that the health and strength of workers, men and women, and the tender age of children are not abused and that citizens are not forced by economic necessity to enter vocations unsuited to their age of strength:

f. that childhood and youth are protected against exploitation and against moral and material abandonment."

4. These basic and general principles were given a more precise direction when Parliament accepted in December 1954, the socialist pattern of society as the objective of social and economic policy. Industrial policy, as other policies, must therefore, be governed by these principles and directions.

5. In order to realise this objective, it is essential to accelerate the rate of economic growth and to speed up industrialisation and, in particular, to develop heavy industries and machine making industries, to expand the public sector, and to build up a large and growing co-operative sector. These provide the economic foundations for increasing opportunities for gainful employment and improving living standards and working conditions for the mass of the people. Equally, it is urgent, to reduce disparities in income and wealth which exist today, to prevent private monopolies and the concentration of economic power in different fields in the hands of small numbers of individuals. Accordingly, the state will progressively assume predominant and direct responsibility for setting up new industrial undertakings and for developing transport facilities. It will also undertake State trading on an increasing scale. At the same time, as an agency for planned national development, in the context of the country's expanding economy, the private sector will have the opportunity to develop and expand. The principle of co-operation should be applied wherever possible and a steadily increasing portion of the activities of the private sector developed along co-operative lines.

6. The adoption of the socialist pattern of society as the national objective, as well as the need for planned and rapid development, require that all industries of basic and strategic importance, or in the nature of public utility services, should be in the public sector. Other industries, which are essential and require investment on a scale which only the state, has, therefore, to assume direct responsibility for the further development of industries over a wider area. Nevertheless, there are limiting factors, which make it necessary at this stage for the state to define the field in which it will undertake sole responsibility for further development, and to make a selection of industries in the development of which it will play dominant role. After considering all aspects of the problem in consultation with the Planning Commission, the Government of India have decided to classify industries into three categories, having regard to the part which the State would play in each of them. These categories will inevitably overlap to some extent and too great a rigidity might defeat the purpose in view. But the basic principles and objectives have always to be kept in view ad the general directions hereafter referred to be followed. It should also be remembered that it is always open to the State to undertake any type of industrial production.

7. In the first category will be industries the future development of which will be the exclusive responsibility of the State. The second category will consist of industries, which will be progressively State-owned and in which the State will, therefore, generally take the initiative in establishing new undertakings, but in which private enterprise will also be expected to supplement the effort of the State. The third category will include all the remaining industries, and their future development will, in general, be left to the initiative and enterprise of the private sector.

8. Industries in the first category have been listed in Schedule A of this Resolution. All new units in these industries, save where their establishment in the private sector has already been approved, will be set up only by the State. This does not preclude the expansion of the existing privately owned units, or the possibility of the State securing the co-operation of private enterprise in the establishment of new units when the national interests so require. Railways and air transport, arms and ammunition and atomic energy will, however, be developed as Central Government monopolies. Whenever co-operation with private enterprise is necessary, the State will ensure, either through majority participation in the capital or otherwise, that it has the requisite powers to guide the policy and control the operations of the undertakings.
9. Industries in the second category will be those listed in Schedule B. With a view to accelerating their future development, the State will increasingly establish new undertakings in these industries. At the same time, private enterprise will also have the opportunity to develop in this field, either on its own or with State participation.

10. All the remaining industries will fall in the third category, and it is expected that their development will be undertaken ordinarily through the initiative and enterprise of the private sector, though it will be open to the State to start any industry even in this category. It will be the policy of the State of facilitate and encourage the development of these industries in the private sector, in accordance with the programmes formulated in successive Five Year Plans, by ensuring the development of transport, power and other services, and by appropriate fiscal and other measures. The State will continue to foster institutions to provide financial aid to these industries, and special assistance will be given to enterprises organised on co-operative lines for industrial and agricultural purposes. In suitable cases, the State may also grant financial assistance to the private sector. Such assistance, especially when the amount involved in substantial, will preferably be in the form of participation in equity capital, though it may also be in part, in the form of debenture capital.

11. Industrial undertakings in the private sector have necessarily to fit into the framework of the social and economic policy of the State and will be subject to control and regulation in terms of the Industries (Development and Regulation) Act and other relevant legislation. The Government of India, however, recognise that it would, in general, be desirable to allow such undertakings to develop with as much freedom as possible, consistent with the targets and objectives of the national plan. When there exists in the same industry both privately and publicly owned units, it would continue to be the policy of the State to give fair and non-discriminatory treatment to both of them.

12. The division of industries into separate categories does not imply that they are being placed in watertight compartments. Inevitably, there will not only be an areas of overlapping but also a great deal of dovetailing between industries in the private and the public sectors. It will be open to the State to start any industry not included in Schedule A and Schedule B when the needs of planning so require or there are other important reasons for it. In appropriate cases, privately owned units may be permitted to produce an item falling within Schedule A for meeting their own requirements or as by-products. There will be ordinarily no bar to small privately owned units undertaking production, such as the making of launches and other lightcraft, generation for power for local needs and small scale mining. Further, heavy industries in the public sector may obtain some or their requirements of lighter components from the private sector, while the private sector in turn would rely for many of its needs on the public sector. The same principle would apply with even greater force to the relationship between large scale and small scale industries.

13. The Government of India would, in this context, stress the role of cottage and village and small scale industries in the development of the national economy. In relation to some of the problems that need urgent solutions, they offer some distinct advantages. They provide immediate large scale employment; they offer a method of ensuring amore equitable distribution of the national income and they facilitate an effective mob-illisation or resources of capital and skill which might otherwise remain unutilised. Some of the problems that unplanned urbanisation tends to create will be avoided by the establishment of small centres of industrial production all over the country.

14. The State has been following a policy of supporting cottage and village and small scale industries by restricting the volume of production in the large scale sector by differential taxation or by direct subsidies. While such measures will continue to be taken, whenever necessary, the aim of the State Policy will be to ensure that the decentralised sector acquires sufficient vitality to be self supporting and its development is integrated with that or large-scale industry. They State will, therefore, concentrate on measures designed to improve the competitive strength of the small scale producer. For this it is essential that the technique of production should be constantly improved so and modernised the pace of transformation being regulated so as to avoid as far as possible, technological unemployment. Lack of technical and financial assistance, of suitable working accommodation and inadequacy of facilities for repair and maintenance are among the serious handicaps of small scale producers. A start has been made with the establishment of industrial
estates and rural community workshops to make good these deficiencies. The extension of rural electrification, and the availability of power at prices, which the workers can afford, will also be of considerable help. Many of the activities relating to small scale production will be greatly helped by the organisation of industrial cooperatives. Such cooperatives should be encouraged in every way and the State should give constant attention to the development of cottage and village and small scale industry.

15. In order that industrialisation may benefit the economy of the country as a whole, it is important that disparities in levels of development between different regions should be progressively reduced. The lack of industries in different parts of the country is very often determined by factors such as the availability of the necessary raw materials in certain areas has also been due to the ready availability of power, water supply and transport facilities which has been developed there. It is one of the aims of national planning to ensure that these facilities are steadily made available to areas which are at present lagging behind industrially or where there is greater need for providing opportunities for employment provided the location is otherwise suitable. Only by securing a balanced and coordinated development, of the industrial and the agricultural economy in each region, can the entire country attain higher standards of living.

16. This programme of industrial development will make large demands on the country's resources of technical and managerial personnel. To meet these rapidly growing needs for the expansion of the public sector and for the development of the village and small scale industries, proper managerial and technical cadres in the public services are being established. Steps are also being taken to meet shortages at supervisory levels, to organise apprenticeship schemes of training on a large scale both in public and in private enterprises, and to extend training facilities in business management in universities and other institutions.

17. It is necessary that proper amenities and incentives should be provided for all these engaged in industry. The living and working conditions of workers should be improved and their standards of efficiency raised. The maintenance of industrial peace is one of the prime requisites of industrial progress. In a socialist democracy labour is a partner in the common task of development and should participate in it with enthusiasm. Some laws governing industrial relations have been enacted and a broad common approach has developed with growing recognition of the obligations of both management and labour. There should be joint consultation and workers and technicians should wherever possible, be associated progressively in management. Enterprises in the public sector have to set an example in this respect.

18. With the growing participation of the State industry and trade, the manner in which these activities should be conducted and managed assumes considerable importance. Speedy decisions and a willingness to assume responsibility are essential if these enterprises are to succeed. For this wherever possible, there should be decentralisation of authority and their management should be along business lines. It is to be expected that public enterprises will augment the revenues of the State and provide resources for further development in fresh fields. But such enterprises may sometimes incur losses. Public enterprises have to be judged by their total results and in their working they should have the largest possible measure of freedom.

19. The Industrial Policy Resolution of 1948 dealt with a number of other subjects which have since been covered by suitable legislation or by authoritative statement of policy. The division of responsibility between the Central Government and the State Government in regard to industries has been set out in the Industries (Development and Regulation) Act. The Prime Minister, in his statement in parliament on 6th April 1949, has enunciated the policy of the State in regard to foreign capital. It is, therefore, not necessary to deal with the subjects in this resolution.

20. The Government of India trust that this statement of their Industrial Policy will receive the support of all sections of the people and promote the rapid industrialisation of the country.
SCHEDULE A
1. Arms and ammunition and allied items of defence equipments.
2. Atomic energy.
3. Iron and Steel.
4. Heavy castings and forgings of iron and steel.
5. Heavy plant and machinery required for iron and steel production, for mining, for machinery tool manufacture and for such other basic industries as may be specified by the Central Government.
6. Heavy electrical plant including large hydraulic and steam turbines.
7. Coal and lignite.
9. Mining of iron ore, manganese ore, crome-ore, gypsum, sulphur, gold and diamond.
10. Mining and processing of copper, lead, zinc, tin, molybdenum and wolfram.
12. Aircraft.
15. Shipbuilding.
16. Telephones and telephones cables, telegraph and wireless apparatus (excluding radio receiving sets).
17. Generation and distribution of electricity.

SCHEDULE B
1. All other minerals except ‘minor minerals’ as defined in Section 3 of the Minerals Concession Rules 1949.
2. Aluminum and other non-ferrous metals not included in Schedule A.
4. Ferro-alloys and tool steels.
5. Basic and intermediate products required by chemical industries such as the manufacture of drugs, dye-stuffs and plastics.
6. Antibiotics and other essential drugs.
7. Fertilizers.
8. Synthetic rubber.
10. Chemical pulp.
11. Road transport.
12. Sea transport.
POLICY OBJECTIVES

Pandit Jawaharlal Nehru laid the foundations of modern India. His vision and determination have left a lasting impression on every facet of national endeavour since Independence. It is due to his initiative that India now has a strong and diversified industrial base and is a major industrial nation of the world. The goals and objectives set out for the nation by Pandit Nehru on the eve of independence, namely, the rapid agricultural and industrial development of our country, rapid expansion of opportunities for gainful employment, progressive reduction of social and economic disparities, removal of poverty and attainment of self-reliance remain as valid today as at the time Pandit Nehru first set them out before the nation. Any industrial policy must contribute to the realisation of these goals and objectives at an accelerated pace. The present statement of industrial policy is inspired by these very concerns, and represents a renewed initiative towards consolidating the gains of national reconstruction at this crucial stage.

2. In 1948, immediately after Independence, Government introduced the Industrial Policy Resolution. This outlined the approach to industrial growth and development. It emphasised the importance to the economy of securing a continuous increase in production and ensuring its equitable distribution. After the adoption of the Constitution and the socio-economic goals, the Industrial Policy was comprehensively revised and adopted in 1956. To meet new challenges, from time to time, it was modified through statements in 1973, 1977 and 1980.

3. The Industrial Policy Resolution of 1948 was followed by the Industrial Policy Resolution of 1956 which had as its objective the acceleration of the rate of economic growth and the speeding up of industrialisation as a means of achieving a socialist pattern of society. In 1956, capital was scarce and the base of entrepreneurship not strong enough. Hence, the 1956 Industrial Policy Resolution gave primacy to the role of the State to assume a predominant and direct responsibility for industrial development.

4. The Industrial Policy Statement of 1973, inter alia, identified high-priority industries where investment from large industrial houses and foreign companies would be permitted.

5. The Industrial Policy Statement of 1977 laid emphasis on decentralisation and on the role of small-scale, tiny and cottage industries.

6. The Industrial Policy Statement of 1980 focussed attention on the need for promoting competition in the domestic market, technological upgradation and modernisation. The policy laid the foundation for an increasingly competitive export based and for encouraging foreign investment in high-technology areas. This found expression in the Sixth Five Year Plan which bore the distinct stamp of Smt. Indira Gandhi. It was Smt. Indira Gandhi who emphasised the need for productivity to be the central concern in all economic and production activities.

7. These policies created a climate for rapid industrial growth in the country. Thus on the eve of the Seventh Five Year Plan, a broad-based infrastructure had been built up. Basic industries had been established. A high degree of self-reliance in a large number of items -
raw materials, intermediates, finished goods - had been achieved. New growth centres of industrial activity had emerged, as had a new generation of entrepreneurs. A large number of engineers, technicians and skilled workers had also been trained.

8. The Seventh Plan recognised the need to consolidate on these strengths and to take initiatives to prepare Indian industry to respond effectively to the emerging challenges. A number of policy and procedural changes were introduced in 1985 and 1986 under the leadership of Shri Rajiv Gandhi aimed at increasing productivity, reducing costs and improving quality. The accent was on opening the domestic market to increased competition and readying our industry to stand on its own in the face of international competition. The public sector was freed from a number of constraints and given a larger measure of autonomy. The technological and managerial modernisation of industry was pursued as the key instrument for increasing productivity and improving our competitiveness in the world. The net result of all these changes was that Indian industry grew by an impressive average annual growth rate of 8.5% in the Seventh Plan period.

9. Government is pledged to launching a reinvigorated struggle for social and economic justice, to end poverty and unemployment and to build a modern, democratic, socialist, prosperous and forward-looking India. Such a society can be built if India grows as part of the world economy and not in isolation.

10. While Government will continue to follow the policy of self-reliance, there would be greater emphasis placed on building up our ability to pay for imports through our own foreign exchange earnings. Government is also committed to development and utilisation of indigenous capabilities in technology and manufacturing as well as its upgradation to world standards.

11. Government will continue to pursue a sound policy framework encompassing encouragement of entrepreneurship, development of indigenous technology through investment in research and development, bringing in new technology, dismantling of the regulatory system, development of the capital markets and increasing competitiveness for the benefit of the common man. The spread of industrialisation to backward areas of the country will be actively promoted through appropriate incentives, institutions and infrastructure investments.

12. Government will provide enhanced support to the small-scale sector so that it flourishes in an environment of economic efficiency and continuous technological upgradation.

13. Foreign investment and technology collaboration will be welcomed to obtain higher technology, to increase exports and to expand the production base.

14. Government will endeavour to abolish the monopoly of any sector or any individual enterprise in any field of manufacture, except on strategic or military considerations and open all manufacturing activity to competition.

15. The Government will ensure that the public sector plays its rightful role in the evolving socio-economic scenario of the country. Government will ensure that the public sector is run on business lines as envisaged in the Industrial Policy Resolution of 1956 and would continue to innovate and lead in strategic areas of national importance. In the 1950s and 1960s, the principal instrument for controlling the commanding heights of the economy was investment in the capital of key industries. Today, the State has other instruments of intervention, particularly fiscal and monetary instruments. The State also commands the bulk of the nation's savings. Banks and financial institutions are under State control. Where State intervention is necessary, these instruments will prove more effective and decisive.

16. Government will fully protect the interests of labour, enhance their welfare and equip them in all respects to deal with the inevitability of technological change. Government believes that
no small section of society can corner the gains of growth, leaving workers to bear its pains. Labour will be made an equal partner in progress and prosperity. Workers' participation in management will be promoted. Workers cooperatives will be encouraged to participate in packages designed to turn around sick companies. Intensive training, skill development and upgradation programmes will be launched.

17. Government will continue to visualise new horizons. The major objectives of the new industrial policy package will be to build on the gains already made, correct the distortions or weaknesses that may have crept in, maintain a sustained growth in productivity and gainful employment and attain international competitiveness. The pursuit of these objectives will be tempered by the need to preserve the environment and ensure the efficient use of available resources. All sector of industry whether small, medium or large, belonging to the public, private or cooperative sector will be encouraged to grow and improve on their past performance.

18. Government's policy will be continuity with change.

19. In pursuit of the above objectives, Government have decided to take a series of initiatives in respect of the policies relating to the following areas.

A. Industrial Licensing.
B. Foreign Investment
C. Foreign Technology Agreements.
D. Public Sector Policy
E. MRTP Act.

A package for the Small and Tiny Sectors of industry is being announced separately.

A. INDUSTRIAL LICENSING POLICY

20. Industrial Licensing is governed by the Industries (Development & Regulation) Act, 1951. The Industrial Policy Resolution of 1956 identified the following three categories of industries: those that would be reserved for development in public sector, those that would be permitted for development through private enterprise with or without State participation, and those in which investment initiatives would ordinarily emanate from private entrepreneurs. Over the years, keeping in view the changing industrial scene in the country, the policy has undergone modifications. Industrial licensing policy and procedures have also been liberalised from time to time. A full realisation of the industrial potential of the country calls for a continuation of this process of change.

21. In order to achieve the objectives of the strategy for the industrial sector for the 1990s and beyond it is necessary to make a number of changes in the system of industrial approvals. Major policy initiatives and procedural reforms are called for in order to actively encourage and assist Indian entrepreneurs to exploit and meet the emerging domestic and global opportunities and challenges. The bedrock of any such package of measures must be to let the entrepreneurs make investment decisions on the basis of their own commercial judgement. The attainment of technological dynamism and international competitiveness requires that enterprises must be enabled to swiftly respond to fast changing external conditions that have become characteristic of today's industrial world. Government policy and procedures must be geared to assisting entrepreneurs in their efforts. This can be done only if the role played by the government were to be changed from that of only exercising control to one of providing help and guidance by making essential procedures fully transparent and by eliminating delays.
22. The winds of change have been with us for some time. The industrial licensing system has been gradually moving away from the concept of capacity licensing. The system of reservations for public sector undertakings has been evolving towards an ethos of greater flexibility and private sector enterprise has been gradually allowed to enter into many of these areas on a case by case basis. Further impetus must be provided to these changes which alone can push this country towards the attainment of its entrepreneurial and industrial potential. This calls for bold and imaginative decisions designed to remove restraints on capacity creation, while at the same, ensuring that over-riding national interests are not jeopardised.

23. In the above context, industrial licensing will henceforth be abolished for all industries, except those specified, irrespective of levels of investment. These specified industries (Annex-II), will continue to be subject to compulsory licensing for reasons related to security and strategic concerns, social reasons, problems related to safety and over-riding environmental issues, manufacture of products of hazardous nature and articles of elitist consumption. The exemption from licensing will be particularly helpful to the many dynamic small and medium entrepreneurs who have been unnecessarily hampered by the licensing system. As a whole the Indian economy will benefit by becoming more competitive, more efficient and modern and will take its rightful place in the world of industrial progress.

B. FOREIGN INVESTMENT

24. While freeing Indian industry from official controls, opportunities for promoting foreign investments in India should also be fully exploited. In view of the significant development of India's industrial economy in the last 40 years, the general resilience, size and level of sophistication achieved, and the significant changes that have also taken place in the world industrial economy, the relationship between domestic and foreign industry needs to be much more dynamic than it has been in the past in terms of both technology and investment. Foreign investment would bring attendant advantages of technology transfer, marketing expertise, introduction of modern managerial techniques and new possibilities for promotion of exports. This is particularly necessary in the changing global scenario of industrial and economic cooperation marked by mobility of capital. The government will therefore welcome foreign investment which is in the interest of the country's industrial development.

25. In order to invite foreign investment in high priority industries, requiring large investments and advanced technology, it has been decided to provide approval for direct foreign investment upto 51% foreign equity in such industries. There shall be no bottlenecks of any kind in this process. This group of industries has generally been known as the "Appendix I Industries" and are areas in which FERA companies have already been allowed to invest on a discretionary basis. This change will go a long way in making Indian policy on foreign investment transparent. Such a framework will make it attractive for companies abroad to invest in India.

26. Promotion of exports of Indian products calls for a systematic exploration of world markets possible only through intensive and highly professional marketing activities. To the extent that expertise of this nature is not well developed so far in India, Government will encourage foreign trading companies to assist us in our export activities. Attraction of substantial investment and access to high technology, often closely held, and to world markets, involves interaction with some of the world's largest international manufacturing and marketing firms. The Government will appoint a special board to negotiate with such firms so that we can engage in purposive negotiation with such large firms, and provide the avenues for large investments in the development of industries and technology in the national interest.

C. FOREIGN TECHNOLOGY AGREEMENT

27. There is a great need for promoting an industrial environment where the acquisition of technological capability receives priority. In the fast changing world of technology the
relationship between the suppliers and users of technology must be a continuous one. Such a relationship becomes difficult to achieve when the approval process includes unnecessary governmental interference on a case to case basis involving endemic delays and fostering uncertainty. The Indian entrepreneur has now come of age so that he no longer needs such bureaucratic clearances of his commercial technology relationships with foreign technology suppliers. Indian industry can scarcely be competitive with the rest of the world if it is to operate within such a regulatory environment.

28. With a view to injecting the desired level of technological dynamism in Indian industry, Government will provide automatic approval for technology agreement related to high priority industries within specified parameters. Similar facilities will be available for other industries as well if such agreements do not require the expenditure of free exchange. Indian companies will be free to negotiate the terms of technology transfer with their foreign counterparts according to their own commercial judgement. The predictability and independence of action that this measure is providing to Indian industry will induce them to develop indigenous competence for the efficient absorption of foreign technology. Greater competitive pressure will also induce our industry to invest much more in research and development and they have been doing in the past. In order to help this process, the hiring of foreign technicians and foreign testing of indigenously developed technologies, will also not require prior clearance as prescribed so far, individually or as a part of industrial or investment approvals.

D. PUBLIC SECTOR POLICY

29. The public sector has been central to our philosophy of development. In the pursuit of our development objectives, public ownership and control in critical sector of the economy has played an important role in preventing the concentration of economic power, reducing regional disparities and ensuring that planned development serves the common good.

30. The Industrial Policy Resolution of 1956 gave the public sector a strategic role in the economy. Massive investments have been made over the past four decades to build a public sector which has a commanding role in the economy. Today key sectors of the economy are dominated by mature public enterprises that have successfully expanded production, opened up new areas of technology and built up a reserve of technical competence in a number of areas.

31. After the initial exuberance of the public sector entering new areas of industrial and technical competence, a number of problems have begun to manifest themselves in many of the public enterprises. Serious problems are observed in the insufficient growth in productivity, poor project management, over-manning, lack of continuous technological upgradation, and inadequate attention to R&D and human resource development. In addition, public enterprises have shown a very low rate of return on the capital invested. This has inhibited their ability to re-generate themselves in terms of new investments as well as in technology development. The result is that many of the public enterprises have become a burden rather than being an asset to the Government. The original concept of the public sector has also undergone considerable dilution. The most striking example is the take over of sick units from the private sector. This category of public sector units accounts for almost one third of the total losses of central public enterprises. Another category of public enterprises, which does not fit into the original idea of the public sector being at the commanding heights of the economy, is the plethora of public enterprises which are in the consumer goods and services sectors.

32. It is time therefore that the Government adopt a new approach to public enterprises. There must be a greater commitment to the support of public enterprises which are essential for the operation of the industrial economy. Measures must be taken to make these enterprises more growth oriented and technically dynamic. Units which may be faltering at present but are potentially viable must be restructured and given a new lease of life. The priority areas for growth of public enterprises in the future will be the following.
• Essential infrastructure goods and services.
• Exploration and exploitation of oil and mineral resources.
• Technology development and building of manufacturing capabilities in areas which are crucial in the long term development of the economy and where private sector investment is inadequate.
• Manufacture of products where strategic considerations predominate such as defence equipment.

At the same time the public sector will not be barred from entering areas not specifically reserved for it.

33. In view of these considerations, Government will review the existing portfolio of public investments with greater realism. This review will be in respect of industries based on low technology, small scale and non-strategic areas, inefficient and unproductive areas, areas with low or nil social considerations or public purpose, and areas where the private sector has developed sufficient expertise and resources.

34. Government will strengthen those public enterprises which fall in the reserved areas of operation or are in high priority areas or are generating good or reasonable profits. Such enterprises will be provided a much greater degree of management autonomy through the system of memoranda of understanding. Competition will also be induced in these areas by inviting private sector participation. In the case of selected enterprises, part of Government holdings in the equity share capital of these enterprises will be disinvested in order to provide further market discipline to the performance of public enterprises. There are a large number of chronically sick public enterprises incurring heavy losses, operating in a competitive market and serve little or no public purpose. These need to be attended to. The country must be proud of the public sector that it owns and it must operate in the public interest.

E. MONOPOLIES AND RESTRICTIVE TRADE PRACTICES ACT (MRTP ACT)

35. The principal objectives sought to be achieved through the MRTP Act are as follows:

(I) Prevention of concentration of economic power to the common detriment, control of monopolies, and

(II) Prohibition of monopolistic and restrictive and unfair trade practices.

36. The MRTP Act became effective in June 1970. With the emphasis placed on productivity in the Sixth Plan, major amendments to the MRTP Act were carried out in 1982 and 1984 in order to remove impediments to industrial growth and expansion. This process of change was given a new momentum in 1985 by an increase of threshold limit of assets.

37. With the growing complexity of industrial structure and the need for achieving economies of scale for ensuring high productivity and competitive advantage in the international market, the interference of the Government through the MRTP Act in investment decisions of large companies has become deleterious in its effects on Indian industrial growth. The pre-entry scrutiny of investment decisions by so called MRTP companies will no longer be required. Instead, emphasis will be on controlling and regulating monopolistic, restrictive and unfair trade practices rather than making it necessary for the monopoly house to obtain prior approval of Central Government for expansion, establishment of new undertakings, merger, amalgamation and takeover and appointment of certain directors. The thrust of policy will be more on controlling unfair or restrictive business practices. The MRTP Act will be restructured by eliminating the legal requirement for prior governmental approval for expansion of present
undertakings and establishment of new undertakings. The provisions relating to merger, amalgamation, and takeover will also be repealed. Similarly, the provisions regarding restrictions on acquisition of and transfer of shares will be appropriately incorporated in the Companies Act.

38. Simultaneously, provisions of the MRTP Act will be strengthened in order to enable the MRTP Commission to take appropriate action in respect of the monopolistic, restrictive and unfair trade practices. The newly empowered MRTP Commission will be encouraged to require investigation suo moto or on complaints received from individual consumers or classes of consumers.

F. DECISIONS OF GOVERNMENT

39. In view of the considerations outlined above Government have decided to take a series of measures to unshackle the Indian industrial economy from the cobwebs of unnecessary bureaucratic control. These measures complement the other series of measures being taken by Government in the areas of trade policy, exchange rate management, fiscal policy, financial sector reform and overall macro economic management.

A. Industrial Licensing Policy

i. Industrial licensing will be abolished for all projects except for a short list of industries related to security and strategic concerns, social reasons, hazardous chemicals and overriding environmental reasons, and items of elitist consumption (list attached as Annex II). Industries reserved for the small scale sector will continue to be so reserved.

ii. Areas where security and strategic concerns predominate, will continue to be reserved for the public sector (list attached as Annex I).

iii. In projects where imported capital goods are required, automatic clearance will be given

   a. in cases where foreign exchange availability is ensured through foreign equity

   or

   b. if the CIF value of imported capital goods required is less than 25% of total value (net of taxes) of plant and equipment, up to a maximum value of Rs. 2 crore. In view of the current difficult foreign exchange situation, this scheme (i.e. (iii) b) will come into force from April, 1992.

   i. In other cases, imports of capital goods will require clearance from the Secretariat for Industrial Approvals (SIA) in the Department of Industrial Development according to availability of foreign exchange resources.

   ii. In locations other than cities of more than 1 million population, there will be no requirement of obtaining industrial approvals from the Central Government except for industries subject to compulsory licensing. In respect of cities with population greater than 1 million, industries other than those of a non polluting nature such as electronics, computer software and printing will be located outside 25 kms. of the periphery, except in prior designated industrial areas. A flexible location policy would be adopted in respect of such cities (with population greater than 1 million) which require industrial re-generation. Zoning and Land Use Regulation and Environmental Legislation will continue to regulate industrial locations. Appropriate incentives and the design of investments in infrastructure development will be used to promote the dispersal of industry particularly to rural and backward areas and to reduce congestion in cities.
iii. The system of phased manufacturing programmes run on an administrative case by case basis will be applicable to new projects. Existing projects with such programmes will continue to be governed by them.

iv. Existing units will be provided a new broad banding facility to enable them to produce any article without additional investment.

v. The exemption from licensing will apply to all substantial expansions of existing units.

vi. The mandatory convertibility clause will no longer be applicable for term loans from the financial institutions for new projects.

vii. Procedural consequences

viii. All existing registration schemes (Delicensed Registration, Exempted Industries Registration, DGTD registration) will be abolished.

ix. Entrepreneurs will henceforth only be required to file an information memorandum on new projects and substantial expansions.

The lists at Annex II and Annex III will be notified in the Indian Trade Classification (Harmonised System).

B. Foreign Investment

i. Approval will be given for direct foreign investment upto 51 percent foreign equity in high priority industries (Annex III). There shall be no bottlenecks of any kind in this process. Such clearance will be available if foreign equity covers the foreign exchange requirement for imported capital goods. Consequential amendments to the Foreign Exchange Regulation Act (1973) shall be carried out.

ii. While the import of components, raw materials and intermediate goods, and payment of knowhow fees and royalties will be governed by the general policy applicable to other domestic units, the payment of dividends would be monitored through the Reserve Bank of India so as to ensure that outflows on account of dividend payments are balanced by export earnings over a period of time.

iii. Other foreign equity proposals, including proposals involving 51% foreign equity which do not meet the criteria under (I) above, will continue to need prior clearance. Foreign equity proposals need not necessarily be accompanied by foreign technology agreements.

iv. To provide access to international markets, majority foreign equity holding upto 51% equity will be allowed for trading companies primarily engaged in export activities. While the thrust would be on export activities, such trading houses shall be at par with domestic trading and export houses in accordance with the Import Export Policy.

v. A special Empowered Board would be constituted to negotiate with a number of large international firms and approve direct foreign investment in select areas. This would be a special programme to attract substantial investment that would provide access to high technology and world markets. The investment programmes of such firms would be considered in totality, free from pre-determined parameters or procedures.

C. Foreign Technology Agreements
i. Automatic permission will be given for foreign technology agreements in high priority industries (Annex III) up to a lumpsum payment of Rs. 1 crore, 5% royalty for domestic sales and 8% for exports, subject to total payment of 8% of sales over a 10 year period from date of agreement or 7 years from commencement of production. The prescribed royalty rates are net of taxes and will be calculated according to standard procedures.

ii. In respect of industries other than those in Annex III, automatic permission will be given subject to the same guidelines as above if no free foreign exchange is required for any payments.

iii. All other proposals will need specific approval under the general procedures in force.

iv. No permission will be necessary for hiring of foreign technicians, foreign testing of indigenously developed technologies. Payment may be made from blanket permits or free foreign exchange according to RBI guidelines.

D. Public Sector

i. Portfolio of public sector investments will be reviewed with a view to focus the public sector on strategic, high-tech and essential infrastructure. Whereas some reservation for the public sector is being retained there would be no bar for areas of exclusivity to be opened up to the private sector selectively. Similarly the public sector will also be allowed entry in areas not reserved for it.

ii. Public enterprises which are chronically sick and which are unlikely to be turned around will, for the formulation of revival/rehabilitation schemes, be referred to the Board for Industrial and Financial Reconstruction (BIFR), or other similar high level institutions created for the purpose. A social security mechanism will be created to protect the interests of workers likely to be affected by such rehabilitation packages.

iii. In order to raise resources and encourage wider public participation, a part of the government's shareholding in the public sector would be offered to mutual funds, financial institutions, general public and workers.

iv. Boards of public sector companies would be made more professional and given greater powers.

v. There will be a greater thrust on performance improvement through the Memoranda of understanding (MOU) systems through which managements would be granted greater autonomy and will be held accountable. Technical expertise on the part of the Government would be upgraded to make the MOU negotiations and implementation more effective.

vi. To facilitate a fuller discussion on performance, the MOU signed between Government and the public enterprise would be placed in Parliament. While focusing on major management issues, this would also help place matters on day to day operations of public enterprises in their correct perspective.

E. MRTP Act

i. The MRTP Act will be amended to remove the threshold limits of assets in respect of MRTP companies and dominant undertakings. This eliminates the requirement of prior approval of Central Government for establishment of new undertakings, expansion of undertakings, merger, amalgamation and takeover and appointment of Directors under certain circumstances.
ii. Emphasis will be placed on controlling and regulating monopolistic, restrictive and unfair trade practices. Simultaneously, the newly empowered MRTP Commission will be authorised to initiate investigations *suo moto* or on complaints received from individual consumers or classes of consumers in regard to monopolistic, restrictive and unfair trade practices.

iii. Necessary comprehensive amendments will be made in the MRTP Act in this regard and for enabling the MRTP Commission to exercise punitive and compensatory powers.

ANNEX I

PROPOSED LIST OF INDUSTRIES TO BE RESERVED FOR THE PUBLIC SECTOR

Arms and ammunition and allied items of defence equipment, Defence aircraft and warships.

1. Atomic Energy.
2. Coal and lignite.
4. Mining of iron ore, manganese ore, chrome ore, gypsum, sulphur, gold and diamond.
5. Mining of copper, lead, zinc, tin, molybdenum and wolfram.
7. Railway transport.

ANNEX II

LIST OF INDUSTRIES IN RESPECT OF WHICH INDUSTRIAL LICENSING WILL BE COMPULSORY

Coal and Lignite.

1. Petroleum (other than crude) and its distillation products.
2. Distillation and brewing of alcoholic drinks.
3. Sugar.
5. Cigars and cigarettes of tobacco and manufactured tobacco substitutes.
7. Plywood, decorative veneers, and other wood based products such as particle board, medium density fibre board, block board.
8. Raw hides and skins, leather, chamois leather and patent leather.
9. Tanned or dressed furskins.
10. Motor cars.
11. Paper and Newsprint except bagasse-based units.
12. Electronic aerospace and defence equipment, All types.
13. Industrial explosives, including detonating fuse, safety fuse, gun powder, nitrocellulose and matches.
15. Drugs and Pharmaceuticals (according to Drug Policy).
16. Entertainment electronics (VCRs, colour TVs, C.D. Players, Tape Recorders).
17. White Goods (Domestic Refrigerators, Domestic Dishwashing machines, Programmable Domestic Washing Machines, Microwave ovens, Airconditioners).

Note: The compulsory licensing provisions would not apply in respect of the small-scale units taking up the manufacture of any of the above items reserved for exclusive manufacture in small scale sector.

ANNEX III

LIST OF INDUSTRIES FOR AUTOMATIC APPROVAL OF FOREIGN TECHNOLOGY AGREEMENTS AND FOR 51% FOREIGN EQUITY APPROVALS

1. Metallurgical Industries
   i. Ferro alloys.
   ii. Castings and forgings.
   iii. Non-ferrous metals and their alloys.
   iv. Sponge iron and pelletisation.
   v. Large diameter steel welded pipes of over 300 mm diameter and stainless steel pipes.
   vi. Pig iron.

2. Boilers and Steam Generating Plants

3. Prime Movers (other than electrical generators)
   i. Industrial turbines.
   ii. Internal combustion engines.
   iii. Alternate energy systems like solar wind etc. and equipment therefor.
iv. Gas/hydro/steam turbines upto 60 MW.

4. Electrical Equipment

Equipment for transmission and distribution of electricity including power and distribution transformers, power relays, HT-switch gear synchronous condensers.

i. Electrical motors.

ii. Electrical furnaces, industrial furnaces and induction heating equipment.

iii. X-ray equipment.

iv. Electronic equipment, components including subscribers’ end telecommunication equipments.

v. Component wires for manufacture of lead-in wires.

vi. Hydro/steam/gas generators/Generating sets upto 60 MW.

vii. Generating sets and pumping sets based on internal combustion engines.

viii. Jelly-filled telecommunication cables.

ix. Optic fibre.

x. Energy efficient lamps and

xi. Midget carbon electrodes.

5. Transportation

i. Mechanised sailing vessels upto 10,000 DWT including fishing trawlers.

ii. Ship ancillaries.

(a) Commercial vehicles, public transport vehicles including automotive commercial three wheeler jeep type vehicles, industrial locomotives.

(b) Automotive two wheelers and three wheelers.

(c) Automotive components/spares and ancillaries.

i. Shock absorbers for railway equipment and

ii. Brake system for railway stock and locomotives.

6. Industrial Machinery

i. Industrial machinery and equipment.


ii. Jigs, fixtures, tools and dies of specialised types and cross land tooling, and
iii. Engineering production aids such as cutting and forming tools, patterns and dies and tools.

8. Agricultural Machinery

i. Tractors.

ii. Self-propelled Harvester Combines.

iii. Rice transplanters

9. Earth Moving Machinery

i. Earth moving machinery and construction machinery and components thereof.

10. Industrial Instruments

i. Indicating, recording and regulating devices for pressures, temperatures, rate of flow weights levels and the like.

11. Scientific and Electromedical Instruments and Laboratory Equipment.

12. Nitrogenous & Phosphatic Fertilizers falling under

i. Inorganic fertilizers under ‘18-Fertilizers’ in the First Schedule to IDR Act, 1951.

13. Chemicals (other than fertilizers).

i. Heavy organic chemicals including petrochemicals.

ii. Heavy inorganic chemicals.

iii. Organic fine chemicals.

iv. Synthetic resins and plastics.

v. Man made fibres.

vi. Synthetic rubber.

vii. Industrial explosives.

viii. Technical grade insecticides, fungicides, weedicides, and the like.

ix. Synthetic detergents

x. Miscellaneous chemicals (for industrial use only)

a. Catalysts and catalyst supports.

b. Photographic chemicals.

c. Rubber chemicals.

d. Polyols.

e. Isocyanates, urethanes, etc.

f. Speciality chemicals for enhanced oil recovery.

g. Heating fluids.

h. Coal tar distillation and product therefrom.

i. Tonnage plants for the manufacture of industrial gases.
j. High altitude breathing oxygen/medical oxygen.
k. Nitrous oxide.
l. Refrigerant gases like liquid nitrogen, carbon dioxide etc.in large volumes.
m. Argon and other rare gases.
n. Alkali/acid resisting cement compound
o. Leather chemicals and auxiliaries

14. Drugs and Pharmaceuticals

According to Drug Policy.

15. i. Paper and pulp including paper products.
   ii. Industrial laminates.

16. i. Automobile tyres and tubes.
    ii. Rubberised heavy duty industrial beltings of all types.
    iii. Rubberised conveyor beltings.
    iv. Rubber reinforced and lined fire fighting hose pipes.
    v. High pressure braided hoses.
    vi. Engineering and industrial plastic products.

17. Plate Glass
   i. Glass shells for television tubes.
   ii. Float glass and plate glass.
   iii. H.T. insulators.
   iv. Glass fibres of all types.

18. Ceramics
   i. Ceramics for industrial uses.

19. Cement Products
   i. Portland cement.
   ii. Gypsum boards, wall boards and the like.


21. Carbon and Carbon Products
   i. Graphite electrodes and anodes.
   ii. Impervious graphite blocks and sheets.

22. Pretensioned High Pressure RCC Pipes.
23. Rubber Machinery

24. Printing Machinery.
   i. Web-fed high speed off-set rotary printing machine having output of 30,000 or more impressions per hour.
   ii. Photo composing/type setting machines.
   iii. Multi-colour sheet-fed off-set printing machines of sizes 18"x25" and above.
   iv. High speed rotograture printing machines having output of 30,000 or more impressions per hour.

25. Welding Electrodes other than those for Welding Mild Steel

26. Industrial Synthetic Diamonds.

27. 
   i. Photosynthesis improvers.
   ii. Genetically modified free living symbiotics nitrogen fixer.
   iii. Pheromones.

28. Extraction and Upgrading of Minor Oils

29. Pre-fabricated Building Material.

30. Soya Products
   i. Soya texture proteins.
   ii. Soya protein isolates.
   iii. Soya protein concentrates.
   iv. Other specialised products of soyabean.
   v. Winterised and deodourised refined soyabean oil.

31. (a) Certified high yielding hybrid seeds and synthetic seeds and
    (b) Certified high yielding plantlets developed through plant tissue culture.

32. All food processing industries other than milk food, malted foods, and flour, but excluding the items reserved for small-scale sector.

33. All items of packaging for food processing industries excluding the items reserved for small scale sector.

34. Hotels and tourism-related industry.
APPENDIX - D

LIFE INSURANCE CORPORATION ACT 1956

CHAPTER - I

PRELIMINARY

1. Short title and commencement: (1) This Act may be called the Life Insurance Corporation Act, 1956.

(2) It shall come into force on such date (1st July, 1956 vide Notification No.S.R.O.1456, dated 26-6-1956, Gazette of India, Extraordinary, Part II, sec.3, p.1531.) as the Central Government may, by notifications in the Official Gazette, appoint.

2. Definitions: In this Act, unless the context otherwise requires,—

(1) "appointed day" means the date on which the Corporation is established under section 3;

(2) "composite insurer" means an insurer carrying on in addition to controlled business any other kind of insurance business;

(3) "controlled business" means—

(i) in the case of any insurer specified in sub-clause (a) (ii) or sub-clause (b) of clause (9) of section 2 of the Insurance Act and carrying on life insurance business—

(a) all his business, if he carries on no other class of insurance business;

(b) all the business appertaining to his life insurance business, if he carries on any other class of insurance business also;

(c) all his business if his certificate of registration under the Insurance Act in respect of general insurance business stands wholly cancelled for a period of more than six months on the 19th day of January, 1956;

(ii) in the case of any other insurer specified in clause (9) of section 2 of the Insurance Act and carrying on life insurance business—

(a) all his business in India, if he carries on no other class of insurance business in India;

(b) all the business appertaining to his life insurance business in India, if he carries on any other class of insurance business also in India;

(c) all his business in India if his certificate of registration under the Insurance Act in respect of general insurance business in India stands wholly cancelled for a period of more than six months on the 19th day of January, 1956.

Explanation: An insurer is said to carry on no class of insurance business other than life insurance business, if in addition to life insurance business, he carries on only capital redemption business or annuity certain business or both; and the expression "business appertaining to his life insurance business" in sub-clause (i) and (ii) shall be construed accordingly;
(iii) in the case of a provident society, as defined in section 65 of the Insurance Act, all its business;

(iv) in the case of the Central Government or a State Government, all life insurance business carried on by it, subject to the exceptions specified in section 44;

(4) "Corporation" means the Life Insurance Corporation of India established under section 3;

(5) "Insurance Act" means the Insurance Act, 1938 (4 of 1938);

(6) "insurer" means an insurer as defined in the Insurance Act who carries on life insurance business in India and includes the Government and a provident society as defined in section 65 of the Insurance Act;

(7) "member" means a member of the Corporation;

(8) "prescribed" means prescribed by rules made under this Act;

(9) "Tribunal" means a Tribunal constituted under section 17 and having jurisdiction in respect of any matter under the rules made under this Act;

(10) all other words and expressions used herein but not defined and defined in the Insurance Act shall have the meanings respectively assigned to them in that Act.

CHAPTER-II

ESTABLISHMENT OF LIFE INSURANCE CORPORATION OF INDIA

3. Establishment and incorporation of Life Insurance Corporation of India.—(1) With effect from such date (1st September, 1956, vide Notification No.S.R.O.1937, dated 30-8-1956, Gazette of India, Extraordinary, Pt.II, Sec.3, p.1799.) as the Central Government may, by notification in the Official Gazette, appoint, there shall be established a Corporation called the Life Insurance Corporation of India.

(2) The Corporation shall be a body corporate having perpetual succession and a common seal with power subject to the provisions of this Act, to acquire, hold and dispose of property, and may by its name sue and be sued.

4. Constitution of the Corporation: (1) The Corporation shall consist of such number of persons not exceeding fifteen as the Central Government may think fit to appoint thereto and one of them shall be appointed by the Central Government to be the Chairman thereof.

(2) Before appointing a person to be a member, the Central Government shall satisfy itself that that person will have no such financial or other interest as is likely to affect prejudicially the exercise or performance by him of his functions as a member, and the Central Government shall also satisfy itself from time to time with respect to every member that he has no such interest; and any person who is, or whom the Central Government proposes to appoint and who has consented to be, a member shall, whenever required by the Central Government so to do, furnish to it such information as the Central Government considers necessary for the performance of its duties under this sub-section.

(3) A member who is in any way directly or indirectly interested in a contract made or proposed to be made by the Corporation shall as soon as possible after the relevant circumstances have come to his knowledge, disclose the nature of his interest to the Corporation and the member shall not take part in any deliberation or discussion of the Corporation with respect to that contract.
5. Capital of the Corporation.—(1) The original capital of the Corporation shall be five crores of rupees provided by the Central Government after due appropriation made by Parliament by law for the purpose, and the terms and conditions relating to the provision of such capital shall be such as may be determined by the Central Government.

(2) The Central Government may, on the recommendation of the Corporation, reduce the capital of the Corporation to such extent and in such manner as the Central Government may determine.

CHAPTER III

FUNCTIONS OF THE CORPORATION

6. Functions of the Corporation.—(1) Subject, to the rules, if any, made by the Central Government in this behalf, it shall be the general duty of the Corporation to carry on life insurance business, whether in or outside India, and the Corporation shall so exercise its powers under this Act as to secure that life insurance business is developed to the best advantage of the community.

(2) Without prejudice to the generality of the provisions contained in sub-section (1) but subject to the other provisions contained in this Act, the Corporation shall have power—

(a) to carry on capital redemption business, annuity certain business or reinsurance business in so far as such reinsurance business appertains to life insurance business;

(b) subject to the rules, if any, made by the Central Government in this behalf, to invest the funds of the Corporation in such manner as the Corporation may think fit and to take all such steps as may be necessary or expedient for the protection or realisation of any investment, including the taking over of and administering any property offered as security for the investment until a suitable opportunity arises for its disposal;

(c) to acquire, hold and dispose of any property for the purpose of its business;

(d) to transfer the whole or any part of the life insurance business carried on outside India to any other person or persons, if in the interest of the Corporation it is expedient so to do;

(e) to advance or lend money upon the security of any movable property or otherwise;

(f) to borrow or raise any money in such manner and upon such security as the Corporation may think fit;

(g) to carry on either by itself or through any subsidiary any other business in any case where such other business was being carried on by a subsidiary of an insurer whose controlled business has been transferred to an vested in the Corporation under this Act;

(h) to carry on any other business which may seem to the Corporation to be capable of being conveniently carried on in connection with its business and calculated directly or indirectly to render profitable the business of the Corporation;

(i) to do all such things as may be incidental or conducive to the proper exercise of any of the powers of the Corporation.
(3) In the discharge of any of its functions the Corporation shall act so far as may be on business principles.

CHAPTER IV

TRANSFER OF EXISTING LIFE INSURANCE BUSINESS TO THE CORPORATION

7. Transfer of assets and liabilities of existing insurers carrying on controlled business: (1) On the appointed day there shall be transferred to and vested in the Corporation all the assets and liabilities appertaining to the controlled business of all insurers.

(2) The assets appertaining to the controlled business of an insurer shall be deemed to include all rights and powers, and all property, whether movable or immovable, appertaining to his controlled business, including, in particular, cash balances, reserve funds, investments, deposits and all other interests and rights in or arising out of such property as may be in the possession of the insurer and all books of account or documents relating to the controlled business of the insurer; and liabilities shall be deemed to include all debts, liabilities and obligations of whatever kind then existing and appertaining to the controlled business of the insurer.

Explanation: The expression "assets appertaining" to the controlled business of an insurer:

(a) in relation to a composite insurer, includes that part of the paid-up capital of the insurer or assets representing such part which has or have been allocated to the controlled business of the insurer in accordance with the rules made in this behalf;

(b) in relation to a Government, means the amount lying to the credit of that business on the appointed day.

(3) Where any such assets are subject to any trust referred to in sub-section (6) of section 27 of the Insurance Act or to any other trust for the benefit of policy-holders, the assets shall be deemed to have vested in the Corporation free from any such trust.

8. Provident, superannuation and other like funds: (1) Where an insurer whose controlled business is to be transferred to and vested in the Corporation under section 7, has established a provident or superannuation fund or any other like fund for the benefit of his employees and constituted a trust in respect thereof (hereinafter in this section referred to as an existing trust), the moneys standing to the credit of any such fund on the appointed day, together with any other assets belonging to such fund, shall, subject to the provisions of sub-section (2) stand transferred to and vest in the Corporation on the appointed day free from any such trust.

(2) Where all the employees of any such insurer do not become employees of the Corporation under section 11, the moneys and other assets belonging to any such fund as it referred to in sub-section (1), shall be apportioned between the trustees of the fund and the Corporation in the prescribed manner, and in case of any dispute regarding such apportionment, the decision of the Central Government thereon shall be final.

(3) The Corporation shall, as soon as may be after the appointed day, constitute in respect of the moneys and other assets which are transferred to and vested in it under this section, one or more trusts having objects as similar to the objects of the existing trusts as in the circumstances may be practicable.

(4) Where all the moneys and other assets belonging to an existing trust are transferred to and vested in the Corporation under this section, the trustees of such trust, except as respects things done or omitted to be done before the appointed day.
9. **General effect of vesting of controlled business:** (1) Unless otherwise expressly provided by or under this Act, all contracts, agreements and other instruments of whatever nature subsisting or having effect immediately before the appointed day and to which an insurer whose controlled business has been transferred to and vested in the Corporation is a party or which are in favour of such insurer shall in so far as they relate to the controlled business of the insurer be of as full force and affect against or in favour of the Corporation, as the case may be, and may be enforced or acted upon as fully and effectually as if, instead of the insurer, the Corporation had been a party thereto or as if they had been entered into or issued in favour of the Corporation.

(2) If on the appointed day any suit, appeal or other legal proceeding of whatever nature is pending by or against an insurer, then, in so far as it relates to his controlled business, it shall not abate, be discontinued or be in any way prejudicially affected by reason of the transfer to the Corporation of the business of the insurer or anything done under this Act, but the suit, appeal or other proceeding may be continued prosecuted and enforced by or against the Corporation.

10. **Provisions as to composite insurers.** - (1) For the removal of doubts it is hereby declared that in any case where an insurer whose controlled business has been transferred to an vested in the corporation under this Act is a composite insurer, the provisions of the preceding sections shall only apply to the extent to which any property appertains to his controlled business and to rights and powers acquired, and to debts, liabilities and obligations incurred, and to contracts, agreements and other instruments made by the insurer for the purposes of his controlled business and to legal proceedings relating to those purposes, and the provisions of those sections shall be construed accordingly.

(2) The Central Government may, by rules made in this behalf provide:

(a) for the determination of the question whether any property appertains to his controlled business or whether any rights, powers, debts, liabilities or obligations were acquired or incurred or any contract, agreement or other instrument was made by the insurer for the purposes of his controlled business or whether any documents relate to those purposes;

(b) doe the allocation of the paid-up capital or assets representing such paid-up capital, as the case may be, between the controlled business of the insurer and any other business;

(c) for substituting for any agreements entered into by any insurer partly for the purposes of his controlled business and partly for other purposes separate agreements in the requisite terms and for any apportionments and indemnities consequent thereon;

(d) for the severance of leases comprising property of which part only is transferred to And vested in the Corporation by virtue of this Act and for apportionment consequent on such severance;

(e) for the apportionment and the making of financial adjustments with respects to any debts, liabilities of obligations incurred by any such insurer partly for the purposes of his controlled business and partly for other purposes and for any necessary variation of mortgages and encumbrances relating to such debts, liabilities or obligations;

(f) for the apportionment of the moneys and other assets belonging to any provident or superannuation fund or any other like fund to which the provisions of section 8 do not apply between persons employed in connection with the controlled business of an insurer and other persons;

(g) for any other matters supplementary to or consequential on the matters aforesaid for which provision appears to be necessary or expedient.
(3) All rules made under this section shall be laid for not less than thirty days before both Houses of Parliament as soon as possible after they are made and shall be subject to such modifications as Parliament may make during the session in which they are so laid or the session immediately following.

(4) Where at any time before the expiration of six months from the appointed day a question has arisen under this section or under any rules made thereunder as to whether any property is or was held or used by the insurer for the purposes of his controlled business, the question shall be referred to the Tribunal for decision.

11. Transfer of service of existing employees of insurers to the Corporation:

(1) Every whole-time employee of an insurer whose controlled business has been transferred to and vested in the Corporation and who was employed by the insurer wholly or mainly in connection with his controlled business immediately before the appointed day shall, on and from the appointed day, become an employee of the Corporation, and shall hold his office therein by the same tenure, at the same remuneration and upon the same terms and conditions and with the same rights and privileges as to pension and gratuity and other matters as he would have held the same on the appointed day if this Act had not been passed, and shall continue to do so unless and until his employment in the Corporation is terminated or until his remuneration terms and conditions are duly altered by the Corporation:

Provided that nothing contained in this sub-section shall apply to any such employee who has, by notice in writing given to the Central Government prior to the appointed day, intimated his intention of not becoming an employee of the Corporation.

(2) Notwithstanding anything contained in sub-section (1) or in any contract of service, the Central Government may, for the purpose of relationship the pay scales of employees of insurers whose controlled business has been transferred to and vested in it or for the purpose of reducing the remuneration payable to employees in cases where in the interest of the Corporation and its policy-holders a reduction is called for, alter the terms of service of the employees as to their remuneration in such manner as it thinks fit; and if the alteration is not acceptable to any employee the Corporation may terminate his employment on giving him compensation equivalent to three months' remuneration unless the contract of service with such employee provides for a shorter notice of termination.

Explanation: The compensation payable to an employee under this sub-section shall be in addition to and shall not affect any pension, gratuity provident fund money or any other benefit to which the employee may be entitled under this contract of service.

(3) If any question arises as to whether any person was a whole time employee of an insurer or as to whether any employee was employed wholly or mainly in connection with the controlled business of an insurer immediately before the appointed day the question shall be referred to the Central Government whose decision shall be final.

(4) Notwithstanding anything contained in the Industrial Disputes Act, 1947 (14 of 1947), or in any other law for the time being in force, the transfer of the services of any employee of an insurer to the Corporation shall not entitle any such employee to any compensation under that Act or other law, and to such claim shall be entertained by any court, tribunal or other authority.

12. Transfer of services of existing employees of chief agents of insurers to the Corporation in certain cases:

Subject to such rules as the Central Government may make in this behalf, every whole-time salaried employee of a chief agent of an insurer whose controlled business has been transferred to and vested in the Corporation and:

(a) who was employed by the chief agent wholly or mainly in connection with the controlled business of the insurer;
(b) whose salary on the appointed day did not exceed five hundred rupees per mensem; and

(c) who was in the employment of the chief agent for a continuous period of not less than one year immediately before the appointed day;

shall, on and from the appointed day, become, an employee of the Corporation and the provisions of section 11 shall, so far as may be apply in relation to such employee as they apply in relation to such employee as they apply in relation to a whole-time employee of the insurer;

Provided that this section shall not apply except in cases where the chief agent of the insurer was required under the terms of his contract with the insurer to render the prescribed services to policy holders of the insurer.

**Explanation:** In the case of a whole-time salaried employee of a chief agent who has been retrenched by the chief agent on or after the 19th day of January, 1956 the provisions of this section shall apply as if for the words "the appointed day" the words and figures 'the 19th day of January, 1956' had been substituted.

13. **Duty to deliver possession of property and documents relating thereto.**— (1) Where any property appertaining to the controlled business of an insurer has been transferred to and vested in the Corporation under this Act, then,—

(a) every person, in whose possession, custody or control any such property may be, shall deliver the property to the corporation forthwith;

(b) any person who, on the appointed day, has in his possession, custody or control any books, documents or other papers relating to such controlled business shall be liable to account for the said books, documents, and papers to the Corporation, and shall deliver them to the Corporation or to such person as the Corporation may direct.

(2) In particular, all the assets of an insurer appertaining to life insurance business held in deposit by the Reserve Bank of India under the Insurance Act or by trustees in trust shall be delivered to the Corporation.

(3) Without prejudice to the other provisions contained in this section, it shall be lawful for the Corporation to take all necessary steps for securing possession of all properties which have been transferred to and vested in it under this Act.

14. **Power of Corporation to modify contracts of life insurance in certain cases:** The corporation may, having regard to the financial condition on the appointed day of any insurer whose controlled business has been transferred to an vested in the Corporation, reduce the amounts of insurance under contracts of life insurance entered into by such insurer before the 19th day of January 1956, in such manner and subject to such conditions as it thinks fit.

Provided that no such reduction shall be made except in accordance with a scheme prepared by the Corporation in this behalf and approved by the Central Government.

15. **Right of Corporation to seek relief in respect of certain transactions of the insurer:**

(1) Where an insurer whose controlled business has been transferred to and vested in the Corporation under this Act has, at any time within five years before the 19th day of January, 1956

(a) made any payment to any person without consideration;

(b) sold or disposed of any property of the insurer without consideration or for an inadequate consideration;
(c) acquired any property or rights for an excessive consideration:
(d) entered into or varied any agreement so as to require an excessive consideration to be paid or given by the insurer;
(e) entered into any other transaction of such an onerous nature as to cause a loss to, or impose a liability on, the insurer exceeding any benefit accruing to the insurer;
(f) if a composite insurer, transferred any property from his life department to his general department without consideration or for an inadequate consideration;

and the payment, sale, disposal, acquisition, agreement or variation thereof or other transaction or transfer was not reasonably necessary for the purpose of the controlled business of the insurer or was made with an unreasonable lack of prudence on the part of the insurer, regard being had in either case to the circumstances at the time, the Corporation may apply for relief to the Tribunal in respect of such transaction, and all parties to the transaction shall, unless the Tribunal otherwise directs, be made parties to the application.

(2) The Tribunal may make such order against any of the parties to the application as it thinks just having regard to the extent to which those parties were respectively responsible for the transaction or benefited from it and all the circumstances of the case.

(3) Where an application is made to the Tribunal under this section is respect of any transaction and the application is determined in favour of the Corporation, the Tribunal shall have exclusive jurisdiction to determine any claims outstanding in respect of the transaction.

16. Compensation for acquisition of controlled business: (1) Where the controlled business of an insurer has been transferred to and vested in the Corporation under this Act, compensation shall be given by the Corporation to that insurer in accordance with the principles contained in the First Schedule.

(2) The amount of the compensation to be given in accordance with the aforesaid principles shall be determined by the Corporation in the first instance, and if the amount so determined is approved by the Central Government it shall be offered to the insurer in full satisfaction of the compensation payable to him under this Act, and if, on the other hand, the amount so offered is not acceptable to the insurer he may within such time as may be prescribed for the purpose have the matter referred to the Tribunal for decision.

17. Constitution of Tribunals: (1) The Central Government may for the purposes of this Act constitute one or more Tribunals and each of the Tribunals shall consist of three members appointed by the Central Government one of whom shall be a person who is, or has been, a Judge of a High Court or has been a Judge of the Supreme Court, and he shall be the Chairman thereof.

(2) A Tribunal may choose one or more persons possessing special knowledge of any matter relating to any case under inquiry to assist the Tribunal in determining any question which has to be decided by it under this Act.

(3) Every Tribunal shall have the powers of a civil court while trying a suit under the Code of Civil Procedure, 1908 (5 of 1908), in respect of the following matters:-
(a) summoning and enforcing the attendance of any person and examining him on oath;
(b) requiring the discovery and production of documents;
(c) receiving evidence on affidavits;
(d) issuing commissions for the examination of witnesses or documents.
(4) Every Tribunal shall have power to regulate its own procedure and decide all matters within its competence, and may review any of its decisions in the event of there being a mistake on the face of the record or correct any arithmetic or clerical error therein.

CHAPTER - V

MANAGEMENT

18. Offices, branches and agencies: (1) The central office of the Corporation shall be at such place as the Central Government may, by notification in the Official Gazette, specify.

(2) The Corporation shall establish a zonal office at each of the following places, namely, Bombay, Calcutta, Delhi, Kanpur and Madras, and, subject to the previous approval of the Central Government, may establish such other zonal offices as it thinks fit.

(3) The territorial limits of each zone shall be such as may be specified by the Corporation.

(4) There may be established as many divisional offices and branches in each zone as the Zonal Manager thinks fit.

19. Committees of the Corporation: (1) The Corporation may entrust the general superintendence and direction of its affairs and business to an Executive Committee consisting of not more than five of its members and the Executive Committee may exercise all powers and do all such acts and things as may be delegated to it by the Corporation.

(2) The Corporation may also constitute an investment Committee for the purpose of advising it in matters relating to the investment of its funds, and the Investment Committee shall consist of not more than seven members of whom not less than three shall be members of the Corporation and the remaining members shall be persons (whether members of the Corporation or not) who have special knowledge and experience in financial matters, particularly, matters relating to investment of funds.

(3) The Corporation may constitute such other Committees as it may think fit for the purpose of discharging such of its functions as may be delegated to them.

20. Managing Directors: The Corporation may appoint one or more persons to be the Managing Director or Directors of the Corporation, and every Managing Director shall be a whole-time officer of the Corporation and shall exercise such powers and perform such duties as may be entrusted or delegated to him by the Executive Committee or the Corporation.

21. Corporation to be guided by the directions of Central Government: In the discharge of its functions under this Act, the Corporation shall be guided by such directions in matters of policy involving public interest as the Central Government may give to it in writing; and if any question arises whether a direction relates to a matter of policy involving public interest the decision of the Central Government thereon shall be final.

22. Zonal Managers: (1) The Corporation may entrust the superintendence and direction of the affairs and business of a zonal office to a person whether a member or not, who shall be known as the Zonal Manager and the Zonal Manager shall perform all such functions of the Corporation as may be delegated to him with respect to the area within the jurisdiction of the Zonal office.

(2) The Corporation may constitute for each zone a Board consisting of such number of persons as it thinks fit to appoint thereto for the purpose of advising the Zonal Manager in respect of such matters as are referred to it under the regulations made by the Corporation.
(3) The Corporation shall constitute in the prescribed manner for each zonal office an Employees and Agents Relations Committee consisting of such number of persons as it thinks fit and every such Committee shall consist of representatives of the Corporation and of its employees and agents, so however, that the number of representatives of the employees of the employees and agents on the Committee shall not be less than the number of representatives of the Corporation and shall be duty of the Committee to advise the Zonal Manager on matters which relate to the welfare of the employees and agents of the Corporation or which are likely to promote and secure amity and good relations between the Corporation. (1) For the purpose of enabling it to discharge its functions under this Act, the Corporation may employ such number of persons as it thinks fit.

(2) Every person employed by the Corporation or whose services have been transferred to the Corporation under this Act, shall be liable to serve anywhere in India.

CHAPTER - VI

FINANCE, ACCOUNTS AND AUDIT

24. Funds of the Corporation: The Corporation shall have its own fund and all receipts of the Corporation shall be credited thereto and all payments of the Corporation shall be made there from.

25. Audit: (1) The accounts of the Corporation shall be audited by auditors duly qualified to act as auditors of companies under the law for the time being in force relating to companies, and the auditors shall be appointed by the Corporation with the previous approval of the Central Government and shall receive such remuneration from the Corporation as the Central Government may fix.

(2) Every auditor in the performance of his duties shall have at all reasonable times access to the books, accounts and other documents of the Corporation.

(3) The auditors shall submit their report to the Corporation and shall also forward a copy of their report to the Central Government.

26. Actuarial valuations: The Corporation shall, once at least in every two, years cause an investigation to be made by actuaries into the financial conditions of the business of the Corporation, including a valuation of the liabilities of the corporation, and submit the report of the actuaries to the Central Government.

27. Annual report of activities of Corporation: The Corporation shall, as soon as may, be after the end of each financial year, prepare and submit to the Central Government in such form as may be prescribed a report giving an account of its activities during the previous financial year, and the report shall also give an account of the activities if any, which are likely to be undertaken by the Corporation in the next financial year.

28. Surplus how to be Utilised: If as a result of any investigation undertaken by the Corporation under section 26 any surplus emerges, not less than 95 per cent of such surplus shall be allocated to or reserved for the policy holders of the Corporation and the remainder may be utilised for such purposes and in such manner as the Central Government may determine.

29. Reports to be laid before Parliament: The Central Government shall cause the report
Houses of Parliament as soon as may be after each such report is received by the Central Government.

CHAPTER - VII

MISCELLANEOUS

30. Corporation to have exclusive privilege of carrying on life insurance business: Except to the extent otherwise expressly provided in this Act, on and from the appointed day the Corporation shall have the exclusive privilege of carrying on life insurance business in India; and on and from the said day any certificate to registration under the Insurance Act held by any insurer immediately before the said day shall cease to have effect in so far as it authorises him to carry on life insurance business in India.

31. Exception in the case of insurance business in respect of persons residing outside India: (1) Notwithstanding anything contained in section 30 or in the Insurance Act, the Central Government may, by order, permit person who has made an application in that behalf, to carry on life insurance business in India, in respect of the lives of persons ordinarily resident outside India, subject to such restrictions and conditions as may be specified in the order and any such order shall be deemed to have effect as if it were a certificate of registrations issued by the Controller to such person under section 3 of the Insurance Act in respect of that class of business.

(2) Nothing in sub-section (1) shall authorise any person permitted to carry on life insurance business of the nature referred to in that sub-section, to insure the life of any person ordinarily resident outside India, during any period of his temporary residence in India.

32. Power of Corporation to have official seal in certain cases: The Corporation may have for use in any zonal office divisional office or in any office outside India an official seal which shall be a facsimile of the common seal of the Corporation, with the addition on its fact of the name of the zonal office, divisional officer or other office where it is to be used, and any such official seal may be affixed to any deed or document to which the Corporation is a party.

33. Requirement of foreign laws to be complied with in certain cases: Where any property or rights appertaining to the controlled business of an insurer are transferred to and vested in the Corporation under this Act or would be so transferred and vested but for the fact that such transfer and vesting are governed otherwise than by the law of India, the insurer shall comply with such directions as may be given to him by the Corporation for the purpose of securing that the ownership of the property or, as the case may be, that the right is effectively transferred to the Corporation.

34. Revesting of certain shares vested in the Administrator General: Notwithstanding anything contained in the Insurance Act, all shares which have vested in the Administrator General of any State under Sub-section (8) of the section 6A of that Act and which have not been disposed of in accordance with the provisions of that sub-section before the appointed day, shall, in payment of the amount of expenditure, if any, incurred by the Administrator General in relation to such shares by the persons who would have been entitled to those shares if the said sub-section had not been enacted, revest in such persons.

35. Repatriation of assets and liabilities in the case of foreign insurers in certain cases: (1) Any insurer incorporated outside India may, before the appointed day, make an application to the Central Government stating that among the assets appertaining to the controlled business of the insurer of building up his life insurance business in India, which, notwithstanding anything contained in section 7, should not be transferred to and vested in the Corporation.
(2) On receipt of an application under sub-section (1), the Central Government shall determine the value of the assets of the insurer appertaining to his controlled as at that date in accordance with the provisions contained in paragraph 3 of Part B of the First Schedule, and deduct therefrom the total amount of the liabilities of the insurer appertaining to his controlled business in existence on the 31st day of December 1955, computed as at that date in accordance with the provisions contained in the Second Schedule; and if there is any excess, the Central Government may, by order, direct that such assets equivalent in value to the excess as may be specified in the order shall not be transferred to or vested in the Corporation, or where the order is made after the appointed day, that the Corporation shall be divested of the said assets.

(3) In the case of any insurer incorporated outside India, the Central Government may also, by order, direct that any such liabilities in respect of life insurance policies expressed in any foreign currency issued on the lives of persons who are not citizens of India as are specified in the order together with any such assets necessary to meet the liabilities, as may be so specified, shall not be transferred to or vested in the Corporation or, if the order is made after the appointed day, that the Corporation shall be divested of such liabilities and assets as aforesaid.

(4) The amount of liabilities in respect of the policies referred to in an order made under sub-section (3) shall be computed as at the 31st day of December, 1955:

(a) in any case where in respect of the insurer concerned an order has been made under sub-section (2), in accordance with the provisions contained in clause (b) of the Second schedule; and

(b) in any other case, in accordance with method A specified in the Second Schedule.

Explanation: In computing the amount of liabilities in respect of the policies referred to in this sub-section, allowances shall be made for receipts and payments in respect of such policies from the 31st day of December, 1955, up to the date of the order.

(5) Every order made by the Central Government under this section shall be carried out by the Corporation in such manner as the Central Government may direct.

36. Contracts or chief agents and special agents to terminate.- Notwithstanding anything contained in the Insurance Act or in any other law for the time being in force every contract appertaining to controlled business subsisting immediately before the appointed day:

(a) between an insurer and his chief agent or between an insurer and a special agent; or

(b) between the chief agent of an insurer and a special agent;

shall as from the appointed day, cease to have effect and all rights accruing to the chief agent or the special agent under any such contract shall terminate on that day:

Provided that in every such case compensation shall be given by the Corporation to the chief agent or the special agent, as the case may be, in accordance with the principles contained in the Third Schedule, and the provisions of sub-section (2) of section 16 shall, so far as may be, apply in every such case.

37. Policies to be guaranteed by Central Government: The sums assured by all policies issued by the Corporation including any bonuses declared in respect thereof and, subject to the provisions contained in section 14 the amounts assured by all policies issued by any insurer the liabilities under which have vested in the Corporation under this Act, and all bonuses declared in respect thereof, whether before or after the appointed day, shall be guaranteed as to payment in cash by the Central Government.
38. **Liquidation of Corporation:** No provision of law relating to the winding up of companies or corporations shall apply to the corporation established under this Act, and the Corporation shall not be placed in liquidation save by order of the Central Government and in such manner as that Government may direct.

39. **Special provisions for winding up of certain insurers:** Where any insurer being a company (other than a composite insurer) whose controlled business has been transferred to and vested in the Corporation under this Act has in accordance with the provisions of this Act purpose of securing that the ownership of any property or any right has effectively transferred to the Corporation, the Central Government may on application being made to it in this behalf by such insurer grant a certificate to the insurer that there is no reason for the continued existence of the insurer and where such a certificate has been granted shall cause the certificate to be published in the Official Gazette and upon the publication thereof the insurer shall be dissolved.

40. **Penalty for withholding property, etc:** If any person wilfully withholds or fails to deliver to the Corporation as required by section 13, any property or any books, documents or other papers which may be in his possession or unlawfully retains possession of any property of an insurer which has been transferred to and vested in the Corporation under this Act or wilfully applies any such property to purpose other than those expressed in or authorised by this Act, he shall, on the complaint of the Corporation, be punishable with imprisonment which may extent to one year, or with fine which may extend to one thousand rupees, or with both.

41. **Tribunal to have exclusive jurisdiction in certain matters:** No civil court shall have jurisdiction to entertain or adjudicate upon any matter which a Tribunal is empowered to decide or determine under this Act.

42. **Enforcement of decisions of Tribunals:** Any decision of a Tribunal may be enforced in any civil court within the local limits of whose jurisdiction the person against whom the decision is to be enforced actually and voluntarily resides or carries on business or personally works for gain or owns any property, as if it were a decree passed by that court.

43. **Application of the Insurance Act:** (1) The following section of the Insurance Act shall, so far as may be, apply to the Corporation as they apply to any other insurer, namely:


   (2) The Central Government shall as soon as may be after the commencement of this Act, by notification in the Official Gazette, direct that the following sections of the Insurance Act shall apply to the Corporation subject to such conditions and modifications as may be specified in the notification, namely:

   Sections 2D, 10, 11, 13, 14, 15, 20, 21, 22, 23, 25, 27A, 28A, 35, 36, 37, 40, 40A, 43, 44, 102 to 106, 107 to 110, 111, 113, 114 and 116A.

   (3) The Central Government may, by notification in the Official Gazette, direct that all or any of the Insurance Act other than those specified in sub-section (1) or sub-section (2) shall apply to the Corporation subject to such conditions and modifications as may be specified in the notification.

   (4) Every notification issued under sub-section (2) or sub-section (3) shall be laid for not less than thirty days before both Houses of Parliament as soon as possible after it is issued, and shall be subject to such modifications as Parliament may make during the session in which it is so laid or the session immediately following.
(5) Save as provided in this section, nothing contained in the Insurance Act shall apply to the Corporation.

44. Act not to apply in certain cases: Nothing contained in this Act shall apply in relation to—

(a) any insurer whose business is being voluntarily wound up or is being wound up under the orders of the Court;

(b) any insurer to whom the Insurance Act does not apply by reason of the provisions contained in section 2E thereof;

(c) any composite insurer in respect of the management of whose affairs an Administrator has been appointed under section 52A of the Insurance Act;

(d) the scheme run by the Central Government known as the Post Office Life Insurance Fund;

(e) any approved superannuation fund as defined in clause (a) of section 58N of the Indian Income-tax Act, 1922 (11 of 1922), which is in existence on the appointed day;

(f) any scheme in existence on the appointed day or any scheme framed after the appointed day with the approval of the Central Government whereby, in consideration of certain compulsory deductions made by Government from the salaries of its employees as part of the conditions of service, the payment of money is assured by Government on the death of the employee concerned or on the happening of any contingency dependent on his life.

45. Special provisions regarding certain composite insurer: Notwithstanding anything contained in clause (c) of section 44, the Administrator appointed to manage the affairs of a composite insurer under the Insurance Act shall, as soon as may be practicable after the commencement of this Act, take steps in the prescribed manner:

(a) to transfer the assets and liabilities appertaining to the controlled business of the insurer, to the Corporation; and

(b) to vest the management of the affairs of the insurer in respect of any kind of business, in the person entitled thereto.

46. Defects in constitution of Corporation or committees not to invalidate acts or proceedings: No act or proceeding of the Corporation or of any Committee of the Corporation shall be called in question on the ground merely of the existence of any vacancy or defect in the constitution of the Corporation or Committee, as the case may be.

47. Protection of action taken under Act: No suit, prosecution or other legal proceeding shall lie against any member or employee of the Corporation for anything which is in good faith done for intended to be done under this Act.

48. Power to make rules: (1) The Central Government may, by notification in the Official Gazette make rules to carry out the purposes of this Act.

(2) In particular, and without prejudice to the generality of the foregoing power, such rules may provide for all or any of the following matters, namely:

(a) the term of office and the conditions of service of members;
(b) the manner in which the moneys and other assets belonging to any such fund as is referred to in section 8 shall be apportioned between the trustees of the fund and the Corporation;

(c) the services which the chief agent should have rendered for the purpose of the proviso to section 12;

(d) the jurisdiction of the Tribunals constituted under section 17;

(e) the manner in which, and the persons to whom, any compensation under this Act may be paid;

(f) the time within which any matter which may be referred to a Tribunal for decision under this Act may be so referred;

(g) the manner in which and the conditions subject to which investments may be made by the Corporation;

(h) the manner in which an Employees and Agents Relations Committee may be constituted for each zonal office;

(i) the form in which the report giving an account of the activities of the Corporation shall be prepared;

(j) the conditions subject to which the Corporation may appoint employees;

(k) the fees payable under this Act and the manner in which they are to be collected;

(l) any other matter which has to be or may be prescribed;

(3) All rules made under this section shall be laid for not less than thirty days before both Houses of Parliament as soon as possible after they are made, and shall be subject to such modifications as Parliament may make during the session in which they are so laid or the session immediately following.

49. Power to make regulations: (1) The Corporation may, with the previous approval of the Central Government, by notification in the Gazette of India, make regulations not inconsistent with this Act and the rules made there under to provide for all matters for which provision is expedient for the purpose of giving effect to the provisions of this Act.

(2) In particular, and without prejudice to the generality of the foregoing power, such regulations may provide for—

(a) the powers and functions of the Corporation which may be delegated to the Zonal Managers;

(b) the method of recruitment of employees and agents of the Corporation and the terms and conditions of service of such employees or agents;

(c) the number, term of office and conditions of service of members of Boards constituted under section 22;

(d) the territorial limits of each zone established under this Act and the business to be transacted in each Zone;

(e) the manner in which the Fund of the Corporation shall be maintained;
(f) the maintenance of separate funds and accounts at each of the zonal offices;

(g) the jurisdiction of each divisional office and the establishment of Councils representative of policy-holders in each area served by a divisional office for the purpose of advising the divisional office in respect of any matter which may be referred to it;

(h) the conduct of business at meetings of the Corporation;

(i) the formation of Committees of the Corporation and the delegation of powers and functions of the Corporation to such Committees, and the conduct of business at meetings of such Committees;

(j) the form and manner in which policies may because and contracts binding on the Corporation may be executed;

(k) the classification of policies, whether issued by the Corporation or by any insurer whose controlled business has been transferred to and vested in the Corporation, for the purposes of declaring differential bonuses, wherever necessary;

(l) the manner in which and the intervals within which the accounts of the various zonal offices, divisional offices and branch offices may be inspected and their accounts audited;

(m) the conditions subject to which any payment may be made by the Corporation.

THE FIRST SCHEDULE

(See section 16)

PRINCIPLES FOR DETERMINING COMPENSATION

PART A:

The compensation to be given by the Corporation to an insurer having a share capital on which dividend or bonus is payable, who has allocated as bonus to policy-holders the whole or any part of the surplus as disclosed in the abstracts prepared in accordance with Part II of the Fourth Schedule to the Insurance Act in respect of the last actuarial investigation relating to his controlled business as at a earlier than the 1st day of January, 1955, shall be computed in accordance with the provisions contained in paragraph 1 or paragraph 2, whichever is more advantageous to the insurer.

Paragraph 1.— Twenty times the annual average of the share of the surplus allocated to share-holders as disclosed in the abstracts aforesaid in respect of the relevant actuarial investigations multiplied by a figure which represents the proportion that the average business in force during the calendar years 1950 to 1955 bears to the average business in force during the calendar years comprised in the period between the date as at which the actuarial investigation immediately preceding the earliest of the relevant actuarial investigations was made and the date as at which the last of such investigations was made.

Paragraph 2.— Half the amount payable under paragraph 1 plus the paid-up capital or assets equivalent thereto, or, in the case of a composite insurer, that part of the paid-up capital or assets equivalent thereto which has or been transferred to and vested in the Corporation under this Act less the amount, if any of expenses or losses or both capitalised by the insurer for the purposes of Form A in the First Schedule to the Insurance Act.
Explanation 1: For the purposes of paragraph 1

(a) "relevant actuarial investigations" means such minimum number of latest actuarial investigations as at dates earlier than the 1st day of January, 1955 (not being less than two in any case), as would leave the period intervening between the date as at which the actuarial investigation immediately preceding the first of such investigations was made and the date as at which the last of such investigations was made and the date as at which the last of such investigations was made, to be not less than four years;

(b) "average business in force" means the average of total sums assured by the insurer (including any bonus) in respect of his controlled business as on the 31st day of December of each of the relevant calendar years.

Explanation 2: For the purposes of paragraph 2, where an insurer has allocated to shareholders more than 5 per cent, of any such surplus as is referred to therein, the insurer shall be deemed to have allocated only 5 per cent, of the surplus and where an insurer has not allocated any such surplus to shareholders or has allocated to shareholders less than 31/2 per cent, of any such surplus, the insurer shall be deemed to have allocated 31/2 per cent, of the surplus.

Explanation 3: In the case of any insurer incorporated outside India, the annual average of the share of the surplus allocated to shareholders for the purposes of paragraph 1 shall be deemed to be the annual average of the surplus as disclosed in the abstracts prepared in accordance with Part II of the Fourth Schedule to the Insurance Act in respect of the relevant actuarial investigations multiplied by a figure which is the average of the two figures mentioned below:

(i) a figure representing the proportion which the share allocated to shareholders out of the surplus in respect of the world business of the insurer (such share being computed subject to the provisions of Explanation 2) bears to the whole of such surplus as ascertained with reference to the last actuarial investigation relating to such business as at a date earlier than the 1st day of January, 1955; and

(ii) a figure representing the proportion which the share allocated to shareholders out of the surplus in respect of the world business of the insurer (such share being computed subject to the provisions of Explanation 2) bears to the whole of such surplus as ascertained with reference to the actuarial investigation relating to such business immediately preceding the actuarial investigation referred to in clause (i);

Provided that in the case of any such insurer in respect of whom an order has been made under section 35 the amount computed as follows shall be deemed to be the annual average of the surplus:

(a) there shall be deducted from the annual average of the surplus, interest at 31/2 per cent, per annum for one year calculated on the assets specified in any order made under sub-section (2) of section 35;

(b) with respect to the balance arrived at under clause (a), there shall be computed an amount that bears the same proportion to the said balance as the liability on policies appertaining to the controlled business of the insurer, other than those expressed in any foreign currency issued on the lives of persons who are citizens of India, bears to the liability in respect of all policies appertaining to such business, the liabilities on policies being computed as at the 31st day of December, 1955, in accordance with the provisions contained in clause (b) of the Second Schedule;

Provided further that

(a) in any case where the order made under section 35 is with reference to sub-section (2) only, the preceding proviso shall have effect as if clause (b) had been omitted therefrom; and
(b) in any case where the order made under section 35 is with reference to sub-section (3) only, the preceding proviso shall have effect as if

(i) clause (a) has been omitted;

(ii) in clause (b), the words, brackets and letter “with respect to the balance arrived at under clause (a)” had been omitted; for the words “the said balance” the words “annual average of the surplus” had been substituted; and for the words, brackets and letter “with the provisions contained in clause (b) of”, the words and letter “with method a specified in” had been substituted.

Explanation 4: Where an insurer incorporated outside India whose paid-up capital is outside India

(a) the provisions contained in paragraph 1 shall have effect as if the words “less a sum equal to that part of the paid-up capital of the insurer as may be determined by the Central Government to be allocable to the controlled business of the insurer” were inserted at the end of that paragraph; and

(b) the provisions contained in paragraph 2 shall have effect as if,—

(i) the words “without making the deduction referred to in clause (a) of Explanation 4” had been inserted after the words “half the amount payable under paragraph 1”, and

(ii) the words beginning with “plus the paid-up capital” and ending with “in the First Schedule to the Insurance Act, had been omitted.

PART B

The compensation to be given by the Corporation to an insurer having a share capital on which dividend or bonus is payable who has not made any such allocation as is referred to in Part A in respect of the last actuarial investigation as at a date earlier than the 1st day of January, 1955, shall be an amount equal to the value of the assets of the insurer appertaining to his controlled business in existence, on the 19th day of January, 1956, computed as at that date in accordance with the provisions of paragraph 3 less the amount of liabilities of the insurer appertaining to such business in existence on the 19th day of January, 1956, computed as at that date in accordance with the provisions of paragraph 4.

Paragraph 3. Assets: (a) The market value of any land or buildings.

(b) The market value of any shares, securities or other investments held by the insurer.

(c) The total amount of the premiums paid by the insurer in respect of all leasehold properties reduced in the case of each such premium by an amount which bears to such premium the same proportion as the expired term of the lease in respect of which such premium shall have been paid bears to the total term of the lease.

(d) The amount of debts due to the insurer, whether secured or unsecured, to the extent to which they are reasonably considered to be recoverable.

(e) The amount of premiums which have fallen due to the insurer on policies of life Insurance but have not been paid and the days of grace for payment of which have not expired.

(f) The amount of cash held by the insurer whether in deposit with a bank or otherwise.
(g) The value of all tangible assets other than those falling within any of the preceding clauses.

Paragraph 4 Liabilities: (a) The total amount of liabilities of the insurer to holders of policies in respect of his controlled business on account of matured claims on which payment has to be made.

(b) The total amount of liabilities of the insurer to holders of policies in respect of his controlled business which have not matured for payment, the liabilities in respect thereof being calculation on the following actuarial bases:

(i) in respect of whole-life assurances and endowment assurances, the mortality table to be used shall be the Oriental (23-35) ultimate mortality table, and an interest rate of 31/4 per cent, per annum shall be assumed and for expenses 20 per cent of office premiums in the case of with-profit policies and 15 per cent. of office premiums in the case of non-profit policies shall be reserved;

(ii) in respect of other policies such actuarial bases determined by the actuary making the valuation as may be consistent with the basis specified in clause (i); and

(iii) in determining the liabilities of insurers under clause (b) the actuary shall make all the usual provisions and reserves as are ordinarily done in such cases.

(c) The total amount of all other liabilities of the insurer.

(d) Where, as a result of the actuarial valuation of policy liabilities made under clause, (b) the life insurance fund is shown to be in surplus, a sum equal to 96 per cent of such surplus shall be deemed to be a liability under this paragraph.

Explanation: For the purposes of this Part, in the case of an insurer incorporated outside India in respect whom an order under section 35 has been made, the assets or the assets and liabilities as the case may be, specified in the order shall be excluded.

Paragraph 5: If the insurer to whom compensation is to be given under this part is a displaced insurer, the compensation to be given shall be computed in accordance with following provisions:

Firstly, there shall be ascertained the losses incurred by the displaced insurer in respect of claims arising by deaths established by the displaced insurer to have been caused by the civil disturbances which took place on the occasion of the setting up of the Dominions of India and Pakistan, the total loss being taken as the difference between the amounts paid as claims in respect of such deaths and the total amount of the actuarial reserve in respect of the relevant policies;

Secondly, there shall be ascertained the difference between the market value as at the 15th day of August 1947, of any immovable property in West Pakistan belonging to the displaced insurer and the market value thereof determined under Paragraph 3 of this part, or, where any such immovable property has been sold before the 19th day of January, 1956, the difference between the market value thereof as at the 15th day of August 1947, and the sale price;

Thirdly, there shall be ascertained the amount of deposits held by the displaced insurer in banks which could not be withdrawn on account of a moratorium declared under any law for the time being in force, to the extent to which such deposits have become losses,
Fourthly, there shall be ascertained the difference between the market value as at the 15th day of August, 1947, of any shares in any company now carrying on business in West Pakistan held by the displaced insurer and which had been acquired before the 15th day of August, 1947, and the market value of such shares as at the 19th day of January, 1956.

The amount of compensation to be given to the displaced insurer under this part shall be—

(a) the amount which would have to be given to him if this Paragraph had not been enacted, plus

(b) an amount which represents one-half of the difference between the compensation which would have to be given to him if to the value of the assets referred to in Paragraph 3 there had been added the sum of the four items referred to in this Paragraph and with respect to the liabilities referred to in Paragraph 4, the life insurance fund had been increased by a like sum, and the compensation which would have to be given to him if this Paragraph had not been enacted.

or

one half of the paid-up capital of the displaced insurer whichever is less.

Explanation.—For the purposes of this Paragraph "displaced insurer" means an insurance company whose registered office during any part of the year 1947 was in any area now forming part of West Pakistan and whose registered office is now in India.

PART C

The compensation to be given by the Corporation to an insurer:—

(a) having no share capital; or

(b) having a share capital on which a dividend or bonus is not payable;

shall be in the form of an addition at the rate of rupee one per thousand in respect of the sum assured (excluding bonuses) under each with-profit policy, and in the case of an insurer falling under clause (b), such compensation shall also include a sum equivalent to the paid-up capital of the insurer to be paid to him.

THE SECOND SCHEDULE

(See section 35)

PRINCIPLES FOR DETERMINING THE VALUE OF LIABILITIES IN CERTAIN CASES

The total amount of the liabilities of an insurer incorporated outside India for the purposes of sub-section (2) of section 36 shall be the sum of the amounts computed in accordance with the following provisions:—

(a) the total amount of liabilities of the insurer to holders of policies in respect of his controlled business on account of matured claims on which payment has to be made:

(b) the total amount of liabilities of the insurer to holders of policies in respect of his controlled business which have not matured for payment, the liabilities in respect thereof being the liabilities calculated in accordance with method B below or the mean of the liabilities calculated in accordance with method A and method B below, whichever is greater.
Method A: Actuarial liability calculated on the same bases as adopted by the insurer at the last actuarial investigation as at a date earlier than the 1st of January, 1955.

Method B: Actuarial liability calculated on the methods known as the modified net premium method of valuation, the mortality table to be used being the Oriental (25-35) ultimate mortality table, an interest rate of 21/2 per cent, per annum being assumed and the allowance for first year expenses being Rs. 40 per thousand rupees of the sum assured by the policy.

added to each with-profit policy in force on the 31st day of December, 1955 (unless such addition has already been made) bonus at the same rate as declared at the said last actuarial investigation in respect of each year or part of a year the policy had been in force since the date as at which the said last actuarial investigation was made.

Explanation 2: In calculating the liabilities in accordance with method A or method B,—

(i) in respect of policies other than whole-life assurance and endowment assurance, such actuarial basis determined by the actuary making the valuation as may be consistent with the basis specified in the method shall be employed; and

(ii) the actuary shall make all the usual provisions and reserves as are ordinarily done in such cases;

(c) the total amount of all other liabilities of the insurer,

THE THIRD SCHEDULE

(See section 35)

PRINCIPLES FOR DETERMINING COMPENSATION PAYABLE TO CHIEF AGENTS

The compensation payable to a chief agent shall consist of seventy-five per cent, of the overriding commission specified in the contract relating to chief agency with the insurer on the renewal premiums received by the Corporation during a period of ten years from the appointed day in respect of the business procured by the chief agent before the appointed day, and such compensation shall be determined and paid annually for the said period.

PRINCIPLES FOR DETERMINING COMPENSATION PAYABLE TO SPECIAL AGENTS

The compensation payable to a special agent shall consist of one eighth of his annual average earnings during the period beginning on the 1st day of January, 1952, and ending on the 31st day of December, 1955, in the form of overriding commissions in respect of business procured by him through insurance agents.
APPENDIX-E

INSURANCE REGULATORY AUTHORITY, 1999

With effect from such date as the Central Government may, by notification, appoint, the Insurance Regulatory and Development Authority is to be constituted. The Authority shall be a body corporate, having perpetual succession and a common seal with power, subject to the provisions of this Act, to acquire, hold and dispose of property, and to contract and can be sued or be sued in its own name. The head office of the Authority shall be at such place as the Central Government may decide from time to time and it may establish offices at other places in India.

Composition of Authority

The Authority shall consist of the following members, namely

(a) a Chairperson;
(b) not more than five whole-time members;
(c) not more than four part-time members, to be appointed by the Central Government from amongst persons of ability, integrity and standing who have knowledge or experience in life insurance, general insurance, actuarial science, finance, economics, law, accountancy, administration or any other discipline which would, in the opinion of the Central Government, be useful to the Authority:

The Central Government while appointing the Chairperson and the whole-time members, must ensure that at least one person each is a person having knowledge or experience in life insurance, general insurance or actuarial science respectively.

Tenure of office of Chairperson and other members The Chairperson and every other whole-time member shall hold office for a term of five years from the date on which he enters upon his office and shall be eligible for reappointment.

However, no person shall hold office as such Chairperson after he has attained the age of sixty-five years and no person shall hold office as such whole-time member after he has attained the age of sixty-two years.

A part-time member shall hold office for a term not exceeding five years from the date on which he enters upon his office.

A member may :
(a) relinquish his office by giving in writing to the Central Government notice of not less than three months; or be removed from his office in accordance with the following provisions.

Removal from office

The Central Government may remove from office any member who -
(a) is, or at any time has been, adjudged as insolvent;
(b) has become physically or mentally incapable of acting as a member;
(c) has been convicted of any offence which, in the opinion of the Central Government, involves moral turpitude;
(d) has acquired such financial or other interest as is likely to affect prejudicially his functions as a member;
(e) has so abused his position as to render his continuation in office detrimental to the public interest.

No such member shall be removed under clause (d) or clause (e) unless he has been given a reasonable opportunity of being heard in the matter.

Salary and allowances of Chairperson and members

The salary and allowances payable to, and other terms and conditions of service of, the members other than part-time members shall be such as may be prescribed. The part-time members shall receive such allowances as may be prescribed. The salary, allowances and other conditions of service of a member shall not be varied to his disadvantage after appointment.

Bar on future employment of members

The Chairperson and the whole-time members shall not, for a period of two years from the date on which they cease to hold office as such, except with the previous approval of the Central Government, accept:

(a) any employment either under the Central Government or under any State Government; or
(b) any appointment in any company in the Insurance sector.

Administrative powers of Chairperson

The Chairperson shall have the powers of general superintendence and direction in respect of all administrative matters of the Authority.

Meeting of Authority

The Authority shall meet at such times and places, and shall observe such rules and procedures in regard to transaction of business at its meetings (including quorum at such meetings) as may be determined by regulations. The Chairperson, or if for any reason he is unable to attend a meeting of the Authority, any other member chosen by the members present from amongst themselves at the meeting shall preside at the meeting. All questions which come up before any meeting of the Authority shall be decided by a majority vote of the members present and voting, and in the event of an equality of votes, the Chairperson, or in his absence, the person presiding shall have a second or casting vote. The Authority may make regulations for the transaction of business at its meetings.

Vacancies, etc., not to invalidate proceedings of Authority

No Act or proceeding of the Authority shall be invalid merely by reason of:

(a) any vacancy in, or any defect in the constitution of, the Authority;
(b) any defect in the appointment of a person acting as a member of the Authority;
(c) any irregularity in the procedure of the Authority not affecting the merits of the case.

Officers and employees of Authority

The Authority may appoint officers and such other employees as it considers necessary for the efficient discharge of its functions under this Act. The terms and other conditions of service of officers and other employees of the Authority shall be governed by regulations made under this Act.
Transfer of assets, liabilities, etc, of the Interim Insurance Regulatory Authority will be transferred to the Authority on the appointed day.

All suits and other legal proceedings instituted or which could have been instituted by or against the Interim Insurance Regulatory Authority immediately before that day may be continued or may be instituted by or against the Authority.

Duties, powers and functions of Authority

Subject to the provisions of this Act and any other law for the time being in force, the Authority has the duty to regulate, promote and ensure orderly growth of the insurance business and re-insurance business. The powers and functions of the Authority include:

(a) to issue to the applicant a certificate of registration, to renew, modify, withdraw, suspend or cancel such registration
(b) protection of the interests of the policy-holders in matters concerning assigning of policy, nomination by policy-holders, insurable interest, settlement of insurance claim, surrender value of policy, and other terms and conditions of contracts of insurance
(c) specifying requisite qualifications code of conduct and practical training for intermediary or insurance intermediaries and agents
(d) specifying the code of conduct for surveyors and loss assessors
(e) promoting efficiency in the conduct of insurance business
(f) promoting and regulating professional organisations connected with the insurance and reinsurance business
(g) levying fees and other charges for carrying out the purposes of this Act
(h) calling for information from, undertaking inspection of, conducting enquiries and investigations including audit of the insurers, intermediaries, insurance intermediaries and other organisations connected with the insurance business
(i) control and regulation of the rates, advantages, terms and conditions that may be offered by insurers in respect of general insurance business not so controlled and regulated by the Tariff Advisory Committee under section 64U of the Insurance Act, 1938
(j) prescribing the form and manner in which books of account shall be maintained and statement of accounts will be rendered by insurers and other insurance intermediaries
(k) regulating investment of funds by insurance companies
(l) regulating maintenance of margin of solvency
(m) adjudication of disputes between insurers and intermediaries or insurance intermediaries
(n) supervising the functioning of the Tariff Advisory Committee
(o) specifying the percentage of premium income of the insurer to finance schemes for promoting and regulating professional organisations
(p) specifying the percentage of life insurance business and general insurance business to be undertaken by the insurer in the rural or social sector
(q) exercising such other powers as may be prescribed.

Finance, accounts and audit

Grants by Central Government

The Central Government may, after due appropriation made by the Parliament by law in this behalf, make to the Authority grants of such sums of money as the Government may think fit for being utilised for the purposes of this Act.

Fund

A Fund to be called "The Insurance Regulatory and Development Authority Fund" is to be established and the following sums will be credited thereto:

(a) all Government grants, fees and charges received by the Authority
(b) all sums received by the Authority from such other source as may be decided upon by the Central Government.
(c) the percentage of prescribed income received from the insurer.
The Fund shall be applied for meeting the following expenses:
(a) the salaries, allowances and other remuneration of the members, officers and other employees of the Authority
(b) the other expenses of the Authority in connection with the discharge of its functions and for the purposes of this Act.

Accounts and audit

The Authority shall maintain proper accounts and other relevant records and prepare an annual statement of accounts in such form as may be prescribed by the Central Government in consultation with the Comptroller and Auditor General of India. The accounts of the Authority shall be audited by the Comptroller and Auditor General of India at such intervals as may be specified by him and any expenditure incurred in connection with such audit shall be payable by the Authority to the Comptroller and Auditor General of India. The Comptroller and Auditor-General of India and other person appointed by him in connection with the audit of the accounts of the Authority shall have the same rights and privileges and authority in connection with such audit as the Comptroller and Auditor General generally has in connection with the audit of the Government accounts and, in particular, shall have the right to demand the production of books, accounts, connected vouchers and other documents and papers and to inspect any of the officers of the Authority. The accounts of the Authority as certified by the Comptroller and Auditor General of India or any other person appointed by him in this behalf together with the audit report thereon shall be forwarded annually to the Central Government and that Government shall cause the same to be laid before each House of Parliament.

Powers of Central Government

The Authority shall, in exercise of its powers or the performance of its functions under this Act, be bound by such directions on questions of policy, other than those relating to technical and administrative matters, as the Central Government may give in writing to it from time to time

However, Authority must, as far as practicable, be given an opportunity to express its views before any such direction is given. The decision of the Central Government, whether a question is one of policy or not, shall be final.

Power of Central Government to supersede Authority

If at any time the Central Government is of the opinion:

(a) that, on account of circumstances beyond the control of the Authority, it is unable to discharge the functions or perform the duties imposed on it by or under the provisions of this Act; or
(b) that the Authority has persistently defaulted in complying with any direction given by the Central Government under this Act or in the discharge of the functions or performance of the duties imposed on it by or under the provisions of this Act and as a result of such default the financial position of the Authority or the administration of the Authority has suffered; or
(c) that circumstances exist which render in necessary in the public interest so to do, the Central Government may, by notification and for reasons to be specified therein, supersede the Authority for such period, not exceeding six months, as may be specified in the notification and appoint a person to be the Controller of Insurance. However, before issuing
any such notification, the Central Government shall give a reasonable opportunity to the Authority to make representations against the proposed supersession and shall consider the representations, if any, of the Authority.

Upon the publication of such notification superseding the Authority:
(a) the Chairperson and other members shall, as from the date of supersession, vacate their offices as such;
(b) all the powers, functions and duties which may, by or under the provisions of this Act, be exercised or discharged by or on behalf of the Authority shall, until the Authority is reconstituted, be exercised and discharged by the Controller of Insurance; and
(c) all properties owned or controlled by the Authority shall, until the Authority is reconstituted vest in the Central Government.

On or before the expiration of the period of supersession specified in such a notification, the Central Government shall reconstitute the Authority by a fresh appointment of its Chairperson and other members and in such case any person who had vacated his office under the notification shall not be deemed disqualified for reappointment.

The Central Government shall cause a copy of the notification issued and a full report of any action taken under this section and the circumstances leading to such action to be laid before each House of Parliament at the earliest.

Furnishing of returns, etc., to the Central Government

The Authority must furnish to the Central Government at such time and in such form and manner as may be prescribed, or as the Central Government may direct, such returns and statements and such particulars in regard to any proposed or existing programme for the promotion and development of the insurance industry as the Central Government may, from time to time, require.

The Authority must, within nine months after the close of each financial year, submit to the Central Government a report giving a true and full account of its activities including the activities for promotion and development of the insurance business during the previous financial year. Copies of the reports must be laid, as soon as may be after they are received, before each House of Parliament.

Chairperson, members, officers and employees of Authority to be public servants

The Chairperson, members, officers and other employees of the Authority shall be deemed, when acting or purporting to act in pursuance of any of the provisions of this Act, to be public servants within the meaning of section 21 of the Indian Penal Code.

Protection of action taken in good faith

No suit, prosecution or other legal proceedings shall lie against the Central Government or any officer of the Central Government or any member, officer or other employee of the Authority for anything which is in good faith done or intended to be done under this Act or the rules or regulations made thereunder. However, nothing in this Act exempts any person from any suit or other proceedings which might, apart from this Act, be brought against him.

Delegation of powers

The Authority may, by general or special order in writing, delegate to the Chairperson or any other member or officer of the Authority, subject to such conditions, if any, as may be
specified in the order such of its powers and functions under this Act as it may deem necessary. The Authority may, by a general or special order in writing, also form Committees of the members and delegate to them the powers and functions of the Authority as may be specified by the regulations.

Power to make rules

The Central Government may, by notification, make rules for carrying out the purposes of this Act. Such rules may provide for all or any of the following matters, namely:-
(a) the salary and allowances payable to and other conditions of service of the members other than part-time members
(b) the allowances to be paid to the part-time members
(c) such other powers that may be performed by the Authority
(d) the form of annual statement of accounts to be prepared by the Authority
(e) the time at, the form and the manner in which returns and statements and particulars are to be furnished to the Central Government
(f) the matters on which the Insurance Advisory Committee shall advise the authority
(g) any other matter which is to be, or may be, prescribed, or in respect of which provision is to be or may be made by rules.

Establishment of Insurance Advisory Committee

The Authority may, by notification, establish with effect from such date as it may specify in such notification, a Committee to be known as the Insurance Advisory Committee. The Insurance Advisory Committee shall consist of not more than twenty-five members excluding ex officio members to represent the interests of commerce, industry, transport, agriculture, consumer fora, surveyors, agents, intermediaries, organisations engaged in safety and loss prevention, research bodies and employees' association in the insurance sector. The Chairperson and the members of the Authority shall be the ex officio Chairperson and ex officio members of the Insurance Advisory Committee. The objects of the Insurance Advisory committee shall be to advise the Authority on matters relating to the making of the regulations. The Insurance Advisory Committee may advise the Authority on such other matters as may be prescribed.

Power to make regulations

The Authority may, by notification, make regulations consistent with this Act and the rules made thereunder to carry out the purposes of this Act. Such regulations may provide for all or any of the following matters, namely:-

(a) the times and places of meetings of the Authority and the procedure to be followed at such meetings including the quorum necessary for the transaction of business
(b) the transactions of business at its meetings
(c) the terms and other conditions of service of officers and other employees of the Authority
(d) the powers and functions which may be delegated to Committees of the members
(e) any other matter which is to be or may be specified by regulations or in respect of which provision is to be made or may be made by regulations.

Rules and regulations to be laid before Parliament

Every rule and every regulation made under this Act shall be laid, after it is made, before each House of Parliament, while it is in session, for a total period of thirty days which may be comprised in one session or in two or more successive sessions. If, before the expiry of the session immediately following the session or the successive sessions aforesaid, both Houses
agree in modifying or annulling the rule or regulation, the rule or regulation shall thereafter have effect only in such modified form or have no effect, as the case may be. However, any such modification or annulment shall not affect anything previously done under that rule or regulation.

**Application of other laws not barred**

The provisions of this Act shall be in addition to, and not in derogation of, the provisions of any other law for the time being in force.

**Power to remove difficulties**

*If any difficulty arises in giving effect to the provisions of this Act, the Central Government may, by order published in the Official Gazette, make such provisions not inconsistent with the provisions of this Act as may appear to be necessary for removing the difficulty.*

However, no order can be made after the expiry of two years from the appointed day. Every such order made under this section shall be laid as soon as it is made, before each House of Parliament.

**Amendment of the Insurance Act, 1938**

The Insurance Act, 1938 shall be amended in the manner specified in the First Schedule to this Act. These amendments to the Insurance Act, 1938 are consequential in nature to enable the Insurance Regulatory Authority to effectively regulate, promote and ensure orderly growth of the insurance industry. The Amendments provide for the substitution of the word “Controller” by the word “Authority” and substitution of the word “Central Government” by the word “Authority” in certain sections of the Insurance Act, 1938. It also provides for certain definitions including definition of an Indian insurance company. It amends certain provisions of the Insurance Act, 1938 pertaining to registration of insurers, percentage of equity capital to foreign company, investment provisions, regulation of licence to intermediaries or insurance intermediaries and power of the Authority make regulations.

**Amendment of the Life Insurance Corporation Act, 1956**

The Life Insurance Act, 1956 shall be amended in the manner specified in the Second Schedule to this Act. These amendments ends the monopoly of the Life Insurance Corporation of India to do life insurance business in India and opens the entry of private sector Indian companies into the life insurance business.

**Amendment of General Insurance Business (Nationalisation) Act, 1972**

The General Insurance Business (Nationalisation) Act, 1972 shall be amended in the manner specified in the Third Schedule to this Act. These amendments ends the monopoly of the General Insurance Corporation of India and its subsidiaries to do general insurance business in India and opens the entry of private sector Indian companies into the general insurance business.

**Major Amendments to Insurance Act**

**The First Schedule**

*The main amendments to the insurance act, 1938 are as follows:*
1. A new definition of "Indian Insurance Company" has been inserted. "Indian insurance company" means any insurer being a company:

(a) which is formed and registered under the Companies Act, 1956
(b) in which the aggregate holdings of equity shares by a foreign company, either by itself or through its subsidiary companies or its nominees, do not exceed twenty-six per cent, paid up capital in such Indian insurance company:
(c) whose sole purpose is to carry on life insurance business, general insurance business or re-insurance business.

Explanation: For the purposes of this clause, the expression “foreign company” shall have the meaning assigned to it under clause (23A) of section 2 of the Income-tax Act. Under the said section, a foreign company has been defined to mean a company which is not a domestic company. A domestic company means an Indian company and includes any company which has made the arrangements prescribed for deduction of income tax at source on dividends declared, distributed or paid out of its income taxable in India.

2. No insurer other than an Indian insurance company can begin to carry on any class of insurance business in India under this Act on or after the commencement of the Insurance Regulatory and Development Authority Act, 1999.

3. Any person or insurer carrying on any class of insurance business in India, on or before the commencement of the Insurance Regulatory and Development Authority Act, 1999, for which no registration certificate was necessary prior to such commencement, may continue to do so for a period of three months from such commencement or, if he had made an application for such registration within the said period of three months, till the disposal of such application. However, any certificate of registration, obtained immediately before the commencement of the Insurance Regulatory and Development Authority Act, 1999, shall be deemed to have been obtained from the Authority in accordance with the provisions of this Act.

Every application for registration shall be made in such manner as may be determined by regulations made by the Authority and shall be accompanied by the required details. And fees not exceeding Rs. 50 thousand.

The Authority may by order, suspend or cancel any registration in such manner as may be determined by regulations made by it: However, no such order shall be made unless the person concerned has been given reasonable opportunity of being heard.

The Authority may, on payment of such fee, not exceeding five thousand rupees, as may be determined by the regulations, issue a duplicate certificate of registration to replace a certificate lost, destroyed or mutilated, or in any other case where the Authority is of opinion that the issue of duplicate certificate is necessary.

Capital Requirements

Requirement as to capital

No insurer carrying on the business of life insurance, general insurance, or re-insurance in India on or after the commencement of the Insurance Regulatory and Development Authority Act, 1999, shall be registered unless he has:

1. a paid-up equity capital of rupees one hundred crores, in case of a person carrying on the business of life insurance or general insurance; or
2. a paid-up equity capital of rupees two hundred crores, in case of a person carrying on exclusively the business as a reinsurer:

In determining the paid-up equity capital specified under clause (i) or clause (ii), the deposit to be made under section 7 and any preliminary expenses incurred in the formation and registration of the company shall be excluded.

An insurer carrying on business of life insurance, general insurance or re-insurance in India before the commencement of the Insurance Regulatory and Development Authority Act, 1999 and who is required to be registered under this Act, shall have a paid-up equity capital in accordance with clause (i) and clause (ii), as the case may be, within six months of the commencement of that Act.

5. Where, the nominal value of the shares intended to be transferred by any individual, firm, group, constituents of a group, or body corporate under the same management, jointly or severally exceeds one per cent. of paid up capital of the insurer, previous approval of the Authority must be obtained for the transfer.

Explanation.-For the purpose of this sub-clause, the expressions "group" and "same management", shall have the same meanings respectively assigned to them in the Monopolies and Restrictive Trade Practices Act, 1969.

6. The following sections have been inserted :-

6AA. Manner of divesting excess share holding by promoter in certain cases. No promoter shall at any time hold more than twenty-six per cent. or such other percentage as may be prescribed, of the paid up capital in an Indian Insurance company.-

Provided that in a case where an Indian insurance company begins the business of life insurance, general insurance or reinsurance in which the promoters hold more than twenty-six per cent of the paid up capital or such other excess percentage as may be prescribed, the promoters shall divest in a phased manner the share capital in excess of the twenty-six per cent. of the paid up capital or the such excess paid up capital as may be prescribed, after a period of ten years from the date of commencement of the said business by such Indian insurance company or within such period as may be prescribed by the Central Government.

Explanation-For the removal of doubts it is hereby declared that nothing contained in the above proviso shall apply to the promoters being foreign company, foreign institutional investor, non-resident Indian and overseas body corporate referred to in clause b of the definition of Indian Insurance Company.

The manner and procedure for divesting the excess share capital shall be specified by regulations made by the Authority.

Every insurer, on or after the commencement of the Insurance Regulatory and Development Authority Act, 1999, in respect of insurance business transacted by him and in respect of his shareholders’ funds, shall at the expiration of each financial year prepare with reference to that year, a balance sheet, a profit and loss account, a separate account of receipts and payments, a revenue account in accordance with the regulations made by the Authority. Every insurer shall keep separate accounts relating to funds of shareholders and policy holders.
27C. Provisions of investment of funds outside India

No insurer shall directly or indirectly invest outside India, the funds of the policy holders.

27D. Manner and conditions of investment

The Authority may, in the interests of the policy holders, specify by regulations made by the Authority, the time, manner and other conditions of investment of assets to be held by an insurer for the purposes of this Act.

The Authority may, after taking into account the nature of business and to protect the interests of the policy holders, issue to an insurer the directions relating to the time, manner, and other conditions of investment of assets to be held by him. However, no directions shall be issued unless the insurer concerned has been given a reasonable opportunity of being heard.

32B. Insurance business in rural or social sector

Every insurer shall, after the commencement of the Insurance Regulatory and Development Authority Act, 1999, undertake such percentages of life insurance business and general insurance business in the rural or social sector, as may be specified, in the Official Gazette by the Authority, in this behalf.

Investigation & Inspection

33. Power of investigation and inspection by Authority

The Authority may, at any time, by order in writing, direct any person (to be called “Investigating Authority”) specified in the order to investigate the affairs of any insurer and to report to the Authority on any investigation made by such Investigating Authority. The Investigating Authority may, wherever necessary, employ any auditor or actuary or both for the purpose of assisting him in any investigation. The Investigating Authority may, at any time, and shall, on being directed so to do by the Authority, cause an inspection to be made by one or more of his officers of any insurer and his books and account; and the Investigating Authority shall supply to the insurer a copy of his report on such inspection.

It shall be the duty of every manager, managing director or other officer of the insurer to produce before the Investigating Authority directed to make the investigation or inspection all such books of account, registers and other documents in his custody or power and to furnish him with any statement and information relating to the affairs of the insurer as the said Investigating Authority may require of him within such time as the said Investigating Authority may specify.

Any Investigating Authority, directed to make an investigation inspection may examine on oath, any manager, managing director or other officer of the insurer in relation to his business and may administer oaths accordingly.

The Investigating Authority shall, if he has been directed by the Authority to cause an inspection to be made, and may, in any other case, report to the Authority on any inspection made.

On receipt of any such report, the Authority may, after giving such opportunity to the insurer to make a representation in connection with the report as, in the opinion of the Authority, seems reasonable, by order in writing,
(a) require the insurer, to take such action in respect of any matter arising out of the report as
the Authority may think fit; or
(b) cancel the registration of the insurer; or
(c) direct any person to apply to the court for the winding up of the insurer, if a company,
whether the registration of the insurer has been cancelled under clause (b) or not.

The Authority may, after giving reasonable notice to the insurer, publish the report submitted
by the Investigating Authority or such portion thereof as may appear to it to be necessary. The
Authority may by the regulations made by it specify the minimum information to be maintained
by insurers in their books, the manner in which such information shall be maintained, the
checks and other verifications to be adopted by insurers in that connection and all other
matters incidental thereto as are, in its opinion, necessary to enable the Investigating
Authority to discharge satisfactorily his functions under this section.

Explanation.-For the purposes of this section, the expression "insurer" shall include in the
case of an insurer incorporated in India -
(a) all its subsidiaries formed for the purpose of carrying on the business of insurance
exclusively outside India; and
(b) all its branches whether situated in India or outside India.

No order made under this section other than an order of cancellation of registration of insurer
shall be capable of being called in question in any court.

All expenses of, and incidental to, any investigation made under this section shall be defrayed
by the insurer, shall have priority over that debts due from the insurer and shall be
recoverable as an arrear of land revenue.

Insurance Agents, Intermediaries and Surveyors

Insurance Agents :

The Authority or an officer authorised by it in this behalf shall, in the manner determined by
the regulations made by it and on payment of the fee determined by the regulations, which
shall not be more than two hundred and fifty rupees, issue to any person making an
application in the manner determined by the regulations, a licence to act as an insurance
agent for the purpose of soliciting or procuring insurance business. However in the case of an
individual, he does not suffer from any of the relevant disqualifications and in the case of a
company or firm, any of its directors or partners does not suffer from any of the said
disqualifications.

Any licence issued immediately before the commencement of the Insurance Regulatory and
Development Authority Act, 1999 shall be deemed to have been issued in accordance with
the regulations which provide for such licence.

A licence issued under this section, after the date of the commencement of the Insurance
Regulatory and Development Authority Act, 1999, shall remain in force for a period of three
years only from the date of issue, but shall, if the applicant, being an individual does not, or
being a company or firm, any of its directors or partners does not, suffer from any of the
relevant disqualifications and the application for renewal of licence reaches the issuing
authority at least thirty days before the date on which the licence ceases to remain in force, to
be renewed for a period of three years at any one time on payment of the fee determined by
regulations made by the Authority which shall not be more than rupees two hundred and fifty,
and additional fee of an amount determined by the regulations not exceeding rupees one
hundred by way of penalty, if the application for renewal of the licence does not reach the
issuing authority at least thirty days before the date on which the licence ceases to remain in force.

The Authority may, if satisfied that undue hardship would be caused otherwise, accept any application in contravention of this sub-section on payment by the applicant of a penalty of seven hundred and fifty rupees.

An insurance agent among other things must possess the requisite qualifications and practical training for a period not exceeding twelve months, as may be specified by the regulations made by the Authority in this behalf, and must pass such examination as may be specified by the regulations made by the Authority in this behalf. He must not violates the code of conduct as may be specified by regulations made by the Authority.

The Authority may issue a duplicate licence to replace a licence lost, destroyed or mutilated, on payment of such fee not exceeding rupees fifty as may be determined by regulations.

8. 42D. Issue of licence to intermediary or insurance intermediary

The Authority or an officer authorised by it in this behalf shall, in the manner determined by regulations and on payment of the fees determined by regulations made by the Authority issue, to any person making an application in the manner determined by regulations, a licence to act as an intermediary or an insurance intermediary under this Act: Provided that:-

(a) in the case of an individual, he does not suffer from any of the disqualifications or
(b) in the case of a company, firm, any of its directors or partners does not suffer from any of the said disqualifications

A licence issued under this section shall entitle the holder thereof to act as an intermediary or insurance intermediary or insurance intermediary.

A licence issued under this section, shall remain in force for a period of three years only from the date of issue, but shall, if the applicant, being an individual does not, or being a company or firm any of its directors or partners does not suffer from any of the disqualifications and the application of or renewal of licences reaches the issuing authority at least thirty days before the date on which the licence ceases to remain in force, be renewed for a period of three years at any one time on payment of the fee determined by regulations made by the Authority and additional fee for an amount determined by the regulations not exceeding one hundred rupees by way of penalty, if the application for renewal of the licence does not reach the issuing authority at least thirty days before the date on which the licence ceases to remain in force.

No application for renewal of a licence under this section shall be entertained if the application does not reach the issuing authority before the licence ceases to remain in force. The Authority may, if satisfied that undue hardship would be caused otherwise, accept any application in contravention of this sub-section on payment by the applicant of a penalty of seven hundred and fifty rupees.

The disqualifications above referred to shall be the following:-

(a) that the person is a minor
(b) that he is found to be of unsound mind by a court of competent jurisdiction
(c) that he has been found guilty of criminal misappropriation or criminal breach of trust or cheating or forgery or an abetment of or attempt to commit any such offence by a court of competent jurisdiction: However, where at least five years have elapsed since the completion
of the sentence imposed on any person in respect of any such offence, the Authority, shall ordinarily declare in respect of such person that his conviction shall cease to operate as a disqualification under this clause.
(d) that in the course of any judicial proceedings relating to any policy of insurance of the winding up of an insurance company or in the course of an investigation of the affairs of an insurer it has been found that he has been guilty of or has knowingly participated in or connived at any fraud dishonesty or misrepresentation against an insurer or an insured;
(e) that he does not possess the requisite qualifications and practical training for a period not exceeding twelve months, as may be specified by the regulations made by the Authority in this behalf;
(f) that he has not passed such examinations as may be specified by the regulations made by the Authority in this behalf;
(g) that he violates the code of conduct as may be specified by regulations made by the Authority.

If it is found that an intermediary or an insurance intermediary suffers from any of the foregoing disqualifications, without prejudice to any other penalty to which he may be liable, the Authority shall, and if the intermediary or insurance intermediary has knowingly contravened any provision of this Act may, cancel the licence issued to the intermediary or insurance intermediary or an insurance intermediary under this section.

The Authority may issue a duplicate licence to replace a licence lost, destroyed or mutilated, on payment of such fee, as may be determined by regulations made by the authority.

Any person who acts as an intermediary or an insurance intermediary without, holding a licence issued under this section to act as such shall be punishable with fine and any insurer or any person acting on behalf of an insurer, who appoints as an intermediary or an insurance intermediary any person not licensed to act such or transacts any insurance business in India through any such person, shall be punishable with fine.

Where the person contravening the above provisions is a company or a firm, then, without prejudice to any other proceedings which may be taken against the company or firm, every director, manager, secretary or other officer of the company, and every partner of the firm who is knowingly a party to such contravention shall be punishable with fine.

9. Surveyors

Every person who intends to act as a surveyor or loss assessor after the expiry of a period of one year from the commencement of the Insurance Regulatory and Development Authority Act, 1999, shall make an application to the Authority within such time, in such manner and on payment of such fee as may be determined by the regulations made by the Authority. However, any licence issued immediately before the commencement of the Insurance Regulatory and Development Authority Act, 1999 shall be deemed to have been issued in accordance with the regulations providing for such licence.

Every surveyor and loss assessor shall comply with the code of conduct in respect of their duties, responsibilities and other professional requirements as may be specified by regulations made by the Authority.
10. Maintenance of Assets

Every insurer shall, at all times, on or after the commencement of the Insurance Regulatory and Development Authority Act, 1999, maintain an excess of the value of his assets over the amount of his liabilities of not less than the amount arrived at as follows :- (hereinafter referred to in this section referred to as the "required solvency margin") (i) in the case of an insurer carrying on life insurance business, the required solvency margin, shall be the higher of the following amounts :- (a) fifty crores of rupees (one hundred crores of rupees in case of re-insurers); or (b) the aggregate sums of the results arrived at in items (i) and (ii) stated below:- (i) the aggregate of the results arrived at by applying the calculation described in item (A) below (Step I) and the calculation described in item (B) below (Step II)

(A) For step I(A.1) there shall be taken, a sum equal to a percentage determined by regulations not exceeding five per cent. of the mathematical reserves for direct business and re-insurance acceptances without any deduction for re-insurance cessions: (A.2) the amount of mathematical reserves at the end of the preceding financial year after the deduction of re-insurance cessions shall be expressed as a percentage of the amount of those mathematical reserves before any such deduction; and (A.3) the sum mentioned in item (A.1) above shall be multiplied-

(A.3.1) where the percentage arrived at under item (A.2) above is greater than eighty-five per cent., by that greater percentage; and (A.3.2) in any other case, by eighty-five per cent. (or in the case of a re-insurer carrying on exclusive re-insurance business, fifty per cent.);

(B) for Step II-(B.1) there shall be taken, a sum equal to a percentage determined by the regulations made by the Authority not exceeding one per cent. of the sum at risk for the policies on which the sum at risk is not a negative figure, and (B.2) the amount of sum at risk at the end of the preceding financial year for policies on which the sum at risk is not a negative figure after the deduction of re-insurance cession shall be expressed as a percentage of the amount of that sum at risk before any such deduction, and (B.3) the sum arrived at under item (B.1) above shall be multiplied-

(B.3.1) where the percentage arrived at under item (B.2) above is greater than fifty per cent., by that greater percentage, and (B.3.2) in any other case, by fifty per cent.

(i) a percentage determined by the regulations made by the Authority of the value of assets determined in accordance with the provisions of section 64V;

(ii) in the case of an insurer carrying on general insurance business, the required solvency margin, shall be the highest of the following amounts:- (a) fifty crores of rupees (one hundred crores of rupees in case of re-insurer); or (b) a sum equivalent to twenty per cent. of net premium income; or

(c) a sum equivalent to thirty per cent. of net incurred claims,

subject to credit for re-insurance in computing net premiums and net incurred claims being actual but a percentage, determined by the regulations, not exceeding fifty per cent.: If in respect of any insurer, the Authority is satisfied that either by reason of an unfavourable claim experience or because of sharp increase in the volume of the business, or for any other reason, compliance with the provisions of this sub-section would cause undue hardship to the insurer, the Authority may direct, for such period and subject to such conditions, such
solvency margin not being less than the lower of the amount mentioned in sub-clause (i) or sub-clause (ii) above, as the case may be.

Explanation.-For the purposes of this sub-section, the expressions- "mathematical reserves" means the provision made by an insurer to cover liabilities (excluding liabilities which have fallen due and liabilities arising from deposit back arrangement in relation to any policy whereby an amount is deposited by re-insurer with the cedant) arising under or in connection with policies or contracts for life insurance business. Mathematical reserves also include specific provision for adverse deviations of the bases, such as mortality and morbidity rates, interest rates, and expense rates, and any explicit provisions made, in the valuation of liabilities, in accordance with the regulations made by the Authority for this purpose; "net incurred claims" means the average of the net incurred claims during the specified period of not exceeding three preceding financial years; "sum at risk", in relation to a life insurance policy, means a sum which is- (a) in any case in which an amount is payable in consequence of death other than a case falling within sub-clause (b) below, the amount payable on death, and (b) in any case in which the benefit under the policy in question consists of the making, in consequence of death, of the payments of annuity, payment of a sum by instalments or any other kind of periodic payments, the present value of that benefit, less in either case the mathematical reserve in respect of the relevant policies.

If, at any time an insurer does not maintain the required solvency margin in accordance with the provisions of this section, he shall, in accordance with the directions issued by the Authority, submit a financial plan, indicating a plan of action to correct the deficiency to the Authority within a specified period not exceeding three months.

An insurer who has submitted a plan to the Authority shall propose modifications to the plan if the Authority considers it inadequate, and shall give effect to any plan accepted by the Authority as adequate.

An insurer who does not comply with the above provisions shall be deemed to be insolvent and may be wound up by the court.

11. Every insurer shall furnish to the Authority his returns as the case may be, in case of life insurance business a statement certified by an actuary approved by the Authority, and in case of general insurance business a statement certified by an auditor approved by the Authority, of the required solvency margin maintained by the insurer in the manner required.

Miscellaneous Provisions

12. Penalty for default in complying with, or act in contravention of, this Act. If any person, who is required under this Act, or rules or regulations made thereunder,- (a) to furnish any document, statement, account, return or report to the Authority, fail to furnish the same, or (b) to comply with the directions, fails to comply with such directions, (c) to maintain solvency margin, fails to maintain such solvency margin, (d) to comply with the directions on the insurance treaties, fails to comply with such directions on the insurance treaties, he shall be liable to a penalty not exceeding five lakh rupees for each such failure and punishable with fine.

13. If a person makes a statement, or furnishes any document, statement, account, return or report which is false and which he either knows or believes to be false or does not believe to be true,- (a) he shall be liable to a penalty not exceeding five lakh rupees for each such failure; and
(b) he shall be punishable with imprisonment which may extend to three years or with fine for each such failure.

14. If any director, managing director, manager or officer or employees of an insurer wrongfully obtains possession of any property or wrongfully applies to any purpose of the Act, he shall be liable to a penalty not exceeding two lakh rupees for each such failure.

15. Offences by companies. Where any offence under this Act has been committed by a company, every person who, at the time the offence was committed, was in charge of, and was responsible to, the Company for the conduct of the business of the company as well as the company shall be deemed to be guilty of the offence and shall be liable to be proceeded against and punished accordingly: Nothing contained in this sub-section shall render any such person liable to any punishment, if he proves that the offence was committed without his knowledge or that he had exercised all due diligence to prevent the commission of such offence.

Where any offence under this Act has been committed by a company and it is proved that the offence has been committed with the consent or connivance of, or is attributable to any neglect on the part of, any director, manager, secretary or other officer of the company, such director, manager, secretary or other officer shall be deemed to be guilty of that offence and shall be liable to be proceeded against and punished accordingly.

Explanation.-For the purposes of this section,-
(a) "company" means any body corporate, and includes a firm, an association of person or a body of individuals whether incorporated or not; and
(b) "director", in relation to- (i) a firm, means a partner in the firm; (ii) an association of persons or a body of individuals, means any-member controlling the affairs thereof.

16 Power of Authority to make regulations. The Authority may, by notification in the Official Gazette, make regulations consistent with this Act and the rules made thereunder, to carry out the provisions of this Act.