Empire of India Life Assurance Co. Ltd.

Report of the Administrator, Dewan Bahadur R. Varadachari

THE Revenue Account and the Balance Sheet of the Company with the Auditors' Report relate to the year ended 31st December 1951. This is the 54th year of the working of this old and well-established Company. I was (ailed upon to take charge of the management of the affairs of the Company from the 11th July 1951. The circumstances which compelled the Government to take action under the new Section 52A of the Insurance Act, 1938, have been given in my Report for 1950. 'The Police have recently filed a detailed charge-sheet before the Magistrate' against three Directors, the Ex-Secretary of the Company and certain other persons and I gather that the regular trial of the case will begin shortly.

This is the first time that the Government of India permitted an Administrator appointed under the provisions of the new Section 52A of the Insurance Act, 1938. in the case of a big Life Office to continue the normal working of the Company and to issue policies as usual under the direction and control of the Controller of" Insurance. A scrutiny of the Accounts printed herewith will show that the working of the Company must be considered quite satisfactory, particularly in view of the circumstances of the year, that its financial position has been brought to a safe and sound condition and that the action of the Government of India taken solely in the interests of the policyholders was thoroughly justified by the results. The policyholders and their families have every reason to be grateful to the Government for coming to their rescue at the crucial time.

The subscribed capital of the Company consists of 5,150 shares of Rs 100 each, fully paid-up. Out of this, a controlling block of 2,883 shares was held by one group in recent years. Out of the remaining shares, another block of about 1,000 shares is held by the members of one family. This leaves a. balance of roughly 1,250 shares which at the moment stands registered in the names of 187 persons. The total of the number of policies issued by the Company and in force as on 31st. December 1951 comes to 1,36,606 and the Sums Assured under these policies amount to Rs 30 crores. The Life Fund of the Company as on 31st December 1951 amounts to over Rs 9¼ crores and the total assets of the Company to nearly Rs 11 crores. Under normal conditions the control and management of these huge funds (and *ipso facto* of the fortunes of the policyholders and their families) are under the law, as it stands at present, in the hands of a Hoard of Directors elected (mostly by proxies) by about 180 to 190 shareholders whose financial stake in the Company is microscopic when compared to the total assets. The last Board (which was divested of its powers on the nth July 1951) consisted of only four persons against three of whom the Police have taken action. The amended Section 6A of the Insurance Act passed in 1950 restricting the voting rights is practically a *dead* letter. Section 48 regarding the election of a certain number of Policyholders' Directors has failed in its objective and is not working in the manner in which it was intended. An infinitesimal percentage of the policyholders take part in the actual elections and as a matter of fact, it is quite well-known that a few persons connected with the Head Office stage-manage these elections in all companies. I have given the facts and figures about, the "Empire' from the records, but I gather that more or less the same state of affairs prevail in many other companies, big and small.

Investments

The prosperity or otherwise of any Life Office is governed to a very large extent by its Investment position over a series of years. In the past the 'Empire' has been noted for its safe investments and a low rate of expenditure which enabled the management to sell its policies at competitive rates of premium. Every endeavour has been made by me to retrieve the lost reputation and with that end in view I have played for "safety first". The ratio of Investments in Government Securities and in Call Loans with Bankers of the highest standing and reputation comes to nearly 70 per cent in the year. In regard to the rest of the investments, they are under constant scrutiny and I have taken the appropriate steps after taking the best legal advice to protect the interests of the policyholders in all possible ways. To provide for possible losses under bad and doubtful debts and the fall in the value of assets, I set up a total reserve of a little over Rs 108 lakhs in the last years Accounts. Through the Revenue Account of this year, I have added to the reserve a further sum of Rs 11 lakhs so that the total reserves available to the Company are of the order of Rs 120 lakhs. There is no doubt whatever that the present financial position of the Company is satisfactory in every respect.

The most noteworthy event for Life Insurance Companies during the year was the increase in the Bank Rate from 3 to 3I per cent in November 1951 which has naturally resulted in a, fall in security values, but I am one of those who consider that the change in the value of the assets consequent upon the increase in the general level of interest rate is not in itself a matter for alarm to any Life Office. On the other hand the increase in the interest income in the future will be of advantage to policyholders.

Actuarial Valuation

The success and popularity of any Life Office is usually measured by its Bonus record and judged by that standard the record of "Empire' continues to *he* good. The statutory Valuation of the Company's assets and liabilities as on 31st December 1951 has now been practically completed by the Actuary and I expect that the Valuation Report will be ready in a' short time. It must be gratifying to policyholders to hear that the results of the Valuation show quite a satisfactory position even after setting up adequate reserves for all foreseeable contingencies. In accordance with the past traditions of the Company, the basis used for the Valuation is a stringent one. In spite of this I am glad to be able to say that the size of the present surplus is such as would perhaps enable me to declare bonus even at an enhanced rate than that declared in 1946. I am applying for a direction from the Controller of Insurance on the point and I will lose no time in publishing the Valuation Report,

The size of the actuarial surplus

depends upon three factors *viz.*, *(a)* Mortality, (b) Interest and *(c)* Expenses of Management. In regard to *(a),* the experience of the Company is very favourable; factor *(b)* deponds to a very large extent on the Bank Rate and the Government's borrowing- programme over which Insurance Companies have no control whatsoever, but there is a good margin between the interest earned and the rate used for the purpose of Valuation by the Company's Actuary. I have, therefore, confined my attention largely to factor (c). The ratio of the expenses of management to the premium income during the year works out to 26.9 per cent, as against 29.7 per cent in the previous year. The reduction of 2.8 per cent has been arrived at by practising the strictest economy consistent with efficiency. In fact the expenses under salaries alone have been reduced by nearly Rs 2 lakhs during the year. When it is remembered that the ratio of expenses was 33.8 per cent in the year 1948, the extent of the reduction effected this year can be conceived. The renewal expense ratio calculated in accordance with Rule 25 (b) of the Insurance Rules comes to 18.5 per cent. This also shows a reduction over the last year's figure by nearly 1 per cent and it has been achieved in spite of the fall in the New Business during the year.

Income- Tax

Nobody likes income-tax and Insurance Companies are no exceptions to this rule. The companies have been agitating from year to year for various reliefs from the burden of income-tax, some of which at least are perfectly legitimate and justified. Perhaps I can claim to see the point, of view of both the Income-tax Department and the Insurance Companies. Before the amended Income-tax Act, 1939 came into force, the assessment of Insurance Companies was governed by certain executive rules and in actual practice the work was done in a rather haphazard manner, each Province having its own traditional method and procedure. The point was the subject of discussion during the years 1937 and 1938 and for the first time a separate schedule to govern the assessment of Insurance Compares was put into the Amendment Act of 1939. I can say from personal knowledge that this schedule was drafted in consultation with and close collaboration of Insurance Executive. One of the most important changes made therein was that one-half of the actuarial surplus allocated as belonging to the policyholders was treated as an allowable deduction before arriving at the taxable income of Life Insurance Companies. No special treatment was accorded to Mutual Insurance Companies in this respect because it. was held that in actual working there was practically no difference between proprietary insurers and mutual insurers. There have been various representations to Government from time to time for further concessions in favour of Life Insurance Companies but the chief bone of contention at present is in regard to the percentage of the actuarial surplus allocated to policyholders which should be allowed as a deduction. In the Income-tax Amendment Bill it was first proposed to increase this percentage to 66 $^{2}/_{3}$ and now to 80. The view of the Income-tax Department is that the surplus out of which the bonus to policyholders is declared consists of not only a return of the capital but also partly a return on the capital. My examination of the records and the bonus loading in the tariff of the ' Empire ' shows that this meticulous differentiation is more theoretical than practical. The bonus loading is Rs 10 per thousand in the case of Whole Life assurance and Rs 8 per thousand in the case of Endowment assurance. But the bonus declared during the last Valuation in 1946 was much below this load, *viz.,* Rs 6¼ and Rs 5 respectively. In the 1941 Valuation no bonus was declared. There is the possibility that in the case of big composite companies, a certain portion of the profits of the General business might be camouflaged to provide increased bonuses to Life policyholders, but this is only a theoretical possibility and not a probability. No company lias been able to keep up its bonus record of pre-war years for obvious reasons and in fact the number of companies which are unable to declare any bonus whatever is larger than the number of companies which do declare a bonus. The only argument that I can see in favour of still continuing to levy tax on a small portion of the surplus is that of expediency, *viz.,* that as admittedly a portion of the surplus—it may be a very small portion—contains an element of ' income ', an estimate of 20 per cent for this is as good as any other estimate in the absence of proper data, and that, therefore the Government Should not lose the right to levy tax on this ' income ' element. Against this I would point out that the fact that the English Income-tax authorities have treated the entire portion of the policyholders' surplus as exempt from taxation is evidence to show that the ' income ' element should be ignored. As a matter of fact, I find that the vast majority of persons seeking insurance policies prefer the ' with-profits ' policies and their preference is due to the fact that such policies cover two aspects, *viz.,* (a) the life insurance cover and (b) the savings aspect. At the present moment when Governments all over the world want to encourage the voluntary savings movement coupled with restraint on immediate spending, it seems to me all the more essential to give a special fillip to such policies. Any inducement to pay the higher premium on the with-profits policies during a period of inflation as that which we are now witnessing will be a real contribution to the community in general, while it will enable the policyholder himself to get a better value, for his money at a later period when the inflationary forces subside, as we all hope, they will. On a review of all the factors, I am of the opinion that it would be just and wise to exempt the entire surplus allocated to policyholders. Of course, that portion of the surplus which eventually goes to the shareholders must pay tax.

The next point of grievance to Insurance Companies is the increase in the rate of income-tax and super-tax to 65.4 pies in the rupee as against 54 pies in the rupee in the previous year. The Government has to distribute the burden of tax on the shoulders that are best able to bear it and we cannot say that insurance companies are unable to bear this burden; but the point of the grievance is that the incidence of increase in the tax in their case was over 20 per cent, while in other cases it was very much less. In any event, there seems to be, in my opinion, little justification for the discrimination between policyholders of proprietary companies and those of mutual companies in the levy of super-tax, and in fact this principle was accepted by Government in 1939.

Progress of Business in the Year 1931

New Business-: **During the year**

'10,255 policies were issued assuring a sum of Rs 3,02,11,850 as against 13,302 policies assuring a sum of Rs 3,94,14,850 during the previous year. The annual premium income from the New Business of the year was Rs 16,55,900 as against Rs 21,07,730 in the previous year. The fall in the New Business is due to the disturbed conditions in the management of the Company since October 1950. A steady flow of New Business constitutes the life-blood of every well-run Life Office, but it should represent the normal expansion which the organisation is capable of procuring at a reasonably economical cost. This consideration was practically ignored by this Company since 1947 and ' New Business at any cost ' seems to have been the key-note for some years. As a matter of fact the New Business figures did make an impressive reading on paper; for instance in 1948 a record New Business of Rs 6 crores was written but the expenses of management increased to the high figure of 33.8 per cent of the total premium income. In the year 1945 when the New Business was done to the extent of Rs 2.3 crores, the expense, ratio was only 23.5 per cent and an increase of over 10 per cent on this was most uneconomical and extravagant, the more so as most of such ' forced ' business has lapsed soon after. So far as the year 1951 is concerned the percentage of lapses to the total business in force at the beginning of the year was 6, as against 9,68 in the previous year. This is some improvement, but to a man like me, who has newly come into the Insurance field, the most striking feature is that in no other business in India at present is there competition of the cut-throat type as in Insurance: and it is this unhealthy and unfortunate feature that is responsible for the heavy lapses in almost all companies. Such lapses constitute a drain on the national income benefiting nobody in the long run.

Business in Force: The total number of Policies in force as at 31st December 1951 was 1,36,606 assuring a sum of Rs 29.60,63,382 inclusive of bonuses, of which Rs 30,87,041 inclusive of bonuses is reassured. The total number of Annuity contracts in force is 48 under which Rs 62,725 is payable annually.

Claims: The Claims for the. year, inclusive of Bonus additions, amounted to Rs 61,49,263 of which Rs 18,31,830 were claims by Death and Rs 43,17,433 by Maturity.

Income and Outgo: The Income for the year amounted to Rs 1,49,26,775 (after deduction of tax at source) of which Rs. 1,20,40,683 was derived from premiums. The Outgo amounted to Rs 1,11,05,831. The excess of the Income over the Outgo is Rs 38,20,944.

Rate of Interest: The, rate of interest earned during the year, afte,r deducting Income-tax at source, was 3.22 per cent as compared with 3.53 per cent during, the previous year. The tall "is attributable to the trouble and confusion in the affairs of the Company during the first half of the year.

Lastly, I wish to record my appreciation of the good work done during this difficult year by all the Officers and the staff both in the Head Office as well as in the Branches and the field forte of Inspectors, Special Agents and ordinary agents. The relations between the management and the staff were harmonious. There was a reference to the Industrial Tribunal by a few clerks who were retrenched by the previous management but it was settled by me amicably and the case withdrawn. There is a reference pending before the Industrial Tribunal at Calcutta in regard to the scale of pay, clearness allowance and various other matters relating to the staff at Calcutta. I am trying to settle this also, if I can, in a fair and reasonable way but the spirit of litigation is in the air everywhere.

For the attention of

Far-sighted Industrialists

PRODUCTIVITY IN INDIA

The term 'Productivity' has been brought into prominence by the Anglo-American Council on Productivity which defines it as the ratio of production of wealth (goods, services and human satisfaction) to human effort expendable.

You will agree that on the basis of this definition, the Indian worker lags far behind the equivalent American. It has been accepted that low productivity is due to the Indian factory worker not being mechanised to the same extent as the American, and also that he seldom exerts himself to make the best use of the equipment he has; his efforts are spasmodic, with the consequence that his measurable idle time generally amounts to more than four hours a shift.

You recognise that to re-equip to American standards may be desirable, but to do so is costly and, in existing trade conditions, difficult. It has, however, been observed that productivity can be greatly increased, even with existing equipment, if the active co-operation of the worker can be obtained. The idle time can be reduced substantially by setting up, through the co-operation of labour unions, rational graded wage structures, and production incentives based on time study.

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