



Standing Committee Report Summary

The Life Insurance Corporation (Amendment) Bill, 2009

- The Standing Committee on Finance submitted its 7th Report on ‘The Life Insurance Corporation (Amendment) Bill, 2009’ on March 12, 2010. The Chairperson was Dr. Murli Manohar Joshi.
- The Bill seeks to: (a) raise the minimum capital of the Life Insurance Corporation of India (LIC) from Rs 5 crore to Rs 100 crore; (b) allow the government to determine the extent of the sovereign guarantee to LIC policies; (c) amend regulations with regards to surplus from investments; and (d) empower LIC to make regulations in respect of terms and conditions of agents.
- The Bill, while providing for the capital of LIC to be increased to Rs 100 crore, also provides that this amount may be enhanced by the central government through a notification. The Committee recommended removing this provision to make such enhancements possible only through amendment to the Principal Act.
- The Committee also felt that the above provision may preclude LIC from raising capital by means other than equity, and recommended the clause be suitably amended. The central government has agreed to this amendment.
- The Bill removes the power of LIC to expand its branch network and vests this power with the Insurance Regulatory and Development Authority (IRDA). The Committee concurred that the broad guidelines regarding opening branches issued by the IRDA should be made applicable to LIC. However, it disagreed with divesting the power to open branches from LIC. The Committee recommends the Bill be amended to this effect.
- The Bill seeks to reduce the proportion of surplus on investments distributable to shareholders from 95 percent to 90 percent. In addition, the clause provides that a prescribed percentage of the remaining surplus be credited to a separate account maintained by LIC. The remaining amount shall be paid to the central government as dividend. The Committee recommended that the distributable surplus remain at 95 percent, as reducing it may lead to lower dividends for policyholders. It also recommended that the remaining amount be divided between the separate account and dividend to the central government.
- The Committee further recommended that: (a) the separate account only be used for insurance business, (b) the government maximize returns to policyholders by making use of these funds in a profitable manner, and (c) investments in business ventures not be allowed.
- The Bill amends the Act such that the government may determine the extent of the sovereign guarantee to LIC policies. The Committee opined that any dilution of the guarantee is likely to adversely affect the business, profitability and brand image of LIC. The Committee recommended that the proposed amendment be withdrawn.
- While the Bill seeks to allow LIC to make regulations in respect to the terms and conditions of agents, the Committee stated that it would preferable to continue with the existing legal provisions in this regard.

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