Chapter – II

REVIEW OF LITERATURE

A number of studies have been undertaken on Public Insurance Companies in India; and most of it deals with insurance products, revenue, cost and marketing aspects. The literature available on Development Finance is limited. A few relevant studies have been reviewed and presented in this chapter.

Section 27 of the Act deals with the investments allowed from life insurance funds as well as approved specified and scheduled investments. Section 43 of the Act describes the investment and its permissible range of variations designated to central and state governments. An enquiry about the Investment Practices and Development Funding of LIC, the utilization aspect of various funds by central and state governments, the share of investments made in specified, scheduled, and approved investments made it clear that these are not highlighted much in the research literature, particularly those dealing with Kerala.

As a step towards ensuring safety, at least fifty percent of the controlled funds of LIC are invested in Government securities so that it doesn’t get exposed to speculation. The investments are made in such securities which yield the
highest return consistent with the principle of safety and investments are diversified over different geographical sectors, and among different economic enterprises and among different securities maturing at different periods. The proposed study is to investigate how far these diversification aspects and safety norms are maintained by LIC, particularly in Kerala.

Regulation (3) of IRDA insists that 25 percent of investments shall be in Government Securities; Not less than 50 percent shall be in Government Securities for Other approved Securities (including the above) and Not less than 15 percent shall be in Infrastructure and Social Sector and, Investment in “other than approved Investments” shall not exceed 15 percent of the Life Fund. Under Regulation 5 of the Act, 35 percent of the investments made by LIC shall be governed by Exposure Norms. Accordingly, Transport Corporations, Electricity Boards, Social Housing Schemes (as proposed by Planning Commission) and General and Rural Housing Schemes for economically weaker sections are availed by the state governments under this scheme. It looks logical to enquire about the investments made by LIC in Kerala under this legal direction.

Prior to 1950, life insurance companies were required to hold 55 percent of their assets in government or other approved securities. Investment of the remaining 45 percent was at the discretion of insurers. As a result of these amendments in 1950 it was required of life insurers to have 25 percent of their
assets in government securities, 25 percent in government or other approved securities, and 35 percent in approved investments. In 1958, in exercise of powers under section 43(2) of LIC Act 1956, section 27A of the Insurance Act was made applicable to LIC with minor modifications. In 1975, the application of section 27A to LIC was further modified requiring the Corporation to invest each year and at all times keep invested 75 percent out of the accretion to the ‘controlled fund’. Accordingly, not less than 20 percent shall be invested in Central Government marketable securities; not less than 25 percent by way of loans to National Housing Bank; not less than 50 percent in State Government Securities including government guaranteed marketable securities; not less than 75 percent in socially oriented sectors including public sector, co-operative sector, house building by policy-holder, Own Your Home schemes etc. and the remaining 25 percent of accretion may be used by LIC for purposes such as investment in the private corporate sector, loans to policy-holders and construction and acquisition of immovable property under the guidance of its Investment Committee.

After the Central Government notification dated April 22, 1975, wherein, a major amendment was made to Section 27-A of the Insurance Act, 1938 by providing for investment of the funds of the Corporation in various socially oriented schemes to the extent of 25 percent of the accretions of the controlled fund of the Corporation. Accordingly the investments of the Corporation shall be in Central Government Securities, Approved Securities,
Private Sector Investments, Equity Shares, Term Loans and Short Term Loans to companies, Special Deposit with Government of India and Investments in Call Deposits with banks and Bills Rediscounting Schemes. An enumeration in this matter is found necessary, with particular reference to Kerala.

Arokyasamy in his book titled ‘Attitude towards Insurance’ (1989) has remarked that LIC was enjoying a monopoly in the field of marketing of various insurance products; but with liberalization of the industry, the situations have changed considerably. Majority of areas previously meant for the public sector have become open to the private sector, high pre-emption of insurance industry’s funds through government-mandated investments, strengthening of the regulations over the capital market as well as the banking sector, have become quite popular. Insurance companies are now striving better for greater customer focus regardless of whether the customer is the end user or the intermediary.¹

In the work titled, Relations between Government and Finance Companies’, (Mathew 1986) remarks that Ideas for development may vary widely, and may be oriented towards government as well as toward private initiative. Once a development finance company has reached some conclusions about the appropriate direction for national economic development, it may approach the government with suggestions for projects that might be
incorporated into the national plan or, if they are already in the plan, might be given a higher priority. ²

Irani Sherin, has concluded in the doctoral thesis titled “Investment by LIC in Industries in India, that apart from formulating and organizing industrial investment, LIC has made an entrepreneurial role and it has enumerated the extent to which they have appropriately and prudently taken the initiative and the leadership in conceiving proposals for new enterprises, organizing the finance for them, and carrying them out. They have also worked out the economics of corresponding costs and risks associated with it.³

‘Life Insurance Fund and Industrial Growth in India’ (Dwivedi Raj Kishore,1977), in his study on Investment of Life Insurance Funds and Industrial Growth in India remarked that Life Insurance Corporation of India has made a sizeable contribution to the development of capital markets when the country was in the developing stage. When the widespread use of consumer financing was very popular in a tight money situation, it resulted in high yields to finance company papers, out-stripping all other available yields and thereby channeling a sizable production of investable funds into consumer finance at the expense of investments in industry.⁴

It seems meaningful to conduct a study about the support given by LIC with adequate coverage about government securities and industrial development in Kerala.
Sullivan in the work titled, Development Economics in India (1992) has narrated the Linkage made between government, planners and investors in each segment for the economic progress of the country, particularly about the reorganization and modernization and underwriting, along with other innovative ideas. It is proposed to consider LIC as an investor and to observe its linkage with the developmental programmes in Kerala.⁵

Acharya Ravindra Prakash in the study titled, ‘Promotional Activities of Industrial Undertaking in India’ (1984) has reported that Life insurance Corporation of India and General Insurance Corporation of India have assisted in floating new industrial ventures by underwriting part of the share capital required for offering on the stock exchange, thereby becoming a partner in the promotion and a co-sponsor of the project and it came to the conclusion that insurance companies in India have a dual role i.e. partner in promotion and a sponsor of the project.⁶

The promotional activity by a Development Finance Company involves direct entrepreneurial activity, taking the initiative in shaping up a business and in getting it started. In the initial stage of identification, it may have a broader or more balanced perspective than the individual entrepreneur can have of the practicability of an idea, or it may be better equipped to carry out a market survey at home or abroad. The finance company, which has a dynamic management, shall always be able to supply the propulsive force. Effectiveness
as a promoter of ideas lies in its contacts with private entrepreneurs, both foreign and domestic. A Development Finance Company can help bring men who have new ideas or technical knowledge together with men who have capital.  

How far LIC has ventured into this task, particularly the investment schemes in Kerala, is a matter of interest in this context. The role of a Development Finance Company might be the promotion of changes in reforms aimed at increasing the effectiveness of the exchange and at securing the confidence of the investing public in the exchange itself and in investment in securities in general. A development finance company may play an important role in another way, by increasing the number of private securities available in the local capital market, thereby diversifying investment alternatives.  

Development Finance Companies are often expected to play an important role in the promotion of the widespread ownership of industrial securities. For those countries where capital markets are almost nonexistent, broadening the capital market will be a long, hard process and the development finance company operating in such a situation, although perhaps best placed among institutions to stimulate investment, should not be expected to achieve miracles overnight. These companies do not restrict themselves to loan operations, rather, they venture out into more entrepreneurial activities by participating in new or reorganized enterprises, by underwriting or by financing in one way or other a very substantial amount of the total cost of a venture.
The most fundamental question of financial policy for a development finance company concern the appropriate level of debt, relative to equity, and what the terms of that debt should be. The management of a development finance company, representing, as it should, the shareholders, may often use the following approach in determining a reasonable debt-equity policy. Like other private business, these companies live within the economic climate of their respective countries and are affected by it. When Development Finance companies are called upon to undertake risky or unprofitable projects at the suggestion of the government, it is normal for them to expect compensation. When granting finance and assistance to development companies, the government rarely intends to require in return that the companies undertake particular forms of uneconomic financing.\textsuperscript{10}

Agarwal Ram Kishore (1960) in ‘A Study on Investment Policy of Indian Insurance Companies’ narrates the pattern of utilizing the shareholders’ fund, activities undertaken to promote the expansion of economic activity within the periphery of its norms and funding activities made by General Insurance Corporation in government sector.\textsuperscript{11}

A development finance company should have a sound knowledge of the capabilities and limitations of various industries in relation to their market prospects. They shall be able to act naturally and effectively as a liaison between the government and the national planning authorities in particular, on the one
hand and the investing community, on the other. They have to work as a link between the entrepreneurial class and the planners by translating the planners’ ideas. 12

Bhatia Jaikishan (1990) in his work ‘Pattern of Investment by Life Insurance Corporation of India’ - has explained the environments which facilitated LIC to operate successfully in the state of Maharashtra and it disclosed that rapport with private entrepreneurs, imparting of knowledge experience and skill in promotional activities, regular and abundant inflow of fund, particularly the Life Fund, made LIC to have a smooth sailing in the field of industrial finance in India. The study has explained the environments which facilitated LIC to operate successfully in Maharashtra and has suggested that the policy of the government shall gradually shift away from the wish to do everything itself towards an indicative planning and policy control so as to encourage private enterprise to carry out specific projects and LIC of India has become instrumental in instigating this change in attitude to a great extent. In the wake of the new economic waves, it thus looks fair to observe the current strategies followed by LIC in Kerala, with particular focus on development Finance. 13

In considering possible reform of the insurance industry it is necessary to cast a brief look at the wide-ranging developments in economic policies, which have been underway, since the middle of 1991, in the direction of liberalization, notably in the fields of industry including the public sector and direct foreign
investment, trade, the exchange rate regime, and finance. The structural changes in the economic policies have helped to improve productivity, competitiveness and export orientation of the economy so that it may attain its full growth potential and be in a position to integrate with, and benefit from the world economy.  

Investment Policy of LIC since 1958 (Pandey Yagyadatt-1984). This descriptive study has narrated that funding of LIC was mainly towards promoting the entrepreneurial activity of small medium and large entrepreneurial class in India and these promotional activities have supported the economic development of the country in general.  

Malyadri (1991) in her study titled Bank Finance for Rural Development, is of the opinion that banks have adopted the role of an activist institution, interested in development and unafraid of changes and are fully aware that there can be no development without new ideas. The role played by banks in rehabilitating the country with an impressive industrial history, from a small entrepreneurial class interested mainly in commerce and real estate, to a dynamic group towards promotional activities, reflect the stage of economic development of the country.  

Why not have a similar approach on LIC and see the extent of support given by LIC towards the economic development of various sectors in Kerala?
James Raj, in his study titled Factors Influencing the broadening of Securities Markets, states that in a country that is undergoing some degree of industrialization, the only way of participating in the ownership or control will be through the ownership of industrial securities. The promotion of the widespread ownership of industrial securities was a major task of LIC of India and has facilitated the corporate sector towards the development process. It was remarked that ownership of industrial security is a better way of participating in the growth of the industry and economy. LIC has ventured into expanding the ownership securities by undertaking public issue and underwriting which has facilitated the investors with a diversified portfolio and professionalism in management. The proposed study is to enumerate the pattern of investment, the prevailing conditions relating to stock exchange securities and the professional approach of LIC in Kerala.  

Investment capital is a critical component of economic growth. If the availability of industrial securities means that capital can be mobilized and diverted from less productive investment into more productive investment in industrial assets, the economy will be better served. In an agrarian society where the equivalent to securities is land ownership and is controlled by relatively few people, attaining a more equitable distribution of it will be an important policy matter. In a country that is undergoing some degree of industrialization, the only way of participating in the ownership or control of capital will be through the ownership of industrial securities.
Yaswanth Gururao (1986) in ‘A case study of Nasik Zilla Parishad’ has enumerated the support given by LIC to government and government to LIC through Zilla Parishad Finance. The study was specifically about social sector investments through indirect participation and it was concluded that the support given by different governments made Life Insurance Corporation of India to limit the equity risk (to a given percentage of net worth) and the aggregate total (to net worth itself) with a reasonable control.  

The study entitled LIC in Developing Corporate, Co-operative and Social Sector (R.M.Ray-1982), leads to the conclusion that life Insurance Corporation has helped to boost the industrial growth in the country, for setting up co-operative industrial estates by granting long, medium and short term loans to companies and corporations. LIC’s investment has been directed towards socially oriented securities and has helped to develop power generation, roadways, port, railways, water supply & sewerage schemes, housing and other infrastructure. LIC’s investments in small, medium and large companies, co-operative sector and socially oriented units have fostered social development at a high speed. It is worth enquiring about the positive impact of LIC’s funding in the state of Kerala in this vital area. 

A study on Relations between governments and development Finance Companies ((Mathew-1986), made the findings that where no exchange exists or where the trading procedures are very rudimentary, a Finance Company may
play a role, often in cooperation with other institutions, in developing a trading
mechanism. Some of these companies have been responsible for drafting
legislation, establishing the regulations pertaining to an exchange mechanism,
and establishing a state registration system.\footnote{21}

The study titled Development Schemes in the Industrial Sector
(H.T.Parekh-1979), revealed that when many of the finance companies in India
were not willing to entertain the small and medium size industrialist, LIC was not
like that. One of the recommendations emerged from the study was to give
attention to developmental schemes proposed by small and medium sized
industrial concerns as done by LIC. The proposed study is to look into the
development schemes launched in Kerala with the support of LIC.\footnote{22}

The descriptive work Funding of LIC in Established Sectors in India (Morris-
1990), has remarked that LIC has followed a conservative outlook in advancing
even to the established sectors in India, in terms of liquidity, profitability and
safety. It seems ideal to look into the procedure adopted by LIC towards various
funding activities in Kerala and to see whether there is any change in outlook
particularly in the context of the competition in the late ‘90s. The study also
revealed that when the question of Unit Trusts or Mutual Funds arises, a finance
compny will generally have an interest in going to the establishment of a sound
footing and the legislation relating to them depending on the environment it
may or may not want to become directly involved in their formation and operations.  

Financing of Economic Development of India (Anandkumar 1968) is a study on how LIC has scrutinized the summarized statements given by the governments from time to time, to decide whether the contribution to the country’s economic progress and development was sufficient or not. In turn, the government also has tried to influence LIC in achieving these public goals, through various direct as well as indirect mechanisms. Apart from this, various financial and promotional agencies supposed to assist small enterprises, were supported by LIC, particularly when these units were running risky or unprofitable. Investment operations are incidental yet crucial to the business of Insurance. It is essential that insurance companies invest these funds judiciously with the combined objectives of liquidity, maximization of yield and safety.  

It looks fair to enquire about the mode of operation adopted by LIC in Kerala, particularly in the wake of liberalization.  

The study on Investment pattern of Life Insurance Corporation in Bihar (Gupta Leeladhar-1971) has led to the conclusion that a major part of equity financing of LIC is out of the policyholders’ fund and has minimized the risk of liquidating equity at the time of amortizing the debt. LIC by its charter and statements of general policy has to associate with the government’s planning machinery, particularly for formulating government plans, and it ultimately has
taken them to elevated progress over the period of time. A genuine attempt needs to be made to observe the mode of funding in Kerala and to see whether any preference is given to government schemes.  

The structural changes in the economic policies to improve productivity, competitiveness and export orientation of the economy calls for enhanced efforts to bring the Indian Financial System to International standards in terms of its financial viability, competence, technology, prudential requirements, regulation and credibility. It is quite interesting to enumerate details about the level of competition existing in Kerala, between the private and public companies. With a huge unionized, rigid workforce mostly in the clerical category, LIC runs the risk of high fixed cost, which will be the deciding factor in productivity in the competitive scenario. Though LIC claims full-scale automation, how far it is competitive when compared to the new generation companies is yet to be proved.

Rapid development in telecommunication, information technology and transportation, growing activities of multinational corporations, banks, and securities businesses, and massive increase in cross-border movement of funds due to deregulation and progressive dismantling of exchange control regimes, world financial markets have become highly dynamic and increasingly integrated and the financial sector changes need to be updated accordingly.
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