Chapter – 6

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In this chapter an attempts is made to present the conclusion emerged from the study on "An Economic Study of Investment Policy, Pattern and Strategies of Life Insurance Corporation of India after the Introduction of Insurance Sector Reform". It also attempts to suggest certain measures to improve the investment policy of LIC of India.

6.1 CONCLUSION:

After India attained independence, the Government of India felt that a strong public sector under its direct control would provide the right strategy for achieving the national objectives. As banking and insurance constitute the key channels for resource mobilization and deployment, life insurance business was nationalized in September, 1956. The wholly owned Life Insurance Corporation (LIC) was established consequent upon nationalisation regulated by the LIC Act, and was given the monopoly. It also brought about a massive concentration of funds at the disposal of a single savings institution. It has emerged as a shareholder and debenture holder of massive and pervasive
importance. It has also emerged as a significant source of institutional finance to private industry partly as a subscriber to the securities of special industrial financing institutions and partly as a direct lender to joint stock enterprises.

As part of its multi-dimensional expansion LIC launched to mutual fund on 19th June, 1989 with a promise to the investors to provide a high returns alongwith safety and security of investment. The LIC Mutual Fund provides easy access to the investment media, including the stock market in the country to one and all, especially the small investors in rural and semi-urban areas. Other institutions under Mutual Funds offer some combination of liquidity, return and safety. But LIC Mutual Fund will offer investment options with a fourth dimension – Insurance protection. Many of the specific schemes that will be offered by the LIC Mutual Fund will offer some life cover.

The investment pattern of Mutual Funds of other institutions indicates that the investment in equity shares is rising and investment infixed income securities is declining. The implication of such increased equity investment is that the MFs are spreading the equity culture which is desirable. But the
investments are exposed to high risk, as the huge equity portfolio tempts the managers to indulge in speculation and short sales in the absence of an explicit investment policy. But LIC Mutual Fund has concentrated much on debt-oriented securities an around 25% on equity shares. The safety of the principal amount is more ensured by LIC MF than the others. In the state of sluggish stock market conditions, the schemes of LICMFs can perform better than others.

During the fifty one years of its existence, LIC has striven hard to meet its obligations to further the people's welfare by mobilization of savings and investment of funds for development of the nation within the framework of given guidelines and to spread the life insurance far and wide. It can confidently claim that it has registered substantial growth in all directions since nationalization, has acquired its own personality and individuality and has emerged as a live-wire institution seeking out and trying to meet the life insurance needs of the people wherever and however they are placed.

The conclusions emerged from the study on "An Economic Study of Investment Policy Pattern and Strategies of
Life Insurance Corporation of India after the Introduction of Insurance Sector Reform" are presented below:-

(1) The study reveals that the LIC is spreading the life insurance coverage to all sections of people in India, particularly to the rural and socially economically backward classes after the insurance sector reform period. However, LIC has other objectives like mobilization of people’s savings, investment of funds to the advantage of investors as well as to the community.

(2) The examination of organisation structure of LIC reveals that the LIC activities in the country has spreading over the 7 zonal offices, 101 divisional offices and 2048 branch offices throughout the country after the insurance sector reform period.

(3) LIC has, at present, 10,41,737 agents spreading all over India working either on free-lance basis or a full time basis. The average productivity per active agent of LIC amounted to Rs. 17,39,047 in terms of sum assured as on 31st March, 2005.
(4) In the present organisation set up, branch office is the basic unit responsible for mobilisation of LIC business, policy servicing and settlement of claims. Under the reorganisation scheme 1982, the branch office is given freedom to look after almost all aspects of policy servicing.

(5) The analysis of trends in geographical expansion of Life Insurance activities reveals that during the period from 1957 to 2005, the number of divisional offices are tripled and the branch offices increased by 9 times. It indicates steady expansion of Life Insurance Corporation branches. It is also observed that after insurance sector reform period, the branches has expanding at a faster rate.

(6) After insurance sector reforms, Life Insurance still remains a relatively attractive investment medium for the higher income groups because of relief granted to life insurance premia from rebate on tax. Thus, rebate on tax relief on life insurance premium is an incentive for buying life insurance.

(7) After the recommendation of Malhotra Committee there have been upsurged a rapid boom in the insurance sector particularly in the case of LIC. The total net savings in the
life insurance has been represented by the terms of 'Life Fund', which is excess of income over expenditure. Before insurance sector reform period i.e. 1983-84 to 1993-94, the life fund has increased from Rs. 9800.38 crores to Rs. 49665.82 crores. But after the insurance sector reform period i.e. 1994-95 to 2004-05, it was rapidly increased from Rs. 59978.90 crores to Rs. 385639.07 crores. Thus we can say that the 'life fund' has rapidly grown in the after reform period compare than before reform period.

(8) The analysis of the investment in corporate securities by LIC reveals that there has been a tilt in favour of debentures in comparison of equity shares. After insurance sector reform period the equity shares and debentures both increased at a higher rate, but the growth in debentures was more high compare than the growth of equity share.

(9) The analysis of LIC's industry wise investment reveals that before insurance sector reform period, LIC gave priority to its investment in dyes & chemicals, textiles, social sector investments and services industries. After insurance sector reform period, LIC's investments priority was on basic
metals, social sector investments and services industries and LIC's investment also goes to new industries: Fertilizer, Telecommunication and same new services (Hotels and Hospitals). It shows that life insurance corporation investment portfolio is diversified into vast number of industries including same new industries also.

(10) The pattern of life insurance corporation zone wise investments reveals that there is massive concentration of life insurance corporation, corporate security holdings in western zone, eastern zone and northern zone during before insurance sector reform period from 1983-84 to 1993-94. But after the insurance sector reform period, from 1994-95 to 2004-05, western zone dominated well followed by northern zone, eastern zone, southern centre zone and north central zone.

(11) The investment pattern of Life Insurance Corporation reveals that over the study period, the investment of life insurance corporation in different sectors is increasing steadily. The major share of LIC's investment are made in public sector (79.30% to 82.10%) followed by investment in
private sector (10.50% to 14.00%) and the investment in co-operative sector have gone down from 10.20% to 3.90% of the total investment during the before insurance sector reform period, i.e. 1983-84 to 1993-94. After insurance sector reform period i.e. 1994-95 to 2004-05, the major share of LIC's investment have increased in public sector (82.87% to 85.03%), but in case of private sector, it has been fluctuated. LIC's investments in co-operative sector have continuously gone down from 3.35% to 0.61% of the total investments.

(12) The pattern of LIC's investment in foreign companies shows increasing trend, its investment in foreign countries which increased from Rs. 39.53 crores to Rs. 125.88 crores during the before reform period i.e. 1983-84 to 1993-94. After the insurance sector reform period, LIC's investment has rapidly increased and its reached to Rs. 943.79 crores. LIC's invests 95% of its investment in shares and very low 5% in granting loans. Maximum of investment has been done in United Kingdom, Fiji and Mauritius.
(13) As a part of multi-dimensional expansion LIC launched its mutual fund on 19th June, 1989 with a promise to the investors to provide a high returns along with safety and security of investment. The LIC Mutual Fund will provide easy access to the investment media, including the stock market in the country to one and all, especially the small investors in rural and semi-urban areas.

(14) Other institutions under Mutual Funds offer some combination of liquidity, return and safety. But LIC Mutual Fund will offer investment options with a fourth dimension – Insurance protection. Many of the specific schemes that will be offered by the LIC MF will offer life cover.

(15) LICMF since its formation has launched 31 schemes – 6 open-ended schemes and 25 close-ended schemes, out of which 8 schemes were redeemed. At present LIC MF have 23 schemes.

(16) The investment pattern of LICMF indicates that the investment in equity shares is declining and investment in fixed income securities increasing. LICMF has invested more than 75% in debt- oriented securities and less than
25% of funds in equity shares. The safety of the principal amount is more emerged by LICMF than the others. In the state of sluggish stock market conditions, the schemes of LICMF can perform better than the others.

(17) The LICMF schemes have four major types of investment objectives – growth, income-cum-growth, income and tax planning. Growth schemes and tax planning schemes drew poor response from investors because these schemes are basically equity oriented and since the performance of these schemes largely depends upon the stock market movements, the associated risk is also very high with less safety for principal amount.
6.2 SUGGESTIONS:

After a comparison between before and after insurance sector reform period study, there are some emerging challenges have been originated, which again should be focussed.

(i) Regarding Branch expansion, LIC should establish more branches in rural areas in view of the huge market potential existing among rural population. It helps in enabling LIC services closer to rural masses.

(ii) In order to promote LIC activities in rural areas, rural specific advertisements and publicity programs should be designed. The advertising message should be appealing to the rural customers and motivate them to purchase LIC policies.

(iii) In view of increased competition and possibility of privatization, LIC should take measures to implement marketing approach throughout the organization and improve the quality of its servicing to the policy holders.

(iv) Lowering of premium rates will mean a cheaper life insurance to policy holders and more attractive saving
medium for savers in the country. If the LIC has to become an attractive medium of savings there is a need of consideration of interest of the policy-holders consistent with the plan priorities and requirements of the Government. The LIC must compete with other agencies in attracting savings of the community. In this task, it is at a disadvantage as the rates of return on other savings media are much higher.

(v) If Life Insurance has to make the progress expected of it, the Corporation should not depend entirely on the 'insurance' aspect to provide the impetus for the growth of its business. It should also make the financial return to the policy-holder reasonably attractive. The premium rates should be reduced and bonus should be increased. Besides, the expenses are also capable of being reduced.

(vi) The restrictions under section 27A of the Insurance Act, 1938, as applied to LIC regarding its investments should be relaxed so that the LIC could earn a higher yield on investments. This will enable the LIC to augment its
income and to further reduce premium rates and increase its bonus.

(vii) Even within the statutory limitations the corporation had scope, consistent, with the economic and investment climate in the country to rationalize, reshuffle and realign its investments so as to secure maximum possible yield for the policy-holders. Government should ensure that the Life Fund earns the maximum possible yield consistent with safety and security of capital.

(viii) The Government should ensure that a fair rate of interest is allowed on all investments in socially oriented projects.

(ix) To the extent the investment policy of the LIC is mainly conditioned by the regulatory framework contained in the modified section 27A of the Insurance Act, 1938, a liberalization of its provisions so as to permit more discretion to the LIC to invest its funds with a view to stepping up the yield is desirable. It hampers evolving a flexible and active investment policy to secure the maximum yield for the policy holders consistent with the
safety of capital and prevents it from acting on business principles. For effective mobilization of national savings and for economic development, it is essential that life insurance is made cheaper by enabling the LIC to earn higher yields on its investments. It will also increase the capacity of the LIC to contribute substantially to the Government securities and socially-oriented investments.

(x) LIC should be allowed to introduce a separate policy and maintain a separate fund meant primarily for lower income groups who were not liable for income-tax or who paid income-tax at a very low rate and thus fund should be allowed to be invested in a special deposit account with the Reserve Bank of India on which the Government should agree to pay a higher rate of interest.

(xi) LIC should mobilise the savings from all who can save and can be persuaded to save and provide for the future through innovative product wise. To meet the expectations of growing consumerism and competition in the savings market in terms of high yield etc., LIC will have to innovate and market newer products.
(xii) It should be the corporation's settled policy to act purely as an Investor and not assume the role of an operator or speculator and try to take advantages of temporary fluctuations in market prices by buying or selling investments merely because such transactions would yield a capital profit. This is not to say that the corporation will assume a passive role in respect of its investments. It will actively examine its investment portfolio from time to time with a view to seeing if certain investments require to be changed and will after proper examination, take such actions as may be warranted in the circumstances. It will maintain an alert watch over its investments both in the private sector and in Government and approved securities.

(xiii) From the point of view of keeping a watch over investments in the private sector, it would be desirable to confine the corporation's investments to scripts quoted on the prominent stock exchanges. The stock exchange is normally a reliable barometer and will forewarn the corporation of any dangers looming in the distance.
Consequently, the corporation should be critical of investing in scripts not quoted on the prominent stock exchanges, even though judging from the financial records, the position of a company may be satisfactory.

(xiv) The impact of the operations of the corporation on the stock market is of considerable significance. The corporation may enter the market when the prices of shares are low so as to secure them at lower prices. This may result in giving strength to the market. Similarly the corporation may keep off the market when the prices are high and this may contribute to arrest the upward trend of share prices. These are only the incidental consequences of action that may be taken by LIC in a given situation but will not be an objective of its investment policy.

(xv) Investments, however, cautiously made by a thorough study of the position at the time of making the investments, require constant vigilance because the fortunes of not merely individual companies but even industries may change from time-to-time. The Corporation therefore should set up a special department
to make a constant review of all its investments and special meetings of the Investment Committee would be held periodically to examine the position.

(xvi) LIC's foreign operations and reinsurance are a very small proportion of its total operations. There is a need to conserve foreign exchange resources and it has been of strategic economic priority.

(xvii) Regarding the investment policy of Mutual Funds, the basic objective should be the protection of investors from default risk. This can be done by offering guarantee on payment of principal amount, as this is not possible, in the alternative, laying down of the capital adequacy norms facilitates the reduction of default risk. The diversification of investments also reduces the quantum of default risk. However, it depends upon the ability of the fund manager. Therefore, it is suggested that capital adequacy norms should be prescribed to protect the investor.

(xviii) The minimum corpus clause imposed by SEBI should not become an entry barrier to MFs launching schemes.
After all, the corpus size shall be decided by the market. Further, it is suggested that SEBI should insist on a ceiling on the mobilization of corpus amount. MFs should not be permitted to retain more than 25% in excess of the targeted corpus fund. The mobilization of huge funds creates problems in the area of money management and also investor services.

(xix) The usefulness of the investment policy depends upon the clarity and rigour with which the stated investment objectives are achieved. In spite of its stated importance, MFs have ignored this aspect when they started mobilizing huge funds from the investors. The offer documents of schemes which commenced between 1989 and 1992 do not contain any information about the investment policy of the schemes. From June 1992 onwards, mutual funds started disclosing about the proposed investment pattern as well as the expected yield and risk. The risk factor is descriptive. It is suggested that the mutual fund industry should come to a consensus on the quantification of risk and its disclosure in the offer document.