Chapter – 3

INVESTMENT POLICIES AND
PATTERN OF LIC
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3.1 ESSENTIAL FACTORS OF AN IDEAL INSURANCE POLICY:

The following factors are essential for an ideal insurance policy:-

Insurable Interest:

It is the relationship which exists between a person and the subject matter of insurance, when he stands to benefit by its safety or to loose by its loss or to incur liability in respect thereof. For instance, a person has insurable interest in his house or in the godown owned by him, a creditor has insurable interest in the debtors life till repayment of loans. In the absence of any such insurable interest, a contract of indemnity would be a mere wager or gambling contract, and thus, unenforceable by law.

Principle of Indemnity:

Except life insurance, other forms of insurance such as fire, marine and accident insurance must have the principle of indemnity. This principle says that the insured can get only the
compensation against the actual loss and he can not make profit out of insurance. Hence under the fire and marine insurance, double insurance is not possible. In life insurance, life of a person can not be valued in terms of money. He has an unlimited insurable interest in his life. Hence, life insurance is not a contract of indemnity. We can have double or multiple insurance on life. Of course, the Monetary loss due to death of a person is not measurable in money person must have the capacity to pay all the premiums.

**Utmost Good Faith:**

In the proposal form of insurance, the insured must give every material fact to the insurer. Information given should be full accurate and reliable. No material or important facts can be concealed. There must be utmost good faith between the partners. If there is any fraud, the contract will be unforceable by law. For example, a person who keeps stock of inflammable material in his premises must mention this fact while taking out a fire policy. If this is not disclosed, the insurer would refuse to pay any claim against him in respect of such a policy in case the insured property is destroyed by fire.
Subrogation:
It is a corollary of indemnity. Subrogation is the principle by which the insurer, after having paid the loss to the insured, steps into the shoes of the insured person and acquires all right of the insured in respect of the subject matter are transferred to the insurer. The letter of subrogation is given by the insured in marine and fire insurance.

Cause Proxima:
This principle points out that the proximate or immediate cause and not the remote cause shall be considered for bearing the losses. It is of special significance in marine insurance.

Every contract of insurance must fulfill-

(1) Principle of insurable interest and

(2) Principle of utmost good faith

Life insurance has two elements-

(1) Protection against risk- premature death and

(2) Investment- provision for old age.
Life policies are not governed by indemnity principle. Insurable interest is not measurable. Hence, in life insurance, we can have more than one insurance.

3.2 GENERAL PRINCIPLES OF LIFE INSURANCE INVESTMENTS:

The investment objective of the Life Insurance Corporation, "Bear in mind, in the investment of its funds, the primary obligation is to its policy holders, whose money it holds in trust, without losing sight of the interest of the community as a whole", is based on the canons of sound investment of life insurance funds. The investment principles lay down that a Life Insurance Corporation should so invest its funds so as to secure maximum possible yield consistent with security and also re-orientate its investment policy, to socially and economically desirable ends.

The investment policy of Life Insurance Corporation is framed by setting forth major financial and economic considerations which shape the overall pattern of life insurance investments. Among these considerations are the nature of the obligations to life insurance policy-holders, principle of maximizing investment return consistent with safety of the
principle, diversification of portfolio, liquidity requirements and public interest.

(i) **Obligation to Policy-holders:**

Life insurance contracts are in the nature of long-term obligations to policy-holders. These contracts are termed as obligations because at the end of a specified number of years, at the time of maturity, the Life Insurance Corporation has to return a stipulated amount so accumulated with it in the course of the years to its policy-holder. It is for this reason that Life Insurance Corporation would prefer to invest in those assets which mature over a long period of time. Life insurance contracts are made on a rate of interest at which earnings on policy reserves will be accumulated over a period of time. This factor inclines the investment which bear a fixed rate of return and regular payment of interest. Moreover, investment in long-term obligations provides a characteristic of stability over time which would parallel the contractual obligations made by Life Insurance Corporation to its policy-holders.

In addition to stability, long-term obligations have a higher rate of interest than on short-term securities. The expense
of frequent reinvestment is also avoided when funds are placed in obligations which mature over a longer period of time. Finally, the policy of investing in Long-term assets provide a continuous and stable rate of return and short-term interest rates over the course of a business cycle produce an instability in investment earnings which are inconsistent with long-term stability of rates of interest on policy-holders contracts. Therefore, the nature of the obligations to the policy-holders are such that the investment policy is directed towards long-term investment.

(ii) Safety of investment:

The practice of investing policy-holders reserves in outlets which have a high degree of safety as to repayments of principal amount, also stem from the nature of life insurance contract and obligations to policy-holders. The investment policy extends limits and imposes restrictions on investment to be able to act as trustees to policy holders funds. The investment policy is directed to place funds in outlets where risk of loss through default is kept minimum and margin of safety is often greater than required. Return an investment is bound to very with the risk involved. Investments in government securities or securities guaranteed by
the central or state government carry little or no risk but naturally yield the lowest return. In the category of approved investments are the established companies working for same years and paying interest or dividend regularly during the period. In this category of investments there is a certain risk and therefore LIC is to move with caution and to examine not only the post records of dividends but also other factors such as the nature of business carried on by the company, the capital structure, the reputation and efficiency of the management, future prospects of the company and marketability of the securities before investments are made. A higher rate of return is expected from these investments but it would vary from company to company depending upon their nature of business and capital structure.

Another category of the investment are the unapproved security, where the Life Insurance Corporation is allowed to use its direction in investment but is guided in such a manner that it is to exercise the greatest care taking into account the soundness of the project and the prospects of future return.
(iii) **Maximizing investment Return:**

The Life Insurance Corporation is guided by selecting securities which provide it with the optimum combination of attributes' the incentive to maximum yield in the investment is directly related to the net cost of insurance to the policy-holders. If the life insurance corporation is able to produce high yield, it is in a position to reduce costs of insurance. The yield maximizing principle also tends to direct funds where demand is greatest and the rates are the highest. Although the safest investment are government securities, their yield is very low whereas those that yield maximum interest are investments in the private corporation sector, loans and speculations while the life insurance corporation does not normally indulge in speculation, it makes its investments on business principles and plays an active role in examining its investment. From the point of view of safety life insurance corporation is oriented to invest in those private sector undertakings whose investments are quoted on prominent stock exchanges as normally the stock exchange is a reliable barometer for purchasing scripts. It may also, when conditions warrant, such as prospects of a rise in the ruling rate of interest, place funds from short dated or medium dated loans to long dated loans and in
certain cases switch over from long dated to medium dated or short dated loans when there are fears of a deterioration in the financial position or profit earning capacity of a unit, to reduce the commitments. Particularly in equities at suitable opportunities.

(iv) **Diversification of funds:**

A wide 'Spread' of the investments is another factor, which is to be considered in channelising investible funds. It is also a method for ensuring safety, 'spread' of investment is achieved not only by having a large variety of classes of investments but also a wide dispersal in each of the groups. In this way risks are distributed and security is achieved because depreciation or loss in some directions may be compensated by appreciation in other groups of investments.

In stock exchange investments, diversification is achieved by distributing the investments between government securities. Approved securities and industrial securities, in respect of industrial securities, diversification may be achieved by further classifications such as type of script, i.e., equity, preference and debentures, type of industries such as steel, paper, cement, textiles
etc. and diversification according to regions, i.e., in the different
states in the country.

(v) **Liquidity requirements:**

The need for liquidity by the Life Insurance Corporation
would occur for three reasons. The first is to maintain working
balances of cash and bank deposits to carry on normal business
transactions. The second is due to the possibility of unforseen
contingencies like war, epidemics or other catastrophe which
would sharply increase death benefits or claims of policyholders
or lead to widespread form of surrender values or policy loans. A
third reason for maintaining liquidity is to maintain feasibility to
take advantage of worth while investment opportunities which
may arise in due course.

The contractual nature of life insurance brings an
increasing amount of income so that even in times of economic
adversity, its net inflows are always more than its expenses. Thus
the liquidity requirements of Life Insurance Corporation are very
small. It does not have to maintain cash balances, instead, it has to
concentrate in full investment of funds which are long time in
nature with the expectation that they will be held till maturity or paid off by the borrower in due course.

**(vi) Public interest:**

In developing and implementing its policy Life Insurance Corporation is guided by the interest of the policy holders and in the context of larger economic and social considerations is beneficial to the social advancement and development of the country. Although the return may be as high as in same others, the Life Insurance Corporation has to show special consideration to investment in socially oriented schemes and in such forms as loans to, or debentures and shares of Housing Corporation, Warehousing Corporation, Refinance Corporation, New industrial ventures in relatively underdeveloped or backworld areas of the country. The would ultimately result in the larger economic and social wealth of the country.

Thus the basic principles of Life Insurance Corporation's investment policy can be summarized in followings terms:-

(a) The keynote in the corporation's investment policy should be that the funds should be invested so as to safeguard and promote, to the maximum extent possible,
the interest of policy-holders. The larger interests of the country should not, however, be ignored.

(b) The investments should be dispersed over different classes of investments, different industries and different regions.

c) The corporation should take interest in under-writing debentures and shares after careful investigations.

d) The investment policy of the corporation should serve the larger economic and social consideration beneficial to the country.

e) The corporation should act purely as an investor and not assume the role of an operator or speculator and not try to take advantage of temporary fluctuations in the market prices.

(f) The corporation should actively examine its investment portfolio from time to time and take such actions as may be warranted in the circumstances.

g) The corporation should not acquire, control or participate in the management of any concern, in which it has
interest as an investor, unless exceptional circumstances warrant such participation.

3.3 STATUTARY FRAMEWORK OF THE INVESTMENT POLICY OF LIC OF INDIA:

In every country, investment of life insurance funds have been subject to government control although the nature and dimension of such control have differed from country to country; from time to time according to circumstances. The main objective underlying such control is to safeguard the interest of the policyholders against embezzlement or misuse of funds by unscrupulous insurers for their own benefit. The government, therefore, must maintain strict vigilance upon the name in which these funds are utilized. This is expected to create a sense of confidence in the minds of the people regarding the safety of the funds and thereby encourage the growth of insurance. Another object of control is the direct investment of funds into desirable channels, especially in government and semi-government securities.

In India, the investment of such funds are to conform to amended section 27-A of the insurance Act 1938 as applied to the Life Insurance Corporation effective from August 25, 1958. (Prior to nationalization in September 1956 and upto August 1958,
section 27-A was applicable to Life Insurance Corporation companies. According to it, every insurer had to invest 25% of its net liabilities in Government securities, a further 25% in state government securities or other approved securities. Out of the remaining 50%, 35% of the net liabilities could be invested in approved securities and 15% of the balance in unapproved securities). In fact, it was a modified version of section 27 as amended in 1958.\footnote{Jain, Rajiv, "Insurance Law and Practice" Vidhi Publications, New Delhi, 2001, pp. 135.}

According to this new scheme of investments, the investments of LIC were to be divided under following three categories:-

(1) Government securities

(2) Approved securities, as defined in section 27-A of the Insurance Act 1938

(3) Other investments.

The stipulations were that at least 50% of the total funds should be held in government and gilt-edged securities or
government approved securities, 35% in approved securities under the amended Act and not more than 15% to be held in other investment. Two important modifications were made in the old section 27-A regarding approved investments. First, in terms of sub-section (3) and (4) of the old section 27-A, the insurer could not hold more than or 20% of the subscribed share capital and debentures of a banking or investment company and 10% of the subscribed share capital and debentures of any one company other than a banking or investment company. This was modified so as to allow the LIC to hold up to 30% of the equity share capital of a company, with the provision to exceed the limit with the prior approval of the central government. Secondly, under the old section 27-A(5), insurers were completely prohibited from investing in private limited companies but, under the modified section 27-A(7), the LIC was given permission to invest in private companies with the prior approval of the government. ²

There were certain modifications in other investments as well, consisting of 15% of the controlled funds. Under section

19(2) of the act, investments in this section could be made only by a majority of three fourths of the members of the investment committee present at the meeting or by the unanimous selection of the committee. Further, under section 27-A(8), the central government has the power to restrain the LIC from taking any investments specified by it.

In respect of corporate securities, the provisions of clauses 1(a) to 1(g) are applicable as defined in section 27-A. The Life Insurance Corporation is permitted to invest only in such 'ordinary shares' of any company on which dividend of not less than 4% including bonus has been paid for the five years immediately preceding or at least five out of seven years immediately preceding. In case of 'preference shares' law permits investment only in such shares which have a prior rights both regards income and capital, and where the dividends have been paid for five years preceding. As regards debentures, they should be at least three times more than the value of property against the security of which they have been issued. Also the debentures should be secured by a first charge an any immovable property which has paid interest in full for the five years immediately preceding.
In the case of investments in immovable property, it is restrained by sub-section 6 clause-I A of section 27-A to invest in any property situated in India and abroad but it must be free from encumbrances. It is also empowered to invest in any immovable property under any Housing or Building society of a public limited company or a co-operative society registered under the co-operative societies Act of 1912, on the basis of a 'first mortgage' on immovable property.

Apart from these constraints, Life Insurance Corporation was put under some other legal restrictions such as the appointment of an investment committee to guide it in channelising its resources. Further, the Act provides the filing of 'Annual Returns' of the Life Insurance Corporation and biennial valuation of assets at cost or market price under first schedule of the Insurance Act 1938.

The interest of the policy holders as well as the canons of the sound investment postulate that the investments of the corporation should be made so as to yield the maximum return consistent with safety and security of funds.
With the passage of time and changing characteristic of the economy, the investment policy can not remain static as the policy has to suit the changing need of the society. Therefore, an informal group was appointed in 1970 by the ministry of finance, Government of India, under the chairmanship of the then Governor of Reserve Bank of India. Shri S. Jagannathan with the four secretaries of the Ministry of Finance, Chairman of UK and the Unit Trust of India and the joint secretary concerned from the Department of Economic Affairs as members, to look into the pattern of investments and the investment policy of Life Insurance Corporation with special reference to following and make suitable recommendations for the future:-

1. Their contribution to socially desirable objectives.
2. Their region wise distribution.
3. Their distribution among different size groups of under takings (in case of investments in the private corporate sector).

The informal group submitted its report on December 31, 1971 and made the following recommendations:-
1. The existing commitment of Life Insurance Corporation for investments in Government securities and approved securities could be and should be stepped up. It was recommended in this connection that the maximum investment by the Life Insurance Corporation in securities issued or guaranteed by government should be 50% of the addition to the controlled fund.

2. In view of the declining trend observed in LIC's investments in the central government securities in recent years, the group considered it advisable to provide separately for LIC's investment in these securities. The group felt that it would be reasonable to suggest a minimum of 25% of the additions to the controlled fund or being invested in the Central Government securities.

3. The group suggested a consolidated minimum of 75% for the investment in the Public/Co-operative sector with a sub minimum of 50% for government securities.

4. The group would not suggest any specific ceiling being placed on the flow of LIC's funds into the private corporate sector through in the context of the above 75%,
a balance of only about 10% will be left for investment in the private corporate sector.

5. In order to reduce the proportion of its investments in large business houses and companies, the group recommended a more conscious effort on the part of Life Insurance Corporation to seek sound investment outlets in the medium scale sector also.

6. The group felt that convertible debentures should have the same status as ordinary shares and be classified as "Approved Investment" on the same basis as equity shares of the company.

7. The group recommended that instead of "Approved investment", this class of investments be called under the nomenclature of "scheduled investment".

8. The investment policy of the corporation could not be fixed and there must be scope in it for both flexibility and imagination.

9. At the beginning of each plan period, a view must be taken about the kind of activity for which Life Insurance Corporation should be expected to provide finance and
about the rates of return that LIC should get for such socially oriented investments.

On the recommendation of the informal group's study, the government made major modifications in section 27-A and subsequently, changes were brought about from April 1, 1975. The pattern of investment to be followed under the new policy are in respect of annual 'accretions' to the controlled fund. The controlled fund is a the amount of insurer's liability to holding of life insurance policies in India on accounts of matured claims and the amount required to meet the liability on policies of life insurance, maturing for payments in India, less the amount of premiums which have fallen due to the insurers for loans granted an and with in the surrender values of life insurance maturing for payments in India.

According to the new provisions, investments of the Life Insurance Corporation are categorized in two sections: the socially-oriented sector and other investments. The investments are to be made as percentages of the accretion to the controlled fund in the following manner:-
(A) Socially-oriented sector

<table>
<thead>
<tr>
<th>S. No.</th>
<th>Description</th>
<th>Percentage of accretion to the controlled fund to be invested</th>
</tr>
</thead>
<tbody>
<tr>
<td>1.</td>
<td>In Government of India marketable securities being not less than.</td>
<td>25%</td>
</tr>
<tr>
<td>2.</td>
<td>In Government of India and state Government securities including Government-generated marketable securities including those in (1) above being not less than.</td>
<td>60%</td>
</tr>
<tr>
<td>3.</td>
<td>In socially-oriented sector, including public sector, co-operative sector, house building by policy holders, OYH schemes including those in (2) own your home above not less than</td>
<td>75%</td>
</tr>
</tbody>
</table>

(B) Other investments

<table>
<thead>
<tr>
<th>S. No.</th>
<th>Description</th>
<th>Percentage of accretion to the controlled fund to be invested</th>
</tr>
</thead>
<tbody>
<tr>
<td>1.</td>
<td>In Private sector</td>
<td>10%</td>
</tr>
<tr>
<td>2.</td>
<td>Loans to policy holders</td>
<td>8%</td>
</tr>
<tr>
<td>3.</td>
<td>Construction and acquisition of immovable property by LIC</td>
<td>2%</td>
</tr>
<tr>
<td>4.</td>
<td>Funds in pipeline not available for investment</td>
<td>5%</td>
</tr>
</tbody>
</table>

Source:- Annual Report of LIC.

Since then, the corporation has aligned its investments to the above pattern.
The main categories of the investments of the corporation are:

1. **Central Government Securities**: Investment under this category are loans floated by the Central Government and the State Governments through the agency of the Reserve Bank of India.

2. **Approved Securities**: Here allocation for various categories are made, keeping in view of the past experience and also the yields. Approved securities are viz. (a) State Electricity Board Bonds, (b) Debentures of Co-operative Land Development Bank, (c) Bonds and Shares of State Financial Corporations and other All India Financial Institutions viz. IDBI, ICICI, IFCI etc.

3. **Private Sector Investments**: As per the provisions of the Act, about 10% of the Annual accretions of the funds of the LIC are to be invested in private sector. The main areas under this sector are debentures of companies-both convertible and non-convertible equity shares, term loans and short-term loans to companies.
Life Insurance Corporation has also considerably increased its investment in debenture portfolio over the years with a view to improve the yield on its investments. The investments are also made in bonds/debentures of public sector companies keeping in view the requirements for investments of funds under group scheme business.

LIC being one of the leading financial institutions, by its policy of selective market operations, is in a position to bring the desirable stability in the share market which is conducive for the overall welfare of the economy. As a result of its investments in various key industries, LIC's contribution for the industrial growth of the country is significant.

4. **Special Deposit with Government of India:** Since 1980-81, the Government of India provides in its budget estimates as a measure of budgetary support amounts due every year from financial institutions as a special deposit with them.

5. **Investments in notice/call deposits with banks and bills rediscounting schemes:** LIC had started from 25.5.1970, placing surplus funds awaiting investments (as a parking measure) on notice/call deposits and under bills rediscounting scheme from
1981 onwards on day-to-day basis. Funds are withdrawn as and when required for regular investments.

6. **Socially Oriented Investments:** The amendments of the Insurance Act 1938, in 1975 making provisions for investments under various socially oriented schemes marks a major milestone in the activities of the LIC for the benefit of large section of the community. The rate of interest for various categories of loan are fixed by the government at reasonably minimum rate in view of the fact that they are for the benefit of the public at large. The various scheme under which LIC disburses loans are:

1. Loans to Municipal Committees and Zila Parishads for water supply and Sewerage Schemes.

2. Loans to state Road Transport Corporations for purchase of passenger buses.

3. Loans to state electricity board for generation of electricity and for capital requirements there of including new projects.

4. Loans to state governments for housing.

5. General housing scheme loans and rural housing scheme.
(6) Other schemes- In addition to the above, loans are granted for construction and purchase of houses various housing/mortgage schemes of LIC.

Thus, the LIC is required to keep in mind the provisions of section 6(1) of the Life Insurance Corporation act which enjoins on it the deity of carrying off it business to the best advantage of the community. It is also expected to bear in mind that its primary obligation is to its policy- holders whose money it holds in trust and that it should work as far as possible on business principles while, of course, not losing sight of the fact that as the single largest investor in India it has also to keep before itself the interest of the community as a whole.

There are two facts for Life Insurance Corporation:-

(1) The primary motivation for the nationalization of Indian Life Insurance Industry which has recognized even before the country attained independence, was that the vast funds at its command should be predominantly used for the good of the community as a whole.
(2) And ever since the life insurance industry came into existence anywhere in the word, the funds generated through life insurance have always been considered as a "sacred trust". The interest of the policy-holders by way of ensuring security of capital subject to maximizing yield, have been the primary consideration of the insurers. This is universally accepted as an unwritten law by sound insurers everywhere.

Therefore, in all observations made by the successive Finance Ministers, either at the time of nationalization or soon thereafter, it has been emphasized that LIC should aim at harmonizing the good of the community with the interest of the policy-holders while investing huge funds at its commands.

In September 1980, the Era Sezhiyan Committee Submitted its report to the government with regard to the investments of the Life Insurance Corporation. The committee felt that "the statutory framework" laid down for the investment of the life insurance funds is not in conformity with the basic principles that should govern the investment of life insurance funds." The committee found it necessary to change the pattern of investment
of LIC in such a manner that LIC is enabled to earn at least 1.1% more on its total investments to enable it to complete with other savings media like public provident fund.

The committee bemoaned the comparatively low return being earned by LIC an its investments in the socially-oriented sector. The committee made the following recommendations:-

(i) In line with the guidelines made applicable to Approved Trust Funds like Provident Funds and Gratuity Funds, the corporation should be required to invest only 40% (instead of 50% as at present) of its annual accretions to Life Fund in Central and State Government securities and Approved securities out of which 20% should be in Government securities and 20% in other Approved Marketable securities.

(ii) In respect of the 25% of the investible funds presently invested in the socially oriented sector, different rates of interest are offered on loans to Government and loans which are granted to the public sector institutions like state electricity boards on the basis of mortgage.
The committee was of the view that this distinction was unjustifiable and it recommended that all such loans should be granted at the market rates of interest for such term loans. At best a differential of half a percent may be retained for loans to Government and also to semi-government institutions because of the implied government guarantee.

(iii) LIC should not be viewed as a developmental organization and should finance new projects by way of underwriting of capital and grant of term loans only after closely examining their financial viability.

(iv) So far as the balance of funds is concerned, the committee recommended that the corporation should consider increasing its investment in the housing field-both residential and commercial-subject to the condition that the net rate of return should not be less than that realized in the socially oriented sector.

The committee report was forwarded to the corporation in October 1980. The Central Government desired that LIC should give its comments on those of the recommendations which should not be acceptable to it and which in its view will not be feasible.
The chairman of the LIC constituted a committee of senior officers of the corporation at the central office which went through the report and examined its conclusions and recommendations in detail. The corporation's committee's view did not tally with the Era Sezhiyan Committee's recommendations. And these recommendations were not found acceptable to it, or which in its view, were not found feasible.

3.4 PRESENT PATTERN OF INVESTMENT OF LIC OF INDIA:

The Life Insurance Corporation is basically an investment institution and not a development institution. Its primary aim is to spread the message of life insurance and while perusing this objective, the premia from policy-holders are received which are in the nature of trust funds and are invested and administered in the best interest of policy-holders as per the guidelines of the Government in the matter.

The general pattern of investment of life insurance funds has undergone marked changes particularly in recent years. The journey from 1\textsuperscript{st} September 1956 to the present has indeed been a long march. The funds at the command of LIC have grown from about Rs. 365 crores as on 1.9.1956 and at present, i.e. on
31.3.2005, it is Rs. 413800.95 crores, with the growth of funds, complexities of investing it have also increased many times. In every investment move the Life Insurance Corporation makes, it has to keep in mind the impact it will have on the economy of the country and the investing public. Because of the size of the funds handled, the investment operations of the Life Insurance Corporation have a synergic effect.

The following table gives the salient features of the distributions of the investments:-

**Investment of the Life Insurance Corporation of India**

(in India and abroad)

<table>
<thead>
<tr>
<th>Investment in India</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>S. No.</strong></td>
</tr>
<tr>
<td>1.</td>
</tr>
<tr>
<td>2.</td>
</tr>
<tr>
<td>3.</td>
</tr>
<tr>
<td>4.</td>
</tr>
<tr>
<td><strong>Total in India</strong></td>
</tr>
</tbody>
</table>
### Investment out of India

<table>
<thead>
<tr>
<th>S. No.</th>
<th>Particulars</th>
<th>Book value of investment as on 31.3.2005 (Rs. in crores)</th>
<th>Percentage of total</th>
</tr>
</thead>
<tbody>
<tr>
<td>1.</td>
<td>Stock exchange securities</td>
<td>789.59</td>
<td>0.19</td>
</tr>
<tr>
<td>2.</td>
<td>Loan</td>
<td>114.77</td>
<td>0.027</td>
</tr>
<tr>
<td>3.</td>
<td>House property</td>
<td>36.73</td>
<td>0.008</td>
</tr>
<tr>
<td>4.</td>
<td>Other investments</td>
<td>3.30</td>
<td>0.0008</td>
</tr>
<tr>
<td></td>
<td><strong>Total in India</strong></td>
<td><strong>943.79</strong></td>
<td><strong>0.23</strong></td>
</tr>
<tr>
<td></td>
<td><strong>Grand total (in India &amp; out of India) [crores]</strong></td>
<td><strong>413800.95</strong></td>
<td><strong>100</strong></td>
</tr>
</tbody>
</table>

**Source:** Annual Report of LIC.

The book value of investments of the corporation is Rs. 413800.95 crores as on 31st March 2005. The investment in Central Government securities, State Government Securities and in Government guaranteed marketable securities is about 60% ultimately, this money also finds its way into developmental activities like industry, for building the infrastructure, like electricity or for industrial growth and such other essential
conveniences which will improve the quality of life. Thus a total of about 72% of the funds generated by Life Insurance Corporation are utilized either directly by it or indirectly through government agencies in the development of socially oriented ventures.

Loans continued to constitute one of the major avenues of investment for the corporation's funds. In granting these loans emphasis has been on following:-

- Projects/schemes for generation and transmission of electricity for agricultural and industrial use.

- Housing schemes.

- Piped water supply and sewerage projects/schemes in rural and urban areas and township.

- Development of road transport.

- Industrial development.

The loans in the above categories is about 15% about of the total investment. The corporation's funds awaiting investments are deployed temporarily in short-term money market instruments.
viz. Call/Notice Deposits, certificates of Deposits, 14/91/364 days Government of India treasury bills and in short-term fixed deposits with bank. These funds are placed with scheduled commercial banks and six primary dealers empanelled by LIC. Parking short-term funds in commercial papers issued by corporate for 30/60/90/180 days has been started from 1st July 1998.

The investment of the LIC in private industry by way of investment in shares, debentures or through term loans is about 13% of the total funds which is more than the statutory provision of 10%. In absolute terms it amount to Rs. 15,600 crores which is more by 3600 crores of rupees. It means growing share of amount to private sector enabling LIC to play a more vital and crucial role in the development of a sound industrial base. As far as LIC's attitude towards stock market is concerned, it has not been LIC's intention that it should indulge in speculation. It has necessarily been investing on a Long-term basis. But this has not precluded it from buying and selling operations when circumstances so warranted. The LIC actively examines its investment portfolio from time to time in order to decide whether certain of its holdings
arc worth keeping, adding to or disposing off. For instance, if it sells during periods of boom and buys during periods of depression, not only does it gain, but indirectly the national interest is also served by evening out the fluctuations in the stock market. This has been done whenever occasion arose. While stability of the market is thus ensured, mobilization of the capital is also encouraged to help the industrial sector to grow.

The aggregate market value of investments in stock exchange securities in India amounted to Rs. 435721.31 crores as against its book value of Rs. 355635.70 crores as on 31st March 2005 showing an appreciation of Rs. 80085.61 crores.

Thus the investment pattern followed by LIC shows that it has— to a great extent-succeeded in using "People's money for people's welfare", a part of the mission entrusted to LIC at the time of nationalization.

LIC everywhere follows the principle of maximizing the security of capital-maximizing the yield consistent with the security and spread the investments. Spread of investment is one of the strategies followed so that the fund is immune from the catastrophic risk which any industry or any particular sector may
bc exposed to. From the above table, it will be seen that the spread of investment has been achieved and so also the security of money invested.

The investments made by LIC in different sector in India during the year 2004-05 are shown in the following table.

**Sector wise Break-up of Investment of LIC of India**

<table>
<thead>
<tr>
<th>S. No.</th>
<th>Sector</th>
<th>Book value of investments of loans outstanding as on 31.3.2005 (Rs. in crores)</th>
<th>Percentage of total</th>
</tr>
</thead>
<tbody>
<tr>
<td>1.</td>
<td>Public sector</td>
<td>344695.98</td>
<td>85.03</td>
</tr>
<tr>
<td>2.</td>
<td>Co-operative sector</td>
<td>2472.83</td>
<td>0.61</td>
</tr>
<tr>
<td>3.</td>
<td>Private sector</td>
<td>58212.80</td>
<td>14.36</td>
</tr>
<tr>
<td></td>
<td>Total</td>
<td>405381.61</td>
<td>100.00</td>
</tr>
</tbody>
</table>

*Source: Annual Report of LIC.*

Table presents, the major share of public sector investments is 82.10% in 31.03.2005. The share of private sector investments is 14.36 as on 31.03.2005. The investment in co-
operative sector is 0.61% as on 31.03.2005, which shows relatively low preference to co-operative sector. On the whole, it observed that LIC is making a significant contribution through its investment in public sector as well as private sector, LIC's investment in the private corporate sector industries like basic metals, cement, paper, dyes & chemicals, and services industries.

Thus LIC has been able to pursue an investment policy harmonizing the interests of the policy-holders and those of the community at large.