CHAPTER II

DETERMINATION OF LIFE INSURANCE INVESTMENT POLICY – A CONCEPTUAL FRAMEWORK
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DETERMINATION OF LIFE INSURANCE INVESTMENT POLICY -- A CONCEPTUAL FRAMEWORK

In the previous chapter an analysis of the development of life insurance business in India was made. It was observed that the life insurance business was initiated in this country by the Britishers when they were ruling this country. Later on this role was taken over by the Government of India particularly when the life insurance business was nationalised and the Life Insurance Corporation of India (L.I.C.) came into existence in 1956. The present chapter makes an assessment of the investment policies adopted from time to time by the Life Insurance Corporation of India. It also focuses on the impact of these policies on the overall performance and development of the L.I.C.

INVESTMENT DECISIONS -- MEANING AND CONCEPTS

In the broad and customary sense of the term, an investment is an asset or property right acquired or held for the purpose of wealth acquisition or income generation. From the point of view of investors or suppliers of capital, investment is the placement of present funds and resources for the purpose of acquiring future incomes in the form of
interest, dividends, rent or retirement benefits, or in the form of an appreciation in the value of the principal.

The financial and economic meanings of 'Investment' though distinguished from economic meaning are related to each other because investment is a part of the savings of individuals which flow into the capital market either directly or through institutions. Investors as 'suppliers' and investors as 'users' of long-term funds find a meeting place in the market\(^1\). As such investment depends on the capacity of individuals to save. The savings and investments, therefore, become two important aspects of any socio-economic development. Investment is both important and useful in the context of present day conditions. Some factors that have made investment decision increasingly important are: larger life expectancy, high rate of inflation, increasing rates of taxation, high interest rates, larger income and availability of a complex number of investment outlets\(^2\).

Investment decision have become significant as people retire between the ages of 55 and 60. The earnings from


employment should, therefore, be calculated in such a manner that a portion should be put away as savings. Savings by themselves do not increase wealth. They must be invested in such a way that the principal and income will be adequate for a greater number of retirement years.\(^1\)

The importance of investment decision is further enhanced by the fact that there is an increasing number of men and women working in organisations. These men and women will be responsible for planning their own investments during their working life so that after retirement they are able to have a stable income. Increase in working population, proper planning for life span and longevity have ensured the need for balanced investments.\(^2\)

Inflation has become a continuous problem since the last decade. Fall in purchasing power is a serious investment risk. Prudent investors while making investment decision choose their portfolios in such manner that the impact of this risk is reduced to the minimum. The idea of safety of capital has been extended in the minds of many investors to include protection against loss of purchasing power.


The investor will try and search an outlet which gives him a high rate of return in the form of interest to cover any decrease due to inflation. He will also have to judge whether the interest or return will be continuous or there is a likelihood of irregularity. Coupled with high rate of interest, he will have to find an outlet which will ensure safety of principal. Besides high rate of interest and safety of principal, an investor will also have to bear in mind the taxation and its impact on investment decision. The interest earned through investments should not be those which will unduly increase his taxation burden. Otherwise, the benefit derived from interest will be compensated by an increase in taxation.

Taxation is one of the crucial factors in any country which introduces an element of compulsion in a person's savings. There are various forms of savings outlets in our country in the form of investments which help bringing down the tax level by offering deductions in personal income. Benefits in tax accrue out of investments in Unit Trust Certificates, unit linked insurance plan, life insurance,

national saving certificates, Developments bonds, Post Office Cumulative Deposit Schemes, Thermal Power Corporation and Railway bonds etc.

Another aspect which is necessary for a sound investment plan is the level of interest rates. Interest rates vary between one investment and another. These may vary between risky and safe investments; they may also differ due to different benefit schemes offered by the investments. These aspects must be considered before actually allocating any amount. A high rate of interest may not be only factor favouring the outlet for investments. Stability of interest is as important as receiving a high rate of interest.

Another reason due to which the investment decisions have assumed importance is the general increase in employment opportunities in India. After independence with the initiation of economic development in the country a number of new organisations and services have come into existence. The Banking Recruitment Services, the Indian Administrative Service, Public Sector Enterprises, Expansion in Private Corporate Sector, establishment of financial institutions, Tourism, Hotels, Educational institutions, are
some examples. The employment opportunities gave rise to both the male and female working force. More income and more avenues for investment have led to the ability and willingness of working people to save and invest their funds in the avenues\(^1\).

In addition to the above, the growth and development of our country leading to greater economic activity has led to the introduction of a vast arrangement of investment outlets. Apart from putting aside savings in the savings banks accounts where interest is low, investors have the choice of investments in other channels. They will have to try and achieve a proper mix between high rate of return and stability of return to reap the benefits of both. Some of the instruments available are company shares, provident funds, life insurance, fixed deposits in corporate sector, Unit Trust Schemes and so on\(^2\).

After having discussed the concept and importance of investment it is essential to point out the factors which are favourable for the growth of investments. The investment market should have a favourable environment to be able to

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2. Ibid., p.6.
function effectively. In India where all business activities are marked by social, economic and political considerations, it is important that the political and economic institutions are congenial for economic investments. Generally there are three basic considerations which foster growth and bring opportunities for investment. These are: legal safeguards, existence of financial institutions to aid savings and form of business organisation.

A stable government which frame adequate legal safeguards encourages accumulation of savings and investments. Investors will be willing to invest their funds if they have the assurance of protection of their contractual and property rights\(^1\). In India the investors have the dual advantage of free enterprise and Government control. Freedom, efficiency and growth are ensured from the competitive forces of private enterprise, the political climate is conducive to investment as Government control provide a sense of stability to the capital market\(^2\).

The presence of financial institutions which encourages savings and direct them to productive uses helps the

\(^2\) Ibid., p.7.
investment market to grow. The financial institutions generally in existence in most countries are the commercial banks, life insurance companies and investment companies. In addition, in the United States there are investment bankers and mortgage bankers. Investment bankers are merchants of securities. They buy bonds and stocks of corporations and Government bodies for re-sale to investors. The investment bankers are distinguished from security brokers who act as agents in buying and selling already issued securities for commission. Mortgage bankers sometimes act as merchants and sometimes as agents on mortgage loans generally on residential properties. They serve as middlemen between investors and borrowers and perform collateral services in connection with loans. Commercial banks and financial institutions also act as mortgage bankers in giving mortgage loans and in servicing the loans.

In India, the presence of a large number of financial institutions under Central Government and State Governments and rural bodies have encouraged the growth of savings and investments. They offers a wide variety of schemes for savings and give tax benefits also. Apart from these, there is a well organised network of development banks such as

Industrial Development Bank of India (I.D.B.I.), Industrial Credit Investment Corporation of India (I.C.I.C.I.), Industrial Finance Corporation of India (I.F.C.I) etc. At the State level there are State Financial Corporations, and for rural areas and agriculture, the National Agricultural Bank for Agriculture and Rural Development (NABARD). These financial institutions and development banks offer a wide variety of policies for encouraging savings and for investment. These institutions serve as an element of strength to the capital market and promote discipline while encouraging growth.

The form of business organisation which is permanent in existence aids savings and investment. The public limited companies have been said to be the best form of organisation. The three characteristics of joint stock form of business organisation which have been very useful for investors are limited liability of shareholders, perpetual succession and transferability and divisibility of stocks and shares. The public limited company with the ability to continue its business irrespective of members comprising it, gives longevity and strength to its business activity. In contrast to a public limited company whose shareholders have
limited liability, the sole proprietor or a partner in a partnership firm are liable for all the debts of the firm to the full extent of his personal wealth. In these conditions, investors are hesitant to risk their savings in these forms of organisations. Besides, unlimited liability the partnership and proprietor also suffer from short life of the organisation. With the death or retirement of any of the partners, a partnership firm is dissolved. Similarly, a sole proprietor carries on business only during his lifetime. The public limited companies also have the characteristic of transferability of shares which is a guarantee for the liquidity of the company. In contrast, the partnership restricts stability and transferability freely from person to person. The public limited company, therefore, is a popular form for investment as the investors benefit from liquidity, convenience and longevity.

Uptil now we were discussing the importance and principles of investment in general terms. In the pages that follow, our endeavour will be to analyse and examine the pattern of investment of the L.I.C. in India.

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PATTERN OF INVESTMENT

According to the accepted principles of investment, the LIC should invest funds in such a way that maximum yield is available consistent with safety of capital. The problem of investment assumes great importance in the case of this Corporation because huge sums are available by way of premiums. Since these funds are not fully required to meet the liabilities, the life insurance business should invest a major portion of the total assets and earn a reasonable rate of interest which can be used in reducing the cost of insurance. In this context, the Life Insurance Corporation is guided by certain basic principles, such as safety, security, yield, convertibility, diversification etc.

A safe investment is one which offers reasonable protection against the risk of capital loss. The Life Insurance Corporation must give due regard to safety of capital in making investment mainly because its primary business is to pay claims, as and when they arise. Since in this matter, the position of the Corporation is that of a trustee, it has to choose between safety and yield in as

much as there is neither total nor partial loss of capital. The security of capital is essential to enable insurers to serve as true collectors of funds for paying the claims. As far as possible, investments of high denomination should be held for the life insurance funds and in the safest possible channels.

In addition to the security of capital, the adequacy of yield too is an important factor. The insurer should bring about a proper coordination between the two elements -- safety and yield. The funds should be invested in such a way that they should get at least that rate of interest which has been assumed in arriving at the net premium. Interest is a factor taken into consideration while calculating premiums. On account of the security of capital and adequacy of yield, bonds and debentures of public sector corporation and the Government Companies are better than the shares of Joint Stock Companies.

Diversification is the most important consideration in insurance investments which may take different forms. It means that the life insurance funds should be distributed both geographically and among different classes of investments. It is considered a sound policy not to rely
excessively on a single class of investment or a sectional investment. This is based on the maxim: "Do not have all eggs in one basket" but reduce the risk by dispersal of funds among different types of securities and investments. The L.I.C. has been continuously providing funds to a large number of Indian industries through the purchase of their securities, debentures, preference and equity shares. The choice of the Corporation to invest the growing volume of life fund in Government securities and in established concerns has resulted into concentration of investments in few industries and few companies. The cement, cotton, textiles, electricity and electrical goods, engineering, iron and steel and minerals which are the oldest industries have attracted 60 per cent of the total LIC's investment in shares and debentures\(^1\). In the context of planned economic development of India, the investment of the L.I.C. funds is of major importance. A well conceived, integrated and diversified investment plan, while furthering the interests of more than one crores of policy-holders, has great potentialities of effecting a balanced development of the country.

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Diversification may further be assumed by having numerous securities of fixed as well as of variable yield. The Corporate, Government and Semi-Government securities should be purchased in such proportion as to have a harmonious combination of security and yield. If all the funds are invested in industrials and commercials, a huge amount of taxes will have to be given. It will be a great problem, especially when the taxation rates are too high today. Hence a considerable portion of the securities must be invested in tax-free securities.

Convertibility of investment is one of the basic principles of investment. It means the ability with which investment are converted into cash without undue loss of capital and without much inconvenience. Normally, the present income on account of interest and premiums is sufficient to meet the future claims. But on certain occasions, the convertibility of investment into cash is a 'must' in order to pay cash for surrender values, to grant loans on demand and to meet the claims, if the funds in hand are not sufficient. Hence, in usual circumstances, ready convertibility is not a necessary quality of an investment but from the long-range point of view, particularly, to meet
the needs of maturing obligations it is a must\textsuperscript{1}. The Corporation may also keep a portion of these funds in cash or in such securities which can be realised without delay and loss. The liquidity consideration should also be kept in mind in order to avail of an exceptionally favourable investments opportunity, which requires selling of the existing securities and purchasing of a new series of securities having better terms and conditions.

Thus, all the above guiding principles must be kept in view by the L.I.C. while investing its funds in different securities. Great care has to be taken in selecting suitable channels of investments and supervising them. With the help of financial forecasting based on a well thought-out analysis of economic, political and financial conditions, the financial experts select that form and type of investment which gives the maximum return. It may be added, however, that keeping in view the above principles of investment, the investment policy must promote and help the life insurance business in various ways. On the one hand, these investment should reduce the cost of insurance and tempt others to have it at a lower cost and on the other,

these investments should be utilised for socio-economic needs of the country.

Table no. 8 below shows the book value of total investments of Life Insurance Corporation (L.I.C.) of India after its nationalisation.

### TABLE NO. 8

**INVESTMENT OF LIFE INSURANCE CORPORATION OF INDIA (1956 TO 1987-88)**

<table>
<thead>
<tr>
<th>YEAR</th>
<th>Rs. in crores</th>
<th>Percentage inc./dec. over 1956</th>
</tr>
</thead>
<tbody>
<tr>
<td>1956</td>
<td>349.30</td>
<td>--</td>
</tr>
<tr>
<td>1961</td>
<td>581.40</td>
<td>66.44</td>
</tr>
<tr>
<td>1966-67</td>
<td>1078.40</td>
<td>208.73</td>
</tr>
<tr>
<td>1971-72</td>
<td>1925.10</td>
<td>451.13</td>
</tr>
<tr>
<td>1976-77</td>
<td>3541.00</td>
<td>913.74</td>
</tr>
<tr>
<td>1981-82</td>
<td>7474.00</td>
<td>2039.70</td>
</tr>
<tr>
<td>1987-88</td>
<td>15692.00</td>
<td>4392.41</td>
</tr>
</tbody>
</table>

Accounting year: The first report of the L.I.C. covered 16 months from 1st September to 31st December 1956 and the Sixth report covered 15 months from 1st January 1962 to 31st March 1963. Thereafter, the accounting year is 1st April to 31st March.

Source:


(iii) The Economic Times, New Delhi, August 6, 1988, p.6.
INVESTMENT OF LIFE INSURANCE CORPORATION OF INDIA
1956 TO 1988

Rs. In (000) Crores.

1956 1961 66-67 71-72 76-77 81-82 1987-88

FIG 1
From the table it is evident that the investment of Life Insurance Corporation (L.I.C.) of India has increased from Rs.349.30 crores in 1956 to Rs.581.40 crores in 1961, indicating a rise of nearly 66.44 per cent. Similarly, the book value of total investment of life insurance business went up from Rs.349.30 crores in 1956 to Rs.1,078.40 crores in 1966-67, showing a rise of nearly 208.73 per cent. Likewise, the book value of total investment of L.I.C. has gone up from Rs.349.30 crores in 1956 to Rs.1925.10 crores in 1971-72, i.e. an increase of more than 451 per cent. Between 1956 and 1976-77, the investment of life insurance business has further increased by nearly 913.74 per cent from the figure of Rs.349.30 crores to Rs.3541 crores. Consequently, the book value of total investment of life insurance business went up from Rs.349.30 crores in 1956 to Rs.7474 crores in 1981-82, showing an increase of nearly 2039.7 per cent. From the years 1956 to 1987-88, the book value of total investment of life insurance business has increased from Rs.349.30 crores in 1956 to Rs.15692 crores in 1987-88, this shows an overall increase by more than 4392 per cent during the period under review.
Table No. 9 shows a broad outline of Corporation’s total investment in different sectors in India between 1982 and 1987.

**TABLE NO. 9**

**INVESTMENT OF LIFE INSURANCE CORPORATION OF INDIA IN DIFFERENT SECTORS (1982 TO 1987)**

<table>
<thead>
<tr>
<th>Category</th>
<th>1982</th>
<th>1987</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>Investment % of</td>
<td>Investment % of</td>
</tr>
<tr>
<td></td>
<td>loans as on</td>
<td>loans as on</td>
</tr>
<tr>
<td></td>
<td>31.3.1982</td>
<td>31.3.1987</td>
</tr>
<tr>
<td>Government securities and other Approved securities</td>
<td>3605.64</td>
<td>6843.23</td>
</tr>
<tr>
<td></td>
<td>48.34%</td>
<td>49.10%</td>
</tr>
<tr>
<td>Special deposit with Government of India</td>
<td>241.00</td>
<td>921.00</td>
</tr>
<tr>
<td></td>
<td>3.22%</td>
<td>6.61%</td>
</tr>
<tr>
<td>Municipal and other securities not guaranteed by govt.</td>
<td>74.62</td>
<td>63.00</td>
</tr>
<tr>
<td></td>
<td>1.00%</td>
<td>0.45%</td>
</tr>
<tr>
<td>Shares and Debentures of Companies</td>
<td>360.36</td>
<td>1023.38</td>
</tr>
<tr>
<td></td>
<td>4.82%</td>
<td>7.35%</td>
</tr>
<tr>
<td>Loans for Housing Development including Mortgage of property</td>
<td>873.17</td>
<td>1393.79</td>
</tr>
<tr>
<td></td>
<td>11.68%</td>
<td>10.00%</td>
</tr>
<tr>
<td>Loan to Development Authority in Nagaland</td>
<td>1.44</td>
<td>1.10</td>
</tr>
<tr>
<td></td>
<td>.01%</td>
<td>--</td>
</tr>
<tr>
<td>Loan to State Electricity Boards/NEEPCO</td>
<td>865.35</td>
<td>1299.82</td>
</tr>
<tr>
<td></td>
<td>11.56%</td>
<td>9.33%</td>
</tr>
<tr>
<td>Loans for Water supply and sewerage schemes</td>
<td>356.40</td>
<td>560.56</td>
</tr>
<tr>
<td></td>
<td>4.77%</td>
<td>4.02%</td>
</tr>
<tr>
<td>Loans to State Road Transport Corporation</td>
<td>116.17</td>
<td></td>
</tr>
<tr>
<td></td>
<td>.83%</td>
<td></td>
</tr>
</tbody>
</table>

contd....
| Loans to sugar Co-operative Societies | 25.79 | .35 | 14.24 | Ø.10 |
| Loans for setting up Industrial Estates | 19.04 | .25 | 13.92 | Ø.10 |
| Term loan to Companies | 392.47 | 5.25 | 561.90 | 4.03 |
| Participating in Bills Rediscouning | 2.75 | .03 | - | - |
| Loan on Personal Security | Ø.09 | - | Ø.05 | - |
| Loans on Insurer's Policies within their surrender values including A.N.F. advances | 459.74 | 6.15 | 903.46 | 6.49 |
| Contribution to Initial Capital of Unit Trust of India | Ø.75 | - | Ø.75 | - |
| Application Moneys for Securities and shares | Ø.35 | - | - | - |
| Advances subscription for securities | 2.07 | .02 | 11.37 | Ø.08 |
| Investments in Foreign Countries | 41.18 | .55 | 79.99 | Ø.58 |
| House Property and Land | 75.26 | 1.00 | 128.26 | Ø.93 |
| **Total** | **7473.01** | **100.00** | **13936.00** | **100.00** |

Sources: (i) Yogakshema, monthly, Bombay, Vol.81, No.9, September 1987, p.48.

It is evident from the above table that the total investment of Life Insurance Corporation (L.I.C.) in
different sectors has increased from Rs.7473.01 crores in 1982 to Rs.13936 crores in 1987, indicating an overall increase of nearly 86.48 per cent. Investment in Government and other approved securities went up from Rs.3605.64 crores in 1982 to Rs.6843.23 crores in 1987, showing an increase of nearly 89.8 per cent. Similarly, special deposit with Government of India has gone up from Rs.241 crores in 1982 to Rs.921 crores in 1987, i.e., an increase of nearly 282 per cent. But investment in municipal and other securities not guaranteed by Government has come down by nearly 15.5 per cent, i.e., from Rs.74.62 crores in 1982 to Rs.63 crores in 1987. The share in total investment in Government Securities went up from 48.34 per cent to 49.10 per cent and the share in special deposit with Government of India has increased from 3.22 per cent to 6.61 per cent between 1982 and 1987. In the same year the share in total investment of Government securities went up by nearly 1 per cent. Similarly, the share and debenture of companies went up by 2.53 per cent. Loans to state electricity boards has gone up from Rs.865.35 crores in 1982 to Rs.1299.82 crores in 1987, showing an increase of nearly 50.2 per cent. Likewise, loans for water supply and sewerage schemes has increased by 57.28 per cent, i.e., from Rs.356.4 crores in 1982 to Rs.560.56
crores in 1987. Consequently, the investment in state road transport corporations has gone up from Rs.75.54 crores in 1982 to Rs.116.17 crores in 1987, showing an increase of nearly 53.7 per cent. But loans to sugar co-operative societies has come down from Rs.25.79 crores in 1982 to Rs.14.24 crores in 1987. This shows a decline of nearly 44.7 per cent. Thus, it is clear from the above table that the investment in Government securities is much higher as compared to other sectors during the period under review.

The Life Insurance Corporation is investing a sizeable portion of its funds in socially oriented sector by way of loans to State Governments for housing schemes, apex co-operative housing finance societies for financing primary co-operative housing societies, local bodies/state-level boards for water supply and sewerage schemes, state electricity boards for generation of electricity, state road transport corporations for purchase of vehicles and co-operative industrial estate/state sponsored industrial corporations for the setting up of industrial estates etc. The loans advanced to State Governments for various housing schemes are as per allocation decided by the Planning Commission. The State Governments have to utilise these funds for the economically weaker sections namely housing
schemes, low income group housing schemes, middle income group housing schemes, rental housing schemes for State Government employees and rural housing schemes.

Table No.10 below shows the total loans/advanced by the Life Insurance Corporation of India between 1982 and 1987 for the various socially oriented schemes.

**TABLE NO.10**

**LOANS/ADVANCED BY THE L.I.C. FOR THE VARIOUS ORIENTED SCHEMES (1982 TO 1987)**

<table>
<thead>
<tr>
<th>S.N.</th>
<th>Category</th>
<th>1982</th>
<th>1987</th>
</tr>
</thead>
<tbody>
<tr>
<td>1.</td>
<td>Electricity</td>
<td>153.98</td>
<td>202.76</td>
</tr>
<tr>
<td>2.</td>
<td>Housing Schemes</td>
<td>109.40</td>
<td>149.22</td>
</tr>
<tr>
<td>3.</td>
<td>Water supply and sewerage</td>
<td>56.66</td>
<td>40.47</td>
</tr>
<tr>
<td>4.</td>
<td>Transport</td>
<td>24.86</td>
<td>19.96</td>
</tr>
<tr>
<td>5.</td>
<td>Industrial development</td>
<td>170.48</td>
<td>178.14</td>
</tr>
<tr>
<td></td>
<td>Total</td>
<td>515.38</td>
<td>590.55</td>
</tr>
</tbody>
</table>

Source: Compiled from various Annual Reports & Accounts of the Life Insurance Corporation of India.

Data set out in table No.10 reveal that the total loans sanctioned by the L.I.C. for the various social-oriented schemes has increased from Rs. 515.38 crores in 1982 to
Rs.590.58 crores in 1987, indicating an overall increase of nearly 14.58 per cent. The loans in electricity went up from Rs.153.98 crores in 1982 to Rs.202.76 crores in 1987, i.e., an increase of nearly 31.67 per cent. Similarly, the investment in housing schemes went up by more than 36 per cent, i.e., from Rs.109.40 crores in 1982 to Rs.149.22 crores in 1987. But the investment in water supply and sewerage has come down from Rs.56.66 crores in 1982 to Rs.40.47 crores in 1987, showing a decline of nearly 28.5 per cent. The investment in transport has also declined by nearly 19.7 per cent. The investment in industrial development has increased from Rs.170.48 crores in 1982 to Rs.178.14 crores in 1987, indicating a rise of nearly 4.49 per cent. Thus, it is clear from the above table that the loans in housing schemes is much higher as compared to other sectors.

From the foregoing discussion it has emerged that the life insurance business performs a very useful function in building the economy of our country by strengthening the individuals propensity to save and in making the resources available for long-term investment. Through the appropriate mobilisation of savings from the people, life insurance finances the capital formation both in the private and
public sector of our country. The life insurance business, thus, plays an important role by providing insurance protection against death and old age on one hand and accelerating the growth of national economy on the other by making huge investments in various sectors of our economy.

After having discussed the pattern of investment of Life Insurance Corporation of India, I shall now turn to deal with the investment media of L.I.C.

INVESTMENT MEDIA OF LIFE INSURANCE CORPORATION

There are various types of investment media of life insurance business. A sound investment programme can be constructed if the investor familiarizes himself with the various alternative investment available. The ultimate objective of the investor is to drive a variety of investment that meets his preference for risk and expected return. The investor will select the portfolio which will maximise his utility. Securities prevent a wide range of risk from risk-free instruments to highly speculative shares and debentures. From this broad spectrum the investor will have to select those securities that maximise is expected return subject to certain considerations. The investment decision is an optimization problem but the objective varies
from investor to investor. It is not only the construction of a portfolio that will promise the highest expected return but, it is the satisfaction of the need of the investor\textsuperscript{1}. For instance, one investor may face a situation when he requires extreme liquidity. He may also want safety of security. Therefore, he will have to choose a security with low return. Another investor would not mind high risk because he does not have financial problems but he would like a high return. Such an investor can put his savings in growth shares as he is willing to accept risk. Another important consideration is the temperament and psychology of the investor. Some investors are temperamentally suited to take risks. There are others who are not willing to invest in risky securities even if the return is high\textsuperscript{2}.

On the basis of the above criteria an analysis of the various classes of investment media or outlet of the L.I.C. may be as follows:

A. **STOCK EXCHANGE SECURITIES**

1. **GOVERNMENT SECURITIES**
   
   (i) Floating Debt

\textsuperscript{2} Ibid., p.13.
(ii) Short-dated securities  
(iii) Long-dated securities  
(iv) Securities redeemable at option

2. CORPORATE SECURITIES  
(i) Debentures  
(ii) Preference shares  
(iii) Equity shares

B. NON-STOCK EXCHANGE INVESTMENTS  
(i) Mortgage and loans  
(ii) Real estate

The life insurance company has to choose its portfolio out of the above list.

GOVERNMENT SECURITIES

The term 'Government securities' describes a heterogenous group of securities with widely varying characteristics. By common consent Government securities are deemed to be the safest of all the securities\(^1\). It includes all the obligation of national Government and of their several subdivision such as States, Municipalities or

\(^{1}\) Bajpai, O.P., Life Insurance Finance in India, Vishwavidyalaya Prakashan, Varanasi, 1975, p.209.
Corporations etc. Government of India securities fall under several classes. There is the unfunded debt of the Government which is composed of short-period obligations and is also called the floating debt. It is represented by treasury bills, Post Office Saving Bank accounts and cash certificates. Then there are short-dated securities or shorts which are redeemable generally within five years. Finally, there is the funded debt which includes long-period obligations that may or may not be redeemable. The funded debt which is redeemable is denoted by terminal long-dated securities or redeemable longs, and that which need not compulsorily be redeemed is denoted by irredeemable longs.

The interest rates on Government securities are determined by the prevailing yields at the time of offering. The new offering are usually made at par except those few issues which are offered on a discount basis. The yield on Government securities is determined by the market price, coupon features and the maturity provision of each issue. At the time of purchase the prevailing yield becomes the expected or book yield to the investor. If the security is

sold prior to final maturity, the realised cash is smaller than that entered in books. Consequently, the yields are important considerations to the sale, purchase or switches in Government security portfolio of the L.I.C. as well as an important guide to the treasury in the determination of the characteristics of new offering.

The marketability features on outstanding issues differ widely. Many issues are fully marketable, that is, they may be purchased by all types of investors but contains restriction upon their transferability. Other issues are freely but not fully marketable. They may be purchased by all types of private investors, excepts of course, specified ownership groups (namely, commercial banks), and may be freely traded among the eligible investors. A few issues have only limited marketability, both with respect to the number of eligible investors and with regard the amount of any investor's annual purchase of these issues. Furthermore, some issues have resale restrictions. They can only be sold to the Treasury Department on demand at fixed and predetermined price or can be converted into a different type of security which has a diminishing marketability.

Finally, a number of issues of Indian Government securities have no marketability in so far as the L.I.C. is concerned because they cannot be purchased or held by it at any time. However, these issues may have restricted marketability from the standpoint of those investors eligible to own them.

**STATE, MUNICIPAL AND APPROVED SECURITIES**

There are several significant differences in the characteristics of State and municipal issue from those associated with Indian Government issues. In contrast to Federal obligations, the majority of State/municipal issues are of a serial type, that is, a specified proportion of the outstanding issues matures at regular intervals throughout the life of the obligation. In addition, some term obligations are also offered. Very limited use has been made of the call option on the serial or term issues either in terms of price or of fixed optional maturity dates. The terms, conditions and yields of State and Municipal obligations also differ from that of Indian Government securities. This is partly due to the basic differences in credit standing of State and Municipal obligations. Besides, there are no restrictions imposed by the State or
Municipalities on the marketability of these issues, that is, all issues are fully marketable.

Since 1961, a definite change has taken place in the borrowing technique of the State Government in India. State have become largely long-term borrower and they offer securities of varying maturity and yield. In certain cases the yield of State Government securities is much higher than the Central Government securities.

Besides, the securities issued by Municipal Bodies, Port-Trust or improvement trusts State-owned Corporation etc. are called Semi-Government securities. These securities do not have the support of the Reserve Bank of India in the maintenance of market value. They are included in 'Trustee Investment' which allows investment in debentures or other securities for money issues, under the authority of any Central Act or by it on behalf of any Municipal Body, Port Trust or City Improvement Trust in any Presidency town. They are included in the approved investments of L.I.C. Besides bonds of Central Land Mortgage Banks, shares and bonds of Industrial Finance Corporation and State Finance

Corporations are also included in the 'approved list' of Life Insurance Corporation (L.I.C.) investment.

**INVESTMENT ATTRIBUTES OF GOVERNMENT SECURITIES**

The Indian Government and State Governments obligations enjoy a unique investment status, in the portfolio structure of L.I.C. From an investment point of view the Government securities are quite safe as the Federal Government has both the power to issue money and the power to tax. The credit status of the Government of India and the State Government is considerably high as they have never repudiated any debt and are always willing to honour their obligations. However, in contrast to Central and State Governments, the financial conditions of municipalities is still weak and their ability to pay the principal and interest depends upon their limited resources.

The liquidity features is also present in Government securities to a remarkable extent. Besides the short-term securities where payment is assured on due date, their maturity features assure repayment within a short period of time at pre-determined prices. To the extent that these short-term issues are marketable, their maturity characteristics also greatly limit their price fluctuations. The broad
distribution of ownership of Central Government obligations, both within and among various types of investors, is an important factor in increasing the liquidity of these obligations\(^1\). Since all investors are not motivated by similar factors in the management of their portfolios, the sales of issues which are widely held are more likely absorbed by other investor. Moreover, the sizeable holding of Government securities by large number of investors enhances their marketability.

Table No.11 shows the investment of Government securities between 1957 and 1987.

**TABLE NO.11**

<table>
<thead>
<tr>
<th>Year ended</th>
<th>Central Govt. securities</th>
<th>State Govt. securities</th>
<th>Approved securities</th>
<th>Total Govt. securities</th>
</tr>
</thead>
<tbody>
<tr>
<td>31st Dec. 1957</td>
<td>185.6</td>
<td>42.5</td>
<td>32.5</td>
<td>260.6</td>
</tr>
<tr>
<td>31st Dec. 1961</td>
<td>236.8</td>
<td>117.0</td>
<td>61.2</td>
<td>415.0</td>
</tr>
<tr>
<td>31st March 1967</td>
<td>334.6</td>
<td>179.6</td>
<td>124.9</td>
<td>639.1</td>
</tr>
<tr>
<td>31st March 1972</td>
<td>549.4</td>
<td>247.0</td>
<td>268.6</td>
<td>1065.0</td>
</tr>
<tr>
<td>31st March 1977</td>
<td>981.0</td>
<td>428.1</td>
<td>457.3</td>
<td>1866.4</td>
</tr>
<tr>
<td>31st March 1982</td>
<td>2010.9</td>
<td>455.7</td>
<td>1139.0</td>
<td>3605.6</td>
</tr>
<tr>
<td>31st March 1987</td>
<td>4675.6</td>
<td>416.9</td>
<td>1751.2</td>
<td>6843.7</td>
</tr>
</tbody>
</table>

Source: Compiled from Various Annual Reports & Accounts of Life Insurance Corporation of India.

COMPOSITION OF GOVERNMENT SECURITIES
(1957 TO 1987)

FIG. 2
Data set out in table No.11 reveal that the investment of Central Government securities has increased from Rs.185.6 crores in 1957 to Rs.4875.6 crores in 1987, indicating an overall increase of nearly 2419.1 per cent. Similarly, the investment of State Government securities went up from Rs.42.5 crores in 1957 to Rs.416.9 crores in 1987, showing an overall rise of nearly 880.9 per cent. Likewise, the investment of approved securities has gone up from Rs.32.5 crores in 1957 to Rs.1751.2 crores in 1987, i.e., an overall increase of 5288.3 per cent during the period under review. Thus, the investment of Central Government is higher than the State Government. However, relatively, the investment in these securities, which constituted 71.3 per cent of the total investment in Government securities in the year 1957, has declined to 55.8 per cent only in the year 1982. This decline may be attributed to the increase in volume of investment in State Government securities up to the year 1961 and in approved securities beyond that during the period under study. The relative share of the investment in approved securities increased from 12.4 per cent of the total investment in Government securities in the year 1957 to 31.6 per cent of the same in the year 1982. Thus, with the passage of time, the emphasis on investment in
Government securities shifted from Central and State Government securities to approved securities which are becoming more popular in recent decades due to establishment of a large variety of public Corporation in India.

CORPORATE SECURITIES

Corporate securities are an important source of investment for life insurance funds. They occupy a position only second to Government securities in the investment portfolio of the L.I.C. Corporate securities comprise of debentures, preference share and equity shares. Corporate securities have come into prominence only after the Second World War\(^1\). They have gained importance due to enormous growth of life fund.

The Corporate securities are divided into two main groups -- debentures and shares, with the latter sub-divided in preference shares and equity shares. The first and basic division recognises and conforms to the fundamental legal distinction between the creditor's position and partner's position. The legal rights attached to different types of securities have important effects on the movement of security prices.

CORPORATE SECURITIES

DEBENTURES

A debenture is a security as it represents a first charge on the fixed assets of the borrowers and a floating charge on another assets, and confers status of a creditor on its holder unlike a shareholder who is an owner. A debenture is entitled to its return whether profits are made or not, failing which it has the right to foreclose. Good debentures in foreign countries have a record of consistent payment and freedom from serious trouble. In the U.S.A., they provide investment outlet for 75 per cent of life insurance funds, 50 per cent of commercial bank funds, 65 per cent of mutual savings bank funds, and a probable 50 to 60 per cent of endowment and trust funds. From the standpoint of the safety objective in life insurance investment also its constitutes a prior claim on the assets of the company and is protected by the subordinate interest of others in the nature of a secondary lien and the propriety ownership. Other things being equal, a debenture secured by a mortgage or a deposit of collateral offers a greater safety than an insecurcured obligation. The type of business

and the legal form of the obligation are significant only as they have a bearing on the ability and willingness of the company to meet its commitments to the investor$^1$.

When the Corporation chooses corporate debenture, it should do so because of the superior claim they have on the earnings and assets of a company. In order to receive a surer return, the Corporation accepts a relatively fixed income and is deprived of the right to participation in the higher return that will be received in the stock if the company prospers. The Corporation, as a debenture holder, has no voice in the management of the company, and if the debentures are callable, they generally cease to be attractive investment on any interest date. Furthermore, the cause of appreciation in debentures is relatively small.

PREFERENCE SHARES

A preference share is a hybrid security enjoying neither the respectability of the debenture nor the profit potentiality of the equity$^2$. Since the tendency of the company management is to balance preferences given to

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preference share within limitations, most preference shares have been described as "neither fish, fowl, nor good red herring"\textsuperscript{1}. For life offices, preferences shares possess the income weakness of debentures, without their elements of safety. Likewise, it shares much of the risk of equity shares without fully participating in the income distributions of prosperous years.

Preference shares have also been described as investments because they lack the security and steady yield of debentures and yet are deprived the right of unlimited participation in the profits of the company which goes with equity shares. Besides, from the standpoint of stability in market price and certainly of income, as a class they have not so good as record as debentures. If we, therefore, were to apply the same rigid tests to preference shares as in the case of debentures, we would find that only relatively few of the former would qualify as high grade investments and that, as a consequence, their prices would also be so high that the yield would be little, if any, higher than those obtained on debentures of the same quality.

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In the light of the above features it would be desirable for the Corporation to favour those preference shares which have no other obligations ahead of them in the capital structure of a company. Besides in the selection of investments the portfolio managers of the L.I.C. should subject preference as a class to even more rigorous standards than they apply in the selection of debentures. This is mainly due to the mandatory nature of interest payments as opposed to the discretionary powers customarily possessed by company management with respect to declaring preferred dividends.

Under extremely prosperous conditions preference shares gain nothing except their fixed dividends while in periods of depression their investment suffer. Thus, they get a raw deal both ways. In case of winding up the preferential right to capital and dividend remains on paper only as they can get only a fraction of their investment if anything remains after satisfying prior claims. In periods of depression when the atmosphere is surcharged with gloom, confidence in the continuance of preference share dividends is undermined and their price falls. In periods of boom fixed dividend stands in their way of partaking the benefit

in full while equities show impressive rise. In regard to redemption provision the situation is very much like debentures. The directors may have the discretion to repay not earlier than or after the expiry of a particular date. Such discretion may be exercised in periods of low interest rates to the disadvantage of preference shareholders.

**EQUITY SHARES**

Equity share represents the residual ownership of a company, and is the most dynamic type of security. It is the sole beneficiary in profits left after satisfying all prior claims and hence is susceptible to wider fluctuations than any other type of security. In the list of Corporate securities, equity shares have always enjoyed a superior position in the portfolio structure of Life Insurance Corporation. In 1955 the ratio of equity shares to total Corporate securities was 42.5 per cent. After the nationalisation of life insurance the ratio of equity shares to total corporate securities has increased to about 51.6 per cent. As percentage to total investment equity shares was 9 per cent as against 6.6 per cent in 1956\(^1\), the

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importance of equity shares has increased in the post-war period because they have provided income dependability to the insurers at a time when the income on all other fixed obligations has considerably decline. In future, in view of the rapid economic development, the need of the corporate sector for 'equity capital' is likely to increase.

In the long run the equity share scores over every other competitor because of the principle of 'ploughing-back'. In case of first class well managed companies a certain percentage of profits is ploughed back each year to facilitate future growth and expansion\(^1\). This progressive accumulation leads to longer profits and, since the owners of equity capital are the residual beneficiaries, they reap a richer harvest as years go by. Their gains are, therefore, more than commensurate with the risk they undertake.

Moreover, the urge of an insurance office as pointed out earlier, to earn maximum income is important and within the area of safety and liquidity it tries to maximise its return. This is possible by investing a part of the resources in equity shares. The uncertainty of income from

equity shares is mitigated through a policy of diversification. Since, L.I.C. holds large investments funds it can minimise risk through diversified holdings of such securities. Further, the L.I.C. being a long-term investor, can afford to weather the larger cyclical price changes formed in equity shares for the greater security against failure and greater certainty of income to be derived from the equity shares of established companies. Besides the funds are also isolated by maintaining an 'Investment Reserve Fund'. The reserve accumulates either through annual income or from the capital profits made by selling investments. The fund takes care of the losses that might be incurred in future.

In spite of the above mentioned deterring factors regarding investment of fund in the Corporate securities, sufficient portion of life insurance funds has always been invested in Corporate securities, particularly because of their higher yield as compared to that of Government securities. The investment in Corporate securities can be seen from table No.12.
COMPOSITION OF CORPORATE SECURITIES
(1957 TO 1987)

FIG. 3
### TABLE NO. 12

**COMPOSITION OF CORPORATE SECURITIES (1957 TO 1987)**

<table>
<thead>
<tr>
<th>Year ended</th>
<th>Equity shares</th>
<th>Preference shares</th>
<th>Debentures</th>
<th>Total</th>
</tr>
</thead>
<tbody>
<tr>
<td>31st Dec. 1957</td>
<td>33.01</td>
<td>20.78</td>
<td>15.35</td>
<td>69.14</td>
</tr>
<tr>
<td>31st Dec. 1961</td>
<td>46.14</td>
<td>25.30</td>
<td>20.60</td>
<td>92.04</td>
</tr>
<tr>
<td>31st March 1967</td>
<td>108.90</td>
<td>45.70</td>
<td>28.60</td>
<td>183.19</td>
</tr>
<tr>
<td>31st March 1972</td>
<td>130.76</td>
<td>59.50</td>
<td>39.14</td>
<td>229.40</td>
</tr>
<tr>
<td>31st March 1977</td>
<td>154.68</td>
<td>43.16</td>
<td>76.90</td>
<td>274.74</td>
</tr>
<tr>
<td>31st March 1982</td>
<td>188.21</td>
<td>42.75</td>
<td>129.40</td>
<td>360.36</td>
</tr>
<tr>
<td>31st March 1987</td>
<td>249.54</td>
<td>26.06</td>
<td>506.25</td>
<td>781.85</td>
</tr>
</tbody>
</table>

Source: Compiled from various Annual Reports & Accounts of the Life Insurance Corporation of India.

It is evident from the table that the investment of the Corporation in terms of equity shares has increased from Rs.33.01 crores in 1957 to Rs.249.54 crores in 1987, indicating an overall increase of nearly 655.9 per cent. Similarly, the investment in preference shares went up from Rs.20.78 crores in 1957 to Rs.26.06 crores in 1987, showing an overall rise of nearly 25.40 per cent. Likewise, the
investment in debentures has gone up from Rs.15.35 crores in 1957 to Rs.506 crores in 1987, i.e., an overall increase of nearly 3198 per cent during the period under study.

The Corporation's investment in the corporate securities increased absolutely but declined considerably in relative terms over the period under study. Investment in the corporate securities (shown in the above table) consists of investment in equity shares, preference shares and debentures of Joint Stock Companies and Co-operatives. In earlier years, the major portion (47.7%) of investment in corporate securities took the form of subscription to equity shares followed by debentures (30.1%) and preference shares (22.2%), but subsequently, the investment in equity shares and debentures increased absolutely as well as relatively, while that in preference shares increased only absolutely during the period under review. This shows Corporation's less inclination to investment in fixed income (preference share) securities and showed greater willingness to invest in equity shares, though at a greater risk.

MORTGAGES

A mortgage may be defined as an instrument under which real property is pledged as security for loan. The owner of the property, the mortgagor, borrows money from a lender,
mortgagee, under a contract where by the property is pledged as security for payment of interest and principal. Title and possession remain with the mortgagor until such time as default may occur in which event the property is sold through foreclosure proceedings for the satisfaction of the debt^.

Investment in loan on mortgages and other similar loans by life insurance companies satisfies the canons of investment and serve very useful social and economic purpose. It aids construction and acquisition of houses and makes multifamily housing possible. It helps the nation in raising its standard of living and in financing building operation essential to its productive capacity. Such loans provide much needed finance to agriculture in the shape of Farm Mortgages and thus help alleviate the problem of food supply^.

Thus in U.S.A.:

"Mortgage investments by life companies have had an impact on the economic and social patterns of American life. Besides helping to meet a post-war housing shortage, they have stimulated many thousands of jobs in the building trades and real estates. They have aided in re-juvenating American cities and in opening the way for families to migrate from congested cities to the suburbs".

Mortgages are generally classified as urban and Farm Mortgages in India. The L.I.C. has confined its lending only to the urban mortgages. Real Estate mortgages loans other than farm mortgages fall into two general classes namely residential loans and other loans. The latter, commonly referred to as commercial loans, which include mortgages on commercial and industrial buildings and apartments. The mortgages has the right provided in the covenants to issue several series of bonds on the security of the same mortgaged property. In that case the first mortgage has a prior claim upon the pledged property. Subsequent mortgages have subordinate claims, payable only after the first mortgage claim has been entirely satisfied. The subsequent mortgages, therefore, lack soundness. In view of this, the L.I.C. is allowed to invest by law only in first mortgage which is secured basically by the value of the underlying real property and the credit standing of the mortgager. However properly made and carefully selected, mortgage loans provide sufficient security. In the first place, the investor possesses a lien upon the real property, the value of which is determined by careful and expert appraisal. Secondly, the value of the property exceeds the amount of

the loan by a sum estimated to be sufficient to permit depletion in value. In high ratio loans the lender enjoys adequate security. Finally, a presumably carefully selected borrower of character, with good debt-paying record, with other assets commensurate with his position, provide ample safety to the loan. Besides, the return on mortgages is also comparatively higher than on other fixed obligations of the similar quality and maturity¹.

L.I.C.'s INVESTMENT IN REAL ESTATE

From the earliest days of civilization, real property has been considered by many as one of the soundest of investments. The ownership of land constituted a desirable basis of personal security and for financial credit. Although land often fluctuates widely in price, it is safe to say that, everything considered, real property probably fluctuates relatively less than ordinary capital investment. At least, real estate is an investment which does not ordinarily become entirely worthless in periods of drastic financial stress².

Real property has maintained its popularity because the owner could exercise personal control over his investment. The ordinary buyer of commercial and individual securities cannot expect a voice in the management of the companies in which he invests. As a consequence to this he cannot be said to control directly or indirectly his investment.

Real estate was a minor form of investment for life insurance offices before nationalisation. In 1956 land and building formed only 5.5 per cent of total investments. Moreover the insurers confined this type of investment only to buildings and offices that they require for housing their Head and Branch offices. Thus after the nationalisation of life insurance, the L.I.C. inherited real estate consisting of 541 properties. The total book value of their profits was Rs.19.27 crores as on 1st September, 1956. Amongst the acquired proportion were several monumental and well-planned buildings, residential flats and houses, and valuable unbuilt open plots of lands throughout the whole of India and in some foreign countries as well.

The real estate investment portfolio resolve around four important factors viz: dependability of principal, reliability of income, marketability and investment management. Safety of principal, when funds are used to acquire real estate whether residential or commercial, for income, is much different from the property obtained through foreclosure. In the latter instance the investor acquires the title of the property as a last resort, whereas in the former case title to the property is deliberately sought because of the inherent value of the property.

The factors affecting the safety of funds invested in housing developments are mainly associated with the ability to rent the project. The ability to rent depend not only on the desirability of the living accommodations provided and the rent charged but also upon neighbourhood conditions surrounding it, location with regard to places of employment and accessibility to facilities such as school, shopping areas, and transportation etc. In addition to these factors, consideration must be given in the total supply of rental housing with which the project must compete and possible Government rent control measures.

Investment in real estate are usually considered to possess a minimum degree of liquidity. Not only is there no
price certainty from the sale of the assets, but they are not readily marketable, even in periods of high level economic activity. This is explained in part by the absence of organised real estate markets, and in part by the large indivisible units to be transferred. In periods of depression this may result in real estate being marketable at virtually any price.

To compensate for risk and lack of liquidity in the ownership of real estate, the anticipated yield therefore is generally higher than the alternative investment\(^1\). In addition, investment in real estate often provides an opportunity for capital appreciation. This may be obtained in the residual value of the property whose cost has been fully amortised or through a rising price level.

POLICY LOANS AND OTHER LOANS

'Loans' which consist of policy loans, loans on stock and shares and 'other loans' are other important avenues of investments of Life Insurance Corporation (L.I.C.). Of these the most important are the policy loans within their

surrender value. These loans are considered as a form of 'dissaving' from the point of view of life insurance saving. But they are highly satisfactory from the insurer's point of view. They are unquestionably secure because they are given for an amount below the surrender value of policies. Moreover the investment is profitable because they yield about 10.50\% per cent interest which is more than the market rate. However, this type of investment should not be encouraged by the insurers in a developing economy because they lead to 'consumption finance'. But under the terms of contract, the Corporation is bound to extend such loans when demanded by the policy-holders. The Corporation also grants loans for financing various housing schemes of the State Government, co-operative societies and other bodies. In earlier years, the co-operative schemes were not very popular with the Corporation, with the result that major portion of funds of minor investment for financing housing schemes went to State Government's housing schemes. This tendency, however, continued up to the middle of seventies and took a term in subsequent years resulting in more funds going to co-operative housing schemes than those going to finance State Government's housing schemes.

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Table No.13 shows the minor investment of the L.I.C. which includes loans on mortgages, real estates, loans to State Government for housing Societies, loans to Co-operative housing societies and miscellaneous loans between 1957 and 1987.

**TABLE NO.13**

**COMPOSITION OF MINOR INVESTMENTS (1957 TO 1987)**

(Rs. in crores)

<table>
<thead>
<tr>
<th>Year</th>
<th>Loan on Mortgage</th>
<th>Real estate</th>
<th>Loans to State Govt. for housing societies</th>
<th>Loans to Co-operative housing societies</th>
<th>Miscella-neous</th>
<th>Total Minor investment</th>
</tr>
</thead>
<tbody>
<tr>
<td>1957</td>
<td>13.9</td>
<td>21.4</td>
<td>NIL</td>
<td>NIL</td>
<td>16.9</td>
<td>52.2</td>
</tr>
<tr>
<td>1961</td>
<td>8.5</td>
<td>27.9</td>
<td>16.8</td>
<td>4.4</td>
<td>5.7</td>
<td>63.3</td>
</tr>
<tr>
<td>1967</td>
<td>49.0</td>
<td>34.7</td>
<td>83.3</td>
<td>29.4</td>
<td>49.7</td>
<td>246.1</td>
</tr>
<tr>
<td>1972</td>
<td>282.3</td>
<td>43.2</td>
<td>137.4</td>
<td>99.8</td>
<td>69.Ø</td>
<td>631.7</td>
</tr>
<tr>
<td>1977</td>
<td>673.9</td>
<td>60.2</td>
<td>199.2</td>
<td>253.8</td>
<td>212.8</td>
<td>1399.9</td>
</tr>
<tr>
<td>1982</td>
<td>1531.5</td>
<td>75.2</td>
<td>316.3</td>
<td>456.1</td>
<td>1127.9</td>
<td>3507.0</td>
</tr>
<tr>
<td>1987</td>
<td>N.A.</td>
<td>130.7</td>
<td>486.4</td>
<td>753.05</td>
<td>N.A.</td>
<td>1370.15</td>
</tr>
</tbody>
</table>

N.A. = Not available
Source: Compiled from various Annual Reports and Accounts of Life Insurance Corporation of India.

Data set out in table No.13 reveal that the investment of life insurance in terms of loan on mortgage has increased from Rs.13.9 crores in 1957 to Rs.1531.5 crores in 1982,
indicating an overall increase of nearly 10917.9 per cent. Similarly, the investment in real estates went up from Rs.21.4 crores in 1957 to Rs.130.7 crores in 1987, showing an overall rise of nearly 510.7 per cent. Likewise, the loans to State Government for housing Societies has gone up from Rs.16.8 crores in 1961 to Rs.486.4 crores in 1987, i.e., an overall rise on 2795.2 per cent. Consequently, loans to Co-operative housing Societies increased by nearly 17014.7 per cent, from Rs.4.4 crores in 1957 to Rs.753.05 crores in 1987. Thus, from the above table it can be seen that the total loans on mortgages, despite a declining trend upto 1961, exhibited an increase of more than 109 times over the period under review. Its share in total minor investments exhibited an erratic pattern up to the year 1967, but beyond that, it increased constantly and significantly as result of which its share in total minor investments reached the proportion of more than one-half towards the close of the last decade. The next important minor investment has been in real estates including land and buildings. Absolutely it increased nearly 3.5 time, but its relatives share in total minor investments of the Corporation declined rapidly from 44.1 per cent to mere 2.1 per cent from the period 1957 to 1982. Thus, in view of its
already small share in the total investment by the Corporation and also its sharply declining trend throughout this type of investment may be regarded as an insignificant constituent of the investment portfolio of the Corporation.

Miscellaneous investments including amount due from State Government in respect of the controlled business taken over, loans to State Governments for water supply schemes, loans to Municipal bodies guaranteed by State Government, loans to Municipal and other bodies in foreign countries, loans to Government of India in foreign countries, loans to industrial estates guaranteed by Government, fixed deposits guaranteed by State Government etc. It constituted nearly one-third (32.5%) of the total minor investments of the Corporation in the year 1957 with a declining trend in subsequent years, although in the year 1982 it was again 32.2 per cent of the same. This may be taken to mean that the Corporation has been trying to accord increasing attention to the social welfare schemes in the country.
CONCLUSION

In this chapter the concept, principles, and characteristics of different forms of investments have been discussed. It has been observed that no security justifies the entire investment criteria of safety, yield, liquidity, marketability and ease of management etc. Government securities for example, provide safety of capital and income but poses the problem of calculating the interest rate. The return from Government securities is also inadequate to meet the contractual obligations of the L.I.C. While 'Mortgages' provide maximum degree of 'safety', they have poor marketability. The procurement, supervision, control and procedure for foreclosure in case of failure of the borrower to pay the principal or interest, entails heavy responsibilities upon Life Insurance Corporation. Besides, the realisation of principal amount and interest in instalments also presents the problem of constant reinvestment of small sums of money. Investment in Real Estates, especially in 'housing' besides providing adequate yield with possibility of appreciation, enables the Corporation to perform a useful 'social function'. But this
type of investment also involves the problem of management which is considered foreign to a life office business.

Among Corporate securities, debentures produce income dependability but they require careful analysis of the financial worthiness of the issuing company. Similarly, only few high grade preference issues compare favourably with sound debentures as far as stability of income and safety of principal to the corporation are concerned. Equity shares provide a hedge against inflation. In a period of rising prices, they supplement the limited return received on debentures, and offer better chances for appreciation of capital. However, the yield from ordinary shares is more cyclical. In order to ensure an adequate income in time of depression, the L.I.C. must have a substantial portion of its funds in fixed income securities.

All the arguments for and against a particular type of investment lead to the conclusion that risk is inevitable. In a developing economy it is deal to dream a 'care free' investments. This requires that Corporation must diversify its investments in order to maximise yield and to minimise
the chances of losses. By spreading its risks both geographically and industrially and by distributing its investments in different companies, it would earn compensation for losses in one direction through profits in another. Such a policy besides protecting the fund becomes one of the important sources of flow of funds for transmitting of capital in different sections of the economy. If wisely followed such a policy will not only bring the larger return for the policy-holders but would also help the economic growth of the country. The pattern of investment and investment policy of Life Insurance Corporation of India has been analysed in the next chapter to arrive at the conclusion of this work. The chapter will, therefore, include a critical examination and evaluation of the investments made by the L.I.C. during the period under review.