ABSTRACT OF THE STUDY

The Life Insurance Corporation of India plays an important role in providing insurance protection against death and old age on the one hand and accelerating the growth of our economy. This is obvious because of the fact that the life insurance touches every section of the society - privileged and under privileged, agricultural and industrial labour employed and self-employed etc. and provides economic security to all and sundry. The Life Insurance Corporation of India is an important constituent of India's capital market. It collects huge funds for the public and invests them in agriculture, industry, transport and in a number of other economic activities.

In the present work entitled "An appraisal of investment policies of Life Insurance Corporation of India", an attempt has been made to project and highlight the importance of life insurance business as an institution which plays an important role in the balanced and integrated socio-economic development of the country. The growth of life insurance business and the pattern of investment of the L.I.C. in the country has been examined.

The work has been divided into five chapters. In the first chapter an attempt has been made to study the development of life insurance in India. The chapter deals with the socio-economic significance of life insurance business and its role in the advancement of different sectors of our economy. Further this
chapter highlights the trends of life insurance business in India. This is evident from the fact that the growth of life insurance business up to 1956 (before nationalisation) was mainly due to natural factors such as population growth, income growth and industrialisation and urbanisation of the country rather than through the efforts made in this direction. The sales techniques, the service standard and the investment policy adopted by the insurers failed to motivate the people. After nationalisation of the Life Insurance Corporation of India (L.I.C.), it improved the sales and service standard of life insurance business. It introduced several types of policies to cater to the needs of the urban population. It also explored the rural field. The various developmental programmes and training schemes of the L.I.C. had a healthy influence on the growth of life insurance business. This can be seen from the fact that before nationalisation, the L.I.C. in the country was operated from 97 centres which were almost entirely urban in character with 245 different insurance companies. Today, the L.I.C. conducts it affairs through 600 centres in the country (through 1280 offices). Starting with a meagre Rs.283 crores of life insurance business in 1957, it has now reached the figure of Rs.9107.59 crores in 1986-87 in individual business alone and Rs.21752.12 crores, taking into account the individual assurance and group business together. The number of employees in the service of the L.I.C. has also increased from 21000 in 1956 to 70000 employees in 1987-88. The growth of life insurance business has been estimated on the basis of new business, business in force and group insurance have been fixed for the period 1988-89 to 1990-91. These targets for
individual insurance increased from 53 lakh policies in 1988-89 to 70.20 lakh policies in 1990-91, showing an overall increase of nearly 32.4 per cent. Similarly, the target of group insurance in India, i.e. in respect of number of schemes in force will go up from 20150 in 1987-88 to 24100 in 1990, indicating an overall increase of nearly 19.6 per cent.

The second chapter is devoted to an examination of the determinants of life insurance investment policy. In this chapter the concept, principles and characteristics of different form of investments have been discussed with regard to investment policies of the L.I.C. It has been observed that no security justifies the entire investment criteria of safety, yield, liquidity and ease of management etc. Government securities 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 mortgage 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 on the L.I.C. Besides the realisation of principal amount and interest in instalments also presents the problem of constant investment 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. Among corporate securities, debentures produce income dependability but they require careful analysis of the financial worthiness of the issuing company. Equities share as 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 equity shares is more cyclical. In order to insure an adequate income in time of depression, the L.I.C. must have a substantial portion of its funds in fixed income securities.

The study reveals that the arguments for and against a particular type of investment lead to the conclusion that risk is inevitable. In a developing economy it is ideal to dream a 'care free' investments. This requires that the Corporation must diversify its investments in order to maximise yield and minimise the chances of losses. By spreading its risks both geographically and industrially and by distributing its investments in companies, it could earn compensation for losses in one direction through profit in another. Such a policy besides protecting the fund becomes one of the important source of flow of funds for channelising of capital in different sectors of the economy.

Against this background in chapter third, the pattern of investment of the L.I.C. has been examined in relation to the overall capital formation and financing of the economy. It has been observed that after nationalisation of the L.I.C. of India in 1956, the percentage of Government securities to total assets has declined but the volume of investment in all types of securities has increased absolutely. This increase is partly due to the increasing yield on Government Securities and partly due
to the passive investment policy followed by the L.I.C. In pursuing such a policy the corporation has no doubt earned adequate yield to discharge its obligations to the policy-holders, but it has not taken full advantage of its administrative capacity and has not utilised the vast accumulation of life fund to the best of its ability.

The L.I.C. also makes minor investments including mortgage loan, real estates, loan to State Government securities and co-operative for housing schemes and miscellaneous investments. This has increased from 13.6 per cent to 36.4 per cent during the period under study. The contribution of the Corporation to the various housing schemes run by State Governments and Co-operative societies, water supply schemes and the various other public welfare schemes increased throughout the period under study. Thus, the Corporation may be said to be taking interest in the public welfare schemes by assisting a number of social welfare schemes.

The study has also revealed that the L.I.C. has to invest its funds strictly in accordance with directives and guidelines provided by the Government. As a result, the major part of the investible funds of the Corporation always remain invested in Government Securities even though the yield therefrom is comparatively lower, because this rigidity is, to a large extent, responsible for lowering down the earnings of the Corporation. As such, the Corporation should be allowed to exercise more freedom to make investment in such securities. The Corporate securities emanating from private sector at present may well be expected to
meet the norms of safety and liquidity of investments. In addition, these securities also present better prospects of higher profitability.

Chapter fourth compares the investment policy of the L.I.C. and other financial institutions like the U.T.I., the I.F.C.I. and the I.C.I.C.I. The study reveals that the investment policy of the L.I.C. is rigid, inelastic and non-aggressive. While the investment policy of the U.T.I., the I.F.C.I. and the I.C.I.C.I. is soft, flexible and aggressive. The L.I.C. invests its major part of the fund in Government securities. As such, there is no risk in the loss of capital. As a result, the yield on these securities because of their safety and liquidity feature, have generally been lower than on other investments. On the other hand, in case of the U.T.I., the I.F.C.I. and the I.C.I.C.I., their major funds are invested in Corporate securities with high risk. As a result, the yield on these securities is generally higher than on other investment. In terms of the rate of increase of security holdings, the U.T.I. occupies the top position among the institutional holders of securities of private industry. These facts underline the pre-eminent position of the U.T.I. in the mode of industrial financing. The findings of the study also confirm the widely-held belief that the U.T.I.'s investments are concentrated heavily in securities of large and well established companies as also group companies belonging to leading business houses.

Chapter fifth contains the main findings and conclusions of the study. The main purpose of this chapter is to sum up the main findings and conclusions of the project. It has been that the
The volume of investment in all types of securities has increased absolutely but its relative share in the total investment has varied widely over the study. Percentage of investment in Government securities and Corporate securities has declined, while the same in the form of minor investment has increased considerably the period under study.

This may be treated as a trend in right direction, both from the point of view of the principle of diversification and the utilization of national savings for the fulfilment of the wider objectives of socio-economic development in the country.

It has also been observed that the investment policy of the L.I.C. with special reference to the economic development and capital formation in the country poses an important question to be answered in any thesis of this type. The analysis has shown that economic changes have had a considerable influence on the portfolio structure of the insurers. This has also been proved by the experience of the investment pattern of the insurers in other countries. In pursuing an active investment policy the insurers in foreign countries anticipate economic changes and forecast demand for capital funds in the various sectors of the country. They devise means to enter the new investment market first and take full advantage of their position. This enables them to earn more and serve the best interest of their policy-holders. The same pattern should be adopted by the L.I.C. in investing funds here.

In the light of the above observation, it can be pointed out that the Life Insurance Corporation (L.I.C.) could not succeed in
achieving the aims and objectives as was expected from nationalisation. One reason for this could be attributed to its investment policy which has lagged in many ways. It may also be observed that the various financial institutions viz., the U.T.I., the I.F.C.I., and the I.C.I.C.I. etc. are investing their mobilised money in different sectors and regions of our country. The pattern of their investment and broad policy of investment is on the same line as those initiated by the L.I.C. The findings of the study reveal that the investment policy of the L.I.C. is rigid, inelastic and non-aggressive while the investment policy of the U.T.I., the I.F.C.I. and the I.C.I.C.I. is soft, flexible and aggressive.

The comparative study also reveals that in terms of the rate of increase of security holdings, the U.T.I. occupies the top position among the institutional holders of securities of private industry. A major contribution of the Life Insurance Corporation (L.I.C.) and other financial institutions has been for promotion and development of small scale industries in the form of direct loans to co-operative societies and other bodies for setting up industrial estates which provide necessary infrastructure facilities to small scale industrial sector. Additionally they provide investment to corporate sector by way of subscriptions of shares (both equity and preference) and debentures issues floated by companies and by way of grant of terms loans. They also provide finance to projects engaged in production of essential commodities such as fertilizers, sugar, vegetable oils, cement drug, paper, etc. A large amount of their funds are invested in socially oriented schemes of the Government, namely, the housing
schemes, provision of health schemes, transport, water supply and sewerage schemes, social security schemes, electricity, agriculture, education, railways etc. It is especially in these field that the role of the L.I.C. has got to be enhanced so that this important Governmental agency proves to be an institution of change for the socio-economic advancement of the country.