CHAPTER VIII

RATIONALE OF INVESTMENT POLICY OF L.L.C.
CHAPTER VIII

RATIONALE OF INVESTMENT POLICY OF L.I.C.

In the previous Chapter I have confined my remarks to the problems of investing life insurance funds in relation to the life insurance business. However, it should constantly be borne in mind that the aggregate funds of L.I.C. and their continuing turnover and growth are of very great importance in the overall capital formation and financing of the economy. Indeed, as shown earlier, in some sectors of the capital market the influence of the investment policy of L.I.C. may be regarded as decisive. It is therefore important that consistent with policyholders interest, the funds must be employed in the larger economic and social interest of the country. This was the main objective of the nationalisation of life insurance. In this Chapter, therefore, I have examined the improvements that appear to be desirable in respect of the investment policy of L.I.C.

The Chapter is divided into three sections. Section first deals with the effects of the changing economic conditions on the portfolio structure of the insurers in different countries of the world. In the light of the conclusions of this section the investment policy of L.I.C. is examined in section Two. The Third section sums up the discussion and broadly suggests the rationale of the investment policy of L.I.C.

SECTION I

EFFECT OF CHANGING ECONOMIC CONDITIONS ON THE PORTFOLIO STRUCTURE OF INSURERS

Life insurance investment policy is affected not only by the internal characteristics of the industry but likewise by the external economic forces. History has proved that the changing economic conditions have direct bearing on the portfolio structure of the insurers. For the verification of this statement the investment pattern of the insurers in countries such as U.S.A., U.K., Canada, Japan, Australia,
Norway and Sweden has been discussed in the following pages. The selection of these countries has been made purposely because insurance in each of these countries is of highly developed and each one/their offers some unique feature of life insurance investments.

Investment Pattern and Economic Changes:

It has already been pointed out that one of the significant elements of the net cost of a life insurance policy is the rate of return earned on policy reserves. Consequently there has been persistent pressure on the investment policy of the insurers particularly in developed countries, to accept the risks of the private sector of the economy rather than to seek the riskless safety and low yield of Government Bonds. Whenever possible, life insurance funds have directed away from Governments and were channelled in the private sector.

In addition to avoidance of Governments, there has been an increasing tendency among the insurance companies to take fuller investment advantage of their lack of need for liquidity and marketability. This trend made the life insurance investment enterprising in character. In U.S.A., life funds have flown into those sectors of the economy which needed them most and offered higher yield in relation to the risk assumed. The life fund for instance, flowed into rail-road bonds till the end of the 19th century and thereafter into public utilities, as well as in housing through mortgage loans. During the years of depression, insurance funds supplemented personal credit needs by Policy loans; while during the war, they supported the Government needs and as much as 45 per cent of total assets of all companies in 1946 were in U.S.A. Bonds. As soon as the war needs were over, the funds were gradually withdrawn from Government Bonds. They now constitute only 5.4 per cent of total assets. Thus to earn the highest possible 'yield' the life funds have flown in different sectors of the economy. The search of 'investment opportunities' has enabled the insurers to locate the areas of growth and relative scarcity. This has also encouraged the
insurers to devise methods to finance the economic development according to their own ability. What has been noted in case of U.S.A. is practically common to all countries. This is shown in Table 7/4.

TABLE No. 7'4

INVESTMENT: PATTERN OF LIFE INSURANCE COMPANIES IN SELECTED COUNTRIES

(Percentage to Total Assets)

<table>
<thead>
<tr>
<th>Country</th>
<th>Pre-War Period***</th>
<th>At the end of 1945@@</th>
<th>At the end of 1960@@</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>Government-Indus-Mort- &amp; trial loans on Semi- Securi- Gov- Securi- Gov- Indus-Mort- &amp; trial loans on Semi- Securi- Gov- Securi- Gov-</td>
<td></td>
<td></td>
</tr>
<tr>
<td></td>
<td>Loans</td>
<td>Loans</td>
<td>Loans</td>
</tr>
<tr>
<td></td>
<td>Govern- Securi- Gov- Gov-</td>
<td>Compa- Semi-</td>
<td>Govern- Com pa- Semi-</td>
</tr>
<tr>
<td></td>
<td>tities</td>
<td>tities</td>
<td>tities</td>
</tr>
<tr>
<td></td>
<td>nies</td>
<td>ment</td>
<td>ment</td>
</tr>
<tr>
<td></td>
<td>Govern- tities.</td>
<td></td>
<td></td>
</tr>
<tr>
<td></td>
<td>Securi- ticies.</td>
<td></td>
<td></td>
</tr>
<tr>
<td>India</td>
<td>62.8</td>
<td>6.8</td>
<td>2.9</td>
</tr>
<tr>
<td>Australia</td>
<td>50.9</td>
<td>2.9</td>
<td>27.1</td>
</tr>
<tr>
<td>Canada</td>
<td>36.4</td>
<td>30.2</td>
<td>13.0</td>
</tr>
<tr>
<td>Japan</td>
<td>11.1</td>
<td>45.6</td>
<td>-</td>
</tr>
<tr>
<td>Norway</td>
<td>25.0</td>
<td>6.8</td>
<td>52.7</td>
</tr>
<tr>
<td>Sweden</td>
<td>42.7</td>
<td>2.0</td>
<td>42.6</td>
</tr>
<tr>
<td>U.K.</td>
<td>33.3</td>
<td>34.3</td>
<td>11.4</td>
</tr>
<tr>
<td>U.S.A.</td>
<td>26.7</td>
<td>29.2</td>
<td>19.4</td>
</tr>
</tbody>
</table>


Note: Figures in brackets relate to ordinary loans in Japan, N.A. = Not Available.

*** At the end of 1935 for Japan, end 1937 for U.K., end 1938 for Sweden and end 1939 for other countries.
@@@ At the end of 1948 for Australia.
@@@ At the end of 1955 for Sweden, as data for later years are not available.
@ Including local authority bonds for which separate figures are not available.
# Municipal loans, bonds and debentures.
** Including debentures of companies.
+ Including industrial securities for which separate figures are not available.
It will be noticed that only two countries, namely, India and Australia had a high proportion of investments in Government and Semi-Government securities in the pre-war period. The proportion of such investment of the Japanese, British and U.S. Companies in stock and shares were relatively large, being 48 per cent, 34 per cent and 29 per cent respectively, of total assets. In addition, ordinary loans, i.e. loans to industrial enterprises formed 15 per cent of total assets of Japanese insurance companies. Although investment in industrial securities in the U.K. and the U.S.A. were higher than in the gilt-edged investments, a considerable portion of investments in industrial securities was in the form of debentures and preference shares. In India, Australia, Sweden and Norway the pre-war investments of life funds in stocks and shares were small, being only 7 per cent each in India and Norway, 3 per cent in Australia and 2 per cent in Sweden.

Mortgage bonds in Norway and Mortgage loans in Australia and Sweden were more important than industrial securities in the portfolio of life insurance companies. In fact, they were the biggest item of investments in Norway (53 per cent of total assets), while in Sweden they were as important as investments in government securities (43 per cent). In Australia, mortgage loans stood next in importance only to government and semi-government securities, forming 27 per cent of total assets.

During the war, investments in Government and semi-government securities, had risen in all countries. This was the result of the mobilisation of resources by Government to finance the War and the strict control exercised by Government over new capital issues in the private sector during the war. The percentage increase was the largest in Japan (from 11 per cent to 40 per cent) and in Norway and the U.S.A. the share of such securities in total assets had nearly doubled. At the end of 1945, the proportion of such investments was the highest in Australia (72 per cent) followed by India (70 per cent).

1. End of 1935 for Japan, end of 1937 for the U.K., end of 1938 for Sweden and end of 1939 for other countries.
2. Including debentures of companies.
As regards industrial securities, there was a decline in the proportion of stocks and shares in the U.S.A., the U.K., Canada and Japan during the war, the fall being the largest in Japan. At the end of 1945, the proportion of stocks and shares stood at 17 per cent in Japan, 20 per cent in Canada, 27 per cent in the U.K. and 28 per cent in the U.S.A. In the case of Japan, loans made by life insurance companies to industries had also declined in importance. India is the only country where investments in industrial securities showed a proportional rise even during the war, from 6.8 per cent to 9.4 per cent of total assets. This is largely due to the development of industries during the war.

The war-time trend in mortgage loans and bonds was similar to that of industrial securities. Mortgage bonds which had accounted for 53 per cent of the total assets in Norway in 1939 dropped to 26 per cent in 1945. Similarly in other countries the share of mortgage loans had recorded a substantial decline during the war. This was due to the war-time destruction of houses in some countries and the almost complete cessation of private building activity in others during the war.

The post-war period witnessed a significant shift away from investments in Governments and semi-government securities in Australia, Canada, Japan, Norway, the U.K., and the U.S.A. On the other hand, in Sweden the ratio of gilt-edged investments to total assets was almost unchanged and this could be attributed to the post-war agreement between the Riks-bank and insurance companies. In India, the proportion of such investments to total assets showed a gradual fall from 70 per cent at the end of 1945 to 56 per cent at the end of 1955. This was probably facilitated by the reduction in the minimum investment in Government securities from 30 per cent to 25 per cent under the Insurance (Amendment) Act 1950. Since 1957, there has been a steady increase in the proportion of investments in government and semi-government securities and the ratio stood at 61 per cent at the end of 1960. India is the only country where the proportion of investments in government and semi-government securities remained around 60 per cent both at the end of 1939 and also at the end of 1960;
whereas in Australia, Canada, Japan, the U.K. and the U.S.A., the ratio of such investments to total assets was much less than on the pre-war II period.

In post-war period, investments in stocks and shares by life insurance companies have expanded in all countries owing partly to the rapid economic development and expectations of higher profits and partly due to the drop in the yield on government securities. An additional factor in the case of the U.S.A was the gradual liberalisation of legal provisions relating to investments of life funds in equities particularly the 1951 amendment to the New York Insurance Law (further liberalised in 1957) permitting limited investment in common stocks. An interesting feature of the expansion in the holdings of Stock and shares by life insurance companies in the U.K. and U.S.A. in post-war years is that a large portion of industrial securities has been acquired through direct negotiations between the insurance companies and industrial borrowers or through the medium of issuing bonus. It will be seen from Table 74 that the proportion of life funds invested in stocks and shares in the post-war period had risen significantly in India, Australia, U.K., and U.S.A.

In Norway the proportion rose from 6 per cent in 1945 to 14 per cent in 1953. In the U.K. the rise in such investments in the post-war period is somewhat obscured by the nationalisation of some industries, (e.g. Railways) in the early post-war period which caused a shift in classification of investments from the private to the public sector. The low ratio of investments in stocks and shares of Swedish insurance Companies is due to the legal restrictions that no part of life insurance funds should be invested in stocks and shares. As compared to the pre-war period, the ratio of investments in industries to total assets at the end of 1960 had risen in India, Australia, Japan (including loans to industries), the U.K. and the U.S.A. in the post-war period. In Sweden, on the other hand, though the amount of mortgage loans had more than doubled between 1945 and 1955, as a proportion to total assets, they had declined from 32 per cent to 28 per cent. The increase in mortgages was

1. Data for later years are not available but the post-war expansion in holdings industrial securities is clear.
2. Data for the years are not available.
particularly sharp in Canada (from 8 per cent in 1945 to 38 per cent in 1960) where changes in legislative provisions enabled life insurance companies to invest larger sums in mortgages. A development which is common to all countries is the post-war housing construction boom. Mortgages now constitute the second important item in the portfolio of insurance companies in Canada, Sweden and the U.S.A. while they are the most important items of assets in Australia. Although separate data are not available in respect of loans made by Japanese insurance companies for housing building purposes, some life insurance companies have established subsidiary Companies for house mortgage lending.

Japan and U.S.A. provide an interesting example of direct loans granted by life insurance companies to industries which recorded enormous expansion in the post-war years. Direct loans in Japan have risen from ¥ 0.4 billion in 1935 to ¥3.48 billion in 1960. As a proportion to total assets, loans made by life insurance companies spurted up to 50 per cent in 1960 from 15 per cent in 1935. It is important to note that these loans constituted the largest single item of assets of Japanese life insurance companies in the post-war period. It appears that the rapid industrial revival of Japan in the post-war period when the Japanese economy experienced acute capital shortage, had increased the dependence of Japanese enterprises on financial institutions which led to the rapid growth in loans made by life insurance companies.

The Direct Placement or Private Placement method in U.S.A. represents a natural development in corporate bond financing. These developments in U.S.A. and Japan

1. According to the President of Nippon Life Insurance Company Osaka, insurance companies in Japan were scheduled to loan. Yen 15 million in 1957 to the Government Housing Corporation and this amount was expected to increase yearly. (Edited by Davis W and McGill, Dan M: World Insurance Trends, p 50).
3. ¥= Yen
indicate that while life insurance companies as a group can not create new outlets of funds, but they definitelty create climate for the economic development of the countries.

Summary and Conclusion:

It is clear from the above analysis that under more or less similar liability conditions, the various patterns of insurance investment have emerged under different economic and social circumstances. For instance, during the war period nearly all the insurers in the world heavily invested in Government securities in order to serve the 'national interest.' In the post-war period, the funds flowed in diverse direction according to the economic and social requirements of the country. These changes resulted due to the decline in yield on Government securities and also due to increase demand for capital funds by the private sector.

The risk involved in the investment in private sector was minimised by designing such methods of finance that suited the investment requirements of insurers. The industrial loans in Japan; and the 'Direct Placement' in U.K., U.S.A. and Canada. Mortgage Finance in U.S.A. , Canada and Norway provide good examples of the investment of life fund for social and economic advancement of the countries concerned. The experience of these countries can form the basis on which the portfolio structure of L.I.C. could be scrutinised. It also suggests the lines on which the investment policy of L.I.C. could be rationalised. The next section, therefore, makes a critical study of the investment policy of L.I.C.

SECTION 2

CRITIQUE OF INVESTMENT POLICY OF L. I. C.

In the foregoing discussion it has been observed that the 'yield' and 'risk' characteristics of the securities change with the economic development of the country. Consequently no combination of the securities offers a permanent policy. In the following pages I have examined the changes that have occurred in the portfolio
VIII.9

structure of L.I.C. since the nationalisation of life insurance. I have evaluated the investment policy of L.I.C. from the point of view of the policyholders' interest as well as from the point of view of the national economic and social advancement of the country.

Main Changes in the Investment Pattern since the Nationalisation of Life Insurance:

L.I.C. inherited a pattern of investment which was based on the independent policies of 243 insurers which differed in size, ability and in many other respects. Their investment policy on the whole was rigid and inelastic due to dominance of Government securities. I am not concerned here with the merits or otherwise of the policy followed by the insurers before nationalisation of life insurance. It would suffice to mention that huge investment in government securities was an important feature of their investment which has not earned much credit for them. Similarly in the management of life fund they have not inspired public confidence. This was the main reason which led to the nationalisation of life insurance in India. After the nationalisation also there has been little change in the traditional investment pattern of L.I.C. Government securities still dominate the portfolio structure of L.I.C. and in fact as percentage to total assets their share is on the increase.

This is evident from the following Table 75.

A comparison of the investment policies at the end of 1955 (i.e. last year of private enterprise) and 1960 in the Table 75 reveals the following facts:

1. Investment in Central Government securities has gone down by about 9 per cent and that of State Government securities has increased by about 69.8 per cent and in approved securities it has increased by about 9.6 per cent.

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1. Sufficient light on the investment policy of the insurance companies before the nationalisation of life insurance has been thrown by Prof. Agarwala, A.N: Insurance in India, Op.Cit, pp 362-74.

### TABLE NO 75

**PERCENTAGE CHANGES IN THE INVESTMENT PATTERN OF L.I.C. FROM 1955 TO 1960**

(As percentage to total Investment)

<table>
<thead>
<tr>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Total Investment (Rs Crores)</strong></td>
<td>288.4</td>
<td>348.7</td>
<td>327.0</td>
<td>82.7</td>
<td></td>
<td></td>
</tr>
<tr>
<td>1. Government of India Securities</td>
<td>47.6</td>
<td>49.0</td>
<td>43.3</td>
<td>-9.0</td>
<td></td>
<td></td>
</tr>
<tr>
<td>2. Indian State Government Securities</td>
<td>10.5</td>
<td>9.7</td>
<td>18.0</td>
<td>+69.8</td>
<td></td>
<td></td>
</tr>
<tr>
<td>3. Foreign</td>
<td>2.6</td>
<td>4.2</td>
<td>2.5</td>
<td>-3.8</td>
<td></td>
<td></td>
</tr>
<tr>
<td>(a) Government Municipal etc. Securities</td>
<td>-</td>
<td>3.8</td>
<td>2.4</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>(b) Debentures and share of Joint Stock Companies</td>
<td>-</td>
<td>0.5</td>
<td>0.1</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>4. Municipal securities, Government guaranteed and other approved securities</td>
<td>7.3</td>
<td>8.7</td>
<td>8.0</td>
<td>+9.6</td>
<td></td>
<td></td>
</tr>
<tr>
<td>5. Shares and Debentures of Companies</td>
<td>20.6</td>
<td>16.3</td>
<td>17.5</td>
<td>-15</td>
<td></td>
<td></td>
</tr>
<tr>
<td>(a) Ordinary Shares</td>
<td>8.8</td>
<td>6.6</td>
<td>9.1</td>
<td>+3.4</td>
<td></td>
<td></td>
</tr>
<tr>
<td>(b) Preference Shares</td>
<td>4.8</td>
<td>3.8</td>
<td>3.9</td>
<td>-18.9</td>
<td></td>
<td></td>
</tr>
<tr>
<td>(c) Debentures</td>
<td>7.0</td>
<td>5.9</td>
<td>4.5</td>
<td>-35.9</td>
<td></td>
<td></td>
</tr>
<tr>
<td>6. Loans on Mortgages</td>
<td>5.2</td>
<td>4.3</td>
<td>1.7</td>
<td>-57.3</td>
<td></td>
<td></td>
</tr>
<tr>
<td>7. Land and House Property</td>
<td>6.1</td>
<td>5.5</td>
<td>5.0</td>
<td>-18.0</td>
<td></td>
<td></td>
</tr>
<tr>
<td>8. Housing Loans including other investments</td>
<td>-</td>
<td>2.2</td>
<td>4.0</td>
<td></td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

100.0 100.0 100.0

**Note:** Policy Loans and Personal Loans etc. are not included in the total.

**Sources:**
- Insurance Year Book - 1955.

2. Investment in debentures and shares of Joint Stock Companies has gone down by 15 per cent; in Mortgages it has fallen by 67.3 per cent and investment in Land and House Property had declined by about 18 per cent.

3. Housing Loans etc. appear to be quite a new avenue of investment after the nationalisation of life insurance.
It is important to enquire at this stage as to how far the portfolio structure of L.I.C. is according to the specification as prescribed by law and to what extent it serves the best interest of the policyholders and the national economic interest of the country.

(a) **Statutory Requirements:**

The statutory requirements and the actual investments of L.I.C. can be examined from the following Table.

**TABLE NO. 76**

**BALANCE SHEET OF THE INVESTMENT OF CONTROLLED FUND**

**AT THE END OF 1960**

<table>
<thead>
<tr>
<th>Legal Requirements</th>
<th>Controlled Fund Rs 622.68 crores</th>
<th>Actual Investment</th>
</tr>
</thead>
<tbody>
<tr>
<td>Category</td>
<td>Percentage of controlled Fund</td>
<td>Amount in Crores of Rupees</td>
</tr>
<tr>
<td>At least 50 per cent of the controlled Fund of the Corporation</td>
<td>Central and State Government Securities</td>
<td>52</td>
</tr>
<tr>
<td></td>
<td>Other approved securities</td>
<td>10</td>
</tr>
<tr>
<td>35 per cent of the controlled Fund of the corporation</td>
<td>Approved Investments</td>
<td>26</td>
</tr>
<tr>
<td>Not more than 15 per cent of the controlled Fund of the Corporation</td>
<td>Unapproved Investment (including all foreign Investment amounting to Rs 13.6 crores)</td>
<td>5</td>
</tr>
</tbody>
</table>

**Total** | **93** | **577.96**

*The Balance is represented by other assets which are not of the nature of investments.*

**SOURCE:** Yogakshema, 1961, Vol. 5, Nos. 8-9, p 55.
It will be observed from the above Table that the legal requirements of investment have been fully and adequately met by L.I.C. It has invested in the categories fixed for it by law and in this manner the Corporation has not offended the 'canon of security.' The criticism on the contrary, is that it has been too conservative and has unnecessarily concerned itself with the principle of safety which has made investment policy unenterprising. Let me examine this aspect of L.I.C's investment policy in the light of the objectives that have been formulated in Chapter VI and VII of this thesis.

(b) Assessment of the Investment Policy of L.I.C:

In Chapters VI and VII I have discussed the investment objectives of L.I.C. and have laid down guiding principles for its investment policy. These are briefly reproduced below to discuss the investment policy of L.I.C. in proper perspective.

1. The primary objective of L.I.C. is to earn the maximum possible 'income' within the confines of 'safety' and 'liquidity.'

2. In theory L.I.C. has to discharge its obligations in fixed monetary units but its 'Trusteeship' duties require that it should hedge the policyholders from the falling value of the 'monetary unit.'

3. L.I.C's investments should as far as possible harmonise with the national economic interest. In other words L.I.C's investments should be for the larger economic and social advancement of the country.

4. In the context of wider trusteeship duties the Corporation must contribute for the Regional Economic Development of the country.

5. In order to maximise yield and 'minimise risk the Corporation should resort to proper combination of securities and spread its investment as far as possible.

I have discussed the portfolio structure of L.I.C. in the background of the above stated objectives. I have first of all examined as to how far the increasing investment in Government securities and in the Public Sector as a whole has served the best interests of the policyholders as well as the national economic interest. This can be studied from the Table 77 on the following page which shows that L.I.C. has continuously increased its investment in Public Sector in relation
to the Private Sector.

**TABLE NO. 77**

PERCENTAGE DISTRIBUTION OF INVESTMENTS OF L.I.C. IN INDIA IN PUBLIC AND PRIVATE SECTORS 1957-1960

<table>
<thead>
<tr>
<th>Sectors</th>
<th>1957</th>
<th>1958</th>
<th>1959</th>
<th>1960</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>PUBLIC SECTOR</strong></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>1. Government Securities</td>
<td>69.2</td>
<td>69.3</td>
<td>69.5</td>
<td>70.6</td>
</tr>
<tr>
<td>2. Approved Securities</td>
<td>8.2</td>
<td>8.6</td>
<td>8.4</td>
<td>7.9</td>
</tr>
<tr>
<td>3. Municipal Loans</td>
<td>-</td>
<td>-</td>
<td>0.2</td>
<td>0.1</td>
</tr>
<tr>
<td>4. Debentures, preference and ordinary shares</td>
<td>-</td>
<td>0.2</td>
<td>0.1</td>
<td>0.1</td>
</tr>
<tr>
<td><strong>TOTAL</strong></td>
<td>77.4</td>
<td>78.1</td>
<td>78.2</td>
<td>78.7</td>
</tr>
<tr>
<td><strong>PRIVATE SECTOR</strong></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>1. Approved Securities</td>
<td>1.7</td>
<td>1.4</td>
<td>1.3</td>
<td>1.2</td>
</tr>
<tr>
<td>2. Debentures, preference and ordinary shares in Joint Stock Companies</td>
<td>20.9</td>
<td>20.5</td>
<td>20.5</td>
<td>20.1</td>
</tr>
<tr>
<td><strong>TOTAL</strong></td>
<td>22.6</td>
<td>21.9</td>
<td>21.8</td>
<td>21.3</td>
</tr>
<tr>
<td><strong>GRAND TOTAL</strong></td>
<td>100</td>
<td>100</td>
<td>100</td>
<td>100</td>
</tr>
</tbody>
</table>

**SOURCES:** L.I.C.: Annual Reports and Accounts.

The above table shows that investment in Public Sector has increased from 77.4 per cent in 1957 to about 78.7 per cent in 1960; while investment in the Private Sector has correspondingly declined from 22.6 per cent to 21.3 per cent. The continuing increase of L.I.C.'s investments in the Public Sector do not fully serve the policyholders interest nor L.I.C. has lived to the solemn assurance given by Mr. C.P. Deshmukh, the then Finance Minister who while piloting the L.I.C. Bill, observed:
"I would like to tell the spokesman of the private sector, industrialists and others, that it is not Governments' intention to divert the flow of funds, that is, large dimensions of the present funds, to the public sector, to a greater extent than at present. Now it is my endeavour to see that at least as much money as is available to day is made available for investment in the private sector."(1)

There is very little to say against the investment policy of L.I.C. if the Government assurance was only for an absolute amount as the total investment of L.I.C. in the private sector has increased from Rs 39.5 crores in 1957 to Rs 92.1 crores in 1960. But in a developing economy rigid amount for investment of increasing life insurance saving cannot be prescribed. It is the relative percentage of L.I.C's total investment in the private sector which is important and rightly therefore the Finance Minister has assured the private sector in the Lok Sabha in the following words:

"...It happens that on 31st of December 1954, the proportion of life insurance funds invested in shares and Debentures of Joint Stock companies was less than 16 per cent, and the custodians have been advised to invest up to 16 per cent in such investments"(2)

It is clear therefore that the relative decline of L.I.C's investment in the private sector is not in conformity with the assurance given by the government to the private sector at the time of nationalisation of life insurance.

In defence of L.I.C it can be said that the relative decline in its investment in the private sector was quite natural and it was in line with the investment trends that appeared since 1951. It was indicated in Chapter IV that after the adoption of new monetary policy and the increase in the yield of government securities insurers investment in public sector have gradually increased. This became quite prominent in 1956. In this way the process of increasing investment in public sector was initiated by the private insurance companies themselves. After nationalisation, L.I.C. also responded to the new monetary policy under which the yield on government securities continued to increase (See Fig.16) and consequently L.I.C's investments.

in Government securities, especially in State Governments securities also increased. The investment policy of L.I.C. was in no way different from its inherited policy. It can, however, be criticised for adopting a completely passive attitude towards interest rates. The Corporation could have played an important role in putting upward pressure on the interest rate on government securities by shifting a part of life fund in the private sector. This kind of shift would have been useful to the Corporation as well as to the economy. Such 'shifts' on the part of the insurance companies have been an important factor in the economic development of the U.K. and the U.S.A. However, the 'shiftability' of the funds itself depends upon the availability of alternative outlets. In a less developed economy there is not the diversity of corporate securities for investment that exists in the advanced economies. Consequently the 'shiftability' of the funds is restricted by the overall availability of alternative investment outlets. But in India the Corporation followed an extremely passive policy at a time when the 'investment opportunities' in the private sector were increasing through rapid industrialisation during the Second Five Year Plan.

This is supported from the Table 78 which gives the indices of industrial production and Index numbers of industrial profits.

It will be observed that the average general index of industrial production (with base: 1951=100) rose to 151.9 in 1959 and further to 167.7 during January-June, 1960. This indicates that annual rate of increase has accelerated to 8.7 per cent and further to 10.4 per cent in the first half of 1960. The index of

1. The Committee on the Working of the Monetary System in U.K. has described the effect of the shifts on the economic activity in the following words:
"...It implies, if debt is to be satisfactorily marketed, a rise in bond yields relatively to equity yields. It is the kind of rise in interest rates that can not damage economic activity, since it is a response to the additional attractiveness that some channels of investment have acquired. Resistance to the upward drug occasioned by expectations of inflation, would tend to encourage unbalanced capital development by companies which can sell equities." - Report of the Committee on the Working of the Monetary System, Her Majesty's Stationary Office, London, 1959, p. 212.
TABLE NO. 78

INDEX NUMBERS OF INDUSTRIAL PRODUCTION AND INDUSTRIAL PROFITS

<table>
<thead>
<tr>
<th>Year</th>
<th>General Index of Industrial production</th>
<th>Percentage variation in the previous year</th>
<th>Profits before tax</th>
</tr>
</thead>
<tbody>
<tr>
<td>1950</td>
<td>-</td>
<td></td>
<td>100</td>
</tr>
<tr>
<td>1951</td>
<td>100.00</td>
<td>+3.6</td>
<td>132.4</td>
</tr>
<tr>
<td>1952</td>
<td>103.6</td>
<td></td>
<td>86.6</td>
</tr>
<tr>
<td>1953</td>
<td>105.6</td>
<td>+1.9</td>
<td>100.9</td>
</tr>
<tr>
<td>1954</td>
<td>112.9</td>
<td>+6.9</td>
<td>121.6</td>
</tr>
<tr>
<td>1955</td>
<td>122.4</td>
<td>+8.4</td>
<td>150.1</td>
</tr>
<tr>
<td>1956</td>
<td>132.6</td>
<td>+8.5</td>
<td>167.2</td>
</tr>
<tr>
<td>1957</td>
<td>137.3</td>
<td>+3.5</td>
<td>133.7</td>
</tr>
<tr>
<td>1958</td>
<td>139.7</td>
<td>+1.7</td>
<td>151.7</td>
</tr>
<tr>
<td>1959</td>
<td>151.9</td>
<td>+8.7</td>
<td>N.A</td>
</tr>
<tr>
<td>1960</td>
<td>167.7</td>
<td>+10.4</td>
<td>N.A.</td>
</tr>
</tbody>
</table>

(Jan-June)


Note: Base year of Industrial Production 1951 = 100
Base year of Profit = 1950 = 100.

Profits before tax (with base 1950=100) also increased to 151.7 in 1958 (latest available). The analysis supports the criticism that L.I.C. increased its investment in Government securities without exploiting the investment opportunities in the private sector. Thus the corporation adopted the passive policy. The 'passive policy, followed by the Corporation at a time when better alternative investment opportunities were available was also detrimental to the best interests of the policyholders. L.I.C. which is the trustee of policyholders funds is not only expected to keep safety of funds, foremost but it is also expected to earn the maximum possible interest on investment with a view to reduce the cost of insurance and serve the policyholders. It may be pointed out here that the degree of elasticity and flexibility of the investment policy pursued by the insurers of a country is an indication
of their anxiety to serve policyholders and is a measure of their success in this respect. New combinations of security and profitability represented by different types of investments have to be chosen from time to time. Judged from this standpoint L.I.C. did not earn much credit. It is true that the Corporation has earned an adequate yield in the sense that the net rate of interest of 3.4 per cent (excluding refund of income tax earned by L.I.C. is higher than the assumed rate of interest of 2.5 per cent in the computation of premium rates. Similarly, as against the estimated profit of Rs 6 per thousand contemplated in the present structure of premium rates, the LIC was giving a bonus of Rs 14 per thousand. But L.I.C. should not mortgage the policyholders' future in this manner. This is mainly because the rise in actual income is entirely due to the increasing rate of interest adopted to control inflationary conditions in the economy. However, the margin of earning that is the difference between the assumed rate of interest and actual rate of interest earned by L.I.C. has not improved significantly in spite of the rise in interest rates. This is shown in Fig. 25.

The margin of earning is in fact a sound criteria of the investment policy of an insurer. It will be observed from Fig. 25 that there had been no significant improvement after the nationalisation of life insurance in this margin. Before the nationalisation the policy holders' interest has suffered because of the unenterprising policy of their insurers; things have not materially changed after the nationalisation of life insurance. Furthermore, a life insurance is a long-term contract and in a developing economy due to inflationary methods of economic development, the policyholder is often at a loss in taking such a long-term contract. It was essential for the corporation to protect this interest of the policyholders. It was also important for the corporation to compensate for increasing cost involved in spreading insurance much more widely and cheaply in virgin rural areas.

1. The net yield including refund of income tax amounted to 4.08 per cent.
2. The difference between assumed and actual rate earned shown in Fig. 25 is based on the rate assumed by the largest number of insurers in that particular year.
Assumed Rate of Interest and Net Rate of Interest Earned
By Indian Insurers 1930-1960.

Sources:
1. R.B.I. Banking & Monetary Statistics.
2. L.I.C. Annual Reports & Accounts.
In U.K. and Canada, for instance, the insurers have invested significant amounts in equities in order to hedge the increasing administrative cost against inflation. It is also important to note that one of the reasons for the rapid growth of life insurance in these countries in the post-war period is the rationalisation of the investment policy with a view to provide a degree of economic and social protection to the policyholders.

The adaptation of the investment policy to meet the changing expectation of the policyholders is of considerable importance for L.I.C. because life insurance is taken in India both as a method of protection as well as a media of saving. Failure of L.I.C. to provide the 'real social' protection and lack of provision of sufficient financial inducement to the income motivated saver has been the main cause of the slow growth of life insurance savings in India.

Lack of Support to the Development of New Enterprises:

It was pointed out in Chapter VI (.) that L.I.C. facilitated the growth of new enterprises only indirectly through underwriting of shares and through secondary Financial Institutions and that too only to a limited extent. Its direct participation in the shares and debentures of new companies is very insignificant in relation to its total investment in shares and debentures. For example out of Rs 7.04 crores invested in 1959 in shares and debentures, Rs 4.81 crores i.e. 68.5 per cent was in shares already in the market. Only Rs 17.15 lakh i.e. 2.4 per cent was invested in the shares and debentures of newly floated companies while a little over 29 per cent was invested in the shares and debentures floated by existing companies. Thus the purchase of shares which are already in the market can hardly serve the purpose of aiding the development of new industries or expansion of existing ones. Such investment normally go to the benefit of the persons who are already possessing

such shares very likely for speculation. In other words, it is asserted that
L.I.C. has made little attempt to provide equity capital to new industries and to
alleviate the position of new firms. This assertion against L.I.C. must be examined
in the context of the less-developed economy, the type of financial risk which such
an economy presents and the basic limitation of L.I.C. in assuming the risk of
economic development.

Primarily it should be recognised that insurance enterprise itself cannot
initiate the process of growth. Its investment depends upon the availability of
suitable securities. It is equally important to remember that in the early stages
of economic development corporation finance is a risky investment which L.I.C.
as the custodian of policyholder's funds can hardly assume. Moreover the risk of
investment in new enterprise is far greater than the ability of L.I.C. to assume
such a risk.

"This is due to the fact that in centering on new and unusual ventures, this
type of investment confront a difficult problem of discovering and evaluating
projects. It is a difficult enough job to assess the earnings prospects
of established companies or products; it is far more difficult to judge the
profitability of ventures yet unborn." (2)

This obviously restricts the L.I.C. to invest in new ventures. But at the
same time L.I.C. cannot keep itself aloof from the process of growth. In its
broader trusteeship duties it has to underwrite the process of growth in a manner
consistent with safety of funds. In advanced economies, insurers have overcome
this incompatibility between their obligation towards the policyholders and in
the discharge of their broader trusteeship duties through intensive and extensive
research programmes. The development of 'Direct Negotiations' in U.S.A.,

1. Estimates Committee, p. 43.

2. International Industrial Development Centre: Private United States Venture
Capital for Investment in New Developing Countries - Investment Series, 2
Stanford Research Institute, California, 1958, p 9.
Canada and U.K., and Industrial Loans in Japan bear testimony to the fact that although life insurance companies could not create new outlets for funds, they could at least create climate in which life insurance funds could aid economic development. L.I.C. made very limited effort to explore new outlets of investment. It has not made any endeavour to improve its investment administration by appointing expert investment or otherwise adopting sound and rationalised policies, or even to ponder seriously on the matter. In view of its socio-economic status, L.I.C. should not have pursued a completely passive and unenterprising policy. As the largest saving institutions it could have aided the growth of new and small concerns by devising methods to suit its own investment requirement. Instead, L.I.C. reduced the entire investment operation to a simple routine by investing in the Public Sector on the plea that:

"The distinction between the public and private sector is, however, losing some of its validity as the funds advanced to the public sector are often utilised for the benefit of private sector undertakings or private individuals. For example, the Corporation's investments in the various State Financial Corporations are utilised by these institutions for the purpose of financing industries in the private sector. Similarly the housing loans advanced by the L.I.C. to State Governments are used by them for disbursement to their employees as well as other private persons for constructions of houses." (1)

This is rather a poor criteria of an investment policy. The doctrine of guardianship of policyholder's interest on the other hand requires that, subject to the over-riding consideration of security of investment, the main object should be to obtain the highest possible return. The return from investment in the Public Sector is decidedly lower than the private sector.

(iii) Lack of Diversification:

The income of the Corporation is derived from policyholders scattered throughout the length and breadth of India and it is only proper that the policyholder's savings are utilised for the economic development of the country as a whole.

Besides, for a sound investment policy it is essential that the investment should be geographically diversified. But from the following Table it appears that the corporation has failed to attain this objective.

**TABLE 79**

**REGIONAL DISTRIBUTION OF L.I.C.'S INVESTMENTS**

1957 to 1960

<table>
<thead>
<tr>
<th>State</th>
<th>Investment in the State as at 31-12-1957 (Rs in lakhs)</th>
<th>Investment in the State as at 31-12-1960 (Rs in lakhs)</th>
<th>Net additional investment in the State during 3 years</th>
</tr>
</thead>
<tbody>
<tr>
<td>Andhra</td>
<td>5,84.09</td>
<td>12,99.81</td>
<td>7,15.76</td>
</tr>
<tr>
<td>Assam</td>
<td>1,08.76</td>
<td>1,85.94</td>
<td>78.08</td>
</tr>
<tr>
<td>Bihar</td>
<td>6,57.33</td>
<td>15,55.81</td>
<td>6,96.48</td>
</tr>
<tr>
<td>Delhi</td>
<td>91.83</td>
<td>1,15.98</td>
<td>24.15</td>
</tr>
<tr>
<td>Gujrat</td>
<td>45,02.76</td>
<td>9,38.60</td>
<td>38.08</td>
</tr>
<tr>
<td>Maharashtra</td>
<td>54,24.32</td>
<td>18,80.36</td>
<td>22.60</td>
</tr>
<tr>
<td>Kerala</td>
<td>1,54.56</td>
<td>4,73.83</td>
<td>3,19.27</td>
</tr>
<tr>
<td>Madhya Pradesh</td>
<td>3,14.18</td>
<td>6,24.53</td>
<td>3,10.35</td>
</tr>
<tr>
<td>Madras</td>
<td>12,69.29</td>
<td>18,76.28</td>
<td>6,06.99</td>
</tr>
<tr>
<td>Maysore</td>
<td>5,44.22</td>
<td>9,67.68</td>
<td>4,23.26</td>
</tr>
<tr>
<td>Orissa</td>
<td>2,02.37</td>
<td>5,01.38</td>
<td>2,99.01</td>
</tr>
<tr>
<td>Punjab</td>
<td>93.59</td>
<td>1,97.82</td>
<td>1,04.23</td>
</tr>
<tr>
<td>Rajasthan</td>
<td>63.94</td>
<td>4,66.14</td>
<td>4,02.20</td>
</tr>
<tr>
<td>Uttar Pradesh</td>
<td>14,37.03</td>
<td>29,44.25</td>
<td>15,07.22</td>
</tr>
<tr>
<td>West Bengal</td>
<td>37,74.34</td>
<td>46,56.11</td>
<td>8,81.77</td>
</tr>
<tr>
<td>Jammu &amp; Kashmir</td>
<td>-</td>
<td>2.50</td>
<td>2.50</td>
</tr>
<tr>
<td><strong>Total</strong></td>
<td>139,98.45</td>
<td>222,30.08</td>
<td>82,31.63</td>
</tr>
</tbody>
</table>


It will be observed from the above Table that nearly one fourth of the total investments of the Corporation were in two States, Bombay (Maharashtra and Gujrat) and West Bengal, Madras and Bihar came next in importance; while Rajasthan, Punjab, Madhya Pradesh, Kerala, Delhi and Assam seem to have been neglected by the
Corporation. Though Andhra and Orissa have received somewhat more attention of the L.I.C. in recent years, this gives an impression that the policy of promoting balanced regional economic development of the country enunciated by the Planning Commission has not been followed scrupulously by the corporation.

In this connection, it is important to recognise the basic limitations of L.I.C. It should be appreciated that L.I.C. has inherited a large part of investment from the previous insurers, who, having their head office in certain regions, preferred investments in those areas. This naturally led to the concentration of investment in certain regions. The new investments by the corporation cannot at once diffuse that concentration.

Similarly it should be realised that the objective of spread of investments by regions is subject to consideration of availability of investments satisfying the requirements of safety of capital and yield. Certain regions in the country are industrially well developed and offer greater opportunities, for suitable investment than other regions. Thus the four States of Bombay, Delhi, Madras and West Bengal where L.I.C’s investments are mainly concentrated have about 76 per cent of the total number of Joint Stock Companies and 81 per cent of the paid up capital of all companies at work in the country as on 31st March, 1958. The combined share of West Bengal and Bombay in the total number as well as in the total paid-up capital was much higher than the combined shares of the remaining States. The States of West Bengal and Bombay (Maharashtra and Gujrat) together accounted for 63 per cent of total number and 59 per cent of the total paid-up capital of all companies at work as on 31st March, 1958.

Moreover the industrially developed regions where L.I.C.'s investments are concentrated have largely contributed in the total life business in force. Thus the enclosed map and the following table shows that at the end of 1959 Western Zone (comprising Maharashtra and Gujrat) which have contributed about 41 per cent to life insurance in force have claimed about 35.87 per cent of L.I.C's investments; Eastern Zone (which comprises the States of Assam, Bihar, Orissa and West Bengal) have contributed about 24.3 per cent in Business in force while they have claimed 34 per cent of L.I.C's Stock Exchange investments. Southern Zone (which comprises the States of Andhra, Kerala, Madras and Mysore) have contributed 18.2 per cent in Business in force and have claimed 19.74 per cent of Stock Exchange investment. Central Zone (comprising Madhya Pradesh and U.P) which have contributed about 6.4 per cent in L.I.C's business have claimed about 12.60 per cent of investments. Northern Zone (comprising Punjab and Rajasthan) have contributed 10.1 per cent in business in force could claim only 2.79 per cent of investments.

**TABLE 8.0**

**ZONAL DISTRIBUTION OF LIFE INSURANCE IN FORCE AND STOCK EXCHANGE INVESTMENT OF L. I. C.**

as on 31st Dec. 1959.

<table>
<thead>
<tr>
<th>Zone</th>
<th>Rs percentage of total Business in Force</th>
<th>As percentage of total investments</th>
</tr>
</thead>
<tbody>
<tr>
<td>Eastern</td>
<td>24.3</td>
<td>33.99</td>
</tr>
<tr>
<td>Western</td>
<td>41.0</td>
<td>30.87</td>
</tr>
<tr>
<td>Central</td>
<td>6.4</td>
<td>12.61</td>
</tr>
<tr>
<td>Northern</td>
<td>10.1</td>
<td>2.79</td>
</tr>
<tr>
<td>Southern</td>
<td>18.2</td>
<td>19.74</td>
</tr>
<tr>
<td><strong>Total</strong></td>
<td><strong>100.0</strong></td>
<td><strong>100.0</strong></td>
</tr>
</tbody>
</table>

**SOURCES:**
1. L.I.C: Annual Reports and Accounts
2. Estimates Committee Report.
GEOGRAPHICAL DISTRIBUTION OF BUSINESS IN FORCE AND INVESTMENT 1959

Each represents 10 crores of Business in Force.
Each represents 1 crores of Stock Exchange Investments.

NORTHERN ZONE:
- Union Territory of Delhi & Himachal Pradesh
- State of Punjab, Jammu & Kashmir, Haryana and Rajasthan.

CENTRAL ZONE:
- U.P & M.P.

EASTERN ZONE:
- N. Bengal, Bihar, Orissa, Odisha, Manipur, Tripura.

SOUTHERN ZONE:
- Andhra, Kerala, Tamil Nadu, Karnataka.

WESTERN ZONE:
- Maharashtra and Gujarat.

SEE PAGE VIII-28
VIII.24

It is clear from the above account that L.I.C.'s investments are more or less conforming with the business in force in the regions. Again, practical considerations do not allow investment in regions in proportion to the premium income or net surplus funds derived therefrom nor would such considerations allow equal investments in the different regions. Hence some of the disparity is also due to this reason.

In spite of these limitations, the Corporation has been and is making serious efforts at diversification of investments by regions as far as practicable considerations allow. But it has not fully succeeded in its mission as the net additions made during three years periods in Bombay (Maharashtra and Gjrat), U.P. and West Bengal is more than its investments made in other States (See Table 79). The failure of the Corporation to diversify its investment geographically is not only due to the non-availability of investment outlets in certain regions but also due to the technique adopted by the Corporation in spreading its investments. The Corporation used State Government securities for diversifying its investment in different regions and did not exploit local investment opportunities for investment. This is evident from the Table No. 81.

**TABLE NO 81**

PERCENTAGE ADDITION IN STATE GOVERNMENT SECURITIES AND OTHER SECURITIES IN VARIOUS STATES DURING THE PERIOD 1957-1960

<table>
<thead>
<tr>
<th>States</th>
<th>State Government securities (percentage increase (+) or decrease (-))</th>
<th>Approved securities and Municipal securities (percentage increase (+) or decrease (-))</th>
<th>Shares and Debenture of companies whose works or factories are situated in the State (Percentage increase (+) or decrease (-))</th>
</tr>
</thead>
<tbody>
<tr>
<td>Andhra</td>
<td>+255.8</td>
<td>+ 30.2</td>
<td>+ 38.3 %</td>
</tr>
<tr>
<td>Assam</td>
<td>-</td>
<td>+ 261.8</td>
<td>+ 5.5 %</td>
</tr>
<tr>
<td>Bihar</td>
<td>+213.9</td>
<td>+392.8</td>
<td>+ 50.0 %</td>
</tr>
<tr>
<td>Delhi</td>
<td>-</td>
<td>-</td>
<td>+ 15.2 %</td>
</tr>
<tr>
<td>Bombay</td>
<td>+103.4</td>
<td>+ 29.2</td>
<td>+ 34.4 %</td>
</tr>
<tr>
<td>Kerala</td>
<td>+871.0</td>
<td>+ 299.1</td>
<td>+ 3.2 %</td>
</tr>
<tr>
<td>Madhya Pradesh</td>
<td>+128.0</td>
<td>- 67.4</td>
<td>+ 125.1 %</td>
</tr>
<tr>
<td>Madras</td>
<td>+ 39.8</td>
<td>+ 51.1</td>
<td>+ 74.6 %</td>
</tr>
<tr>
<td>Mysore</td>
<td>+ 81.1</td>
<td>+ 44.7</td>
<td>+ 80.2 %</td>
</tr>
<tr>
<td>Orissa</td>
<td>+353.0</td>
<td>- 38.7</td>
<td>+ 11.8 %</td>
</tr>
<tr>
<td>Punjab</td>
<td>+188.0</td>
<td>+ 398.7</td>
<td>+ 13.3 %</td>
</tr>
<tr>
<td>Rajasthan</td>
<td>+739.4</td>
<td>+ 24.8</td>
<td>+ 551.0 %</td>
</tr>
<tr>
<td>Uttar Pradesh</td>
<td>+127.8</td>
<td>+ 203.6</td>
<td>+ 9.5 %</td>
</tr>
<tr>
<td>West Bengal</td>
<td>+ 91.8</td>
<td>- 18.4</td>
<td>+ 24.3 %</td>
</tr>
<tr>
<td>Jammu &amp; Kashmir</td>
<td>-</td>
<td>-</td>
<td>-</td>
</tr>
</tbody>
</table>

SOURCE: L.I.C. Annual Reports and Accounts.
It will be observed that during the period 1957 to 1960 the percentage increase in State Government securities and approved securities in the under developed States of Orissa, Assam, Bihar, U.P. and Rajasthan is more significant than in corporate securities. The addition in State Government securities has been made at the cost of almost all forms of investments. This is also substantiated by the following table.

TABLE No 82

INDICES OF DIFFERENT CLASS OF INVESTMENTS AS PERCENTAGE TO TOTAL ASSETS

<table>
<thead>
<tr>
<th>Year</th>
<th>Central Government Securities</th>
<th>State Government Securities</th>
<th>Municipal and other approved Securities</th>
<th>Corporate Securities</th>
<th>Mortgage</th>
<th>Land and Building</th>
</tr>
</thead>
<tbody>
<tr>
<td>1956</td>
<td>100</td>
<td>100</td>
<td>100</td>
<td>100</td>
<td>100</td>
<td>100</td>
</tr>
<tr>
<td>1957</td>
<td>96.8</td>
<td>108.3</td>
<td>92.1</td>
<td>108.0</td>
<td>83.3</td>
<td>97.8</td>
</tr>
<tr>
<td>1958</td>
<td>97.1</td>
<td>132.1</td>
<td>100.0</td>
<td>103.1</td>
<td>69.4</td>
<td>93.6</td>
</tr>
<tr>
<td>1959</td>
<td>93.2</td>
<td>139.3</td>
<td>94.7</td>
<td>104.1</td>
<td>52.9</td>
<td>87.2</td>
</tr>
<tr>
<td>1960</td>
<td>89.0</td>
<td>180.9</td>
<td>89.4</td>
<td>105.1</td>
<td>41.6</td>
<td>87.2</td>
</tr>
</tbody>
</table>

SOURCE: L.I.C. Annual Reports and Accounts.

The above table gives the indices of various forms of L.I.C.'s investments as percentage to total assets with 1956 as Base Year. It will be observed that L.I.C's investments in State Government securities have increased by about 80 per cent at the expense of various other forms of investments. The decline in Central Government securities is very nominal as against the rise in State Government securities. In pursuing a 'defensive' investment policy for regional development not only the policyholders interest has suffered but L.I.C. has also not succeeded in its mission. The preference of the Corporation to invest the growing volume of life fund in Government securities and in established concerns has resulted into concentration in few industries and in few companies.
Thus Table No. 83 on the following page shows that Electricity, Engineering Cotton and Iron and Steel industries which are the oldest and most established industries of India have each attracted on an average, about one-tenth of the total L.I.C. investments in debentures and shares. The total average investment in these industries accounted for more than 37 per cent at the end of 1960. Cement, Jute and Paper came next in importance with a percentage share of about 5 per cent. The investment in vegetable, oil, Railways, Mining, Housing, Chemicals, Plantations, Shipping, Transport and Textile (other than cotton) are almost of a negligible order. The miscellaneous group accounts for about one-fifth of the total debentures and shares. This concentration of investment is partly due to its inheritance and partly due to the conservative investment policy followed by L.I.C. Before the nationalisation of life insurance most of the life offices have invested large amount in more or less same industry and even in the same company. L.I.C. could not diffuse the investment because most of companies in which investments were tied were the established concern which accounted for significant portion of the total capital of all Joint Stock Companies in India. For example Cotton Textile, Iron and Steel, Electric Goods and Electricity supply and Engineering companies contributed about 39 per cent of the total capital of Joint Stock Companies and accounted for more than 12 per cent of the total number of Joint Stock Companies at work in 1957-58. Consequently in Cotton Textile the amount of Rs 857.36 lakh is invested by L.I.C. in 1960 is distributed among 154 companies; in Engineering the investment of Rs 909.84 lakh is spread in 66 companies, in Electricity the investment of Rs 954.70 lakh is diversified in 55 companies. While in Iron and Steel the investment of Rs 767.30

TABLE NO 8.3

DISTRIBUTION OF L.I.C.'s INVESTMENT AMONG VARIOUS INDUSTRIES

<table>
<thead>
<tr>
<th>Industry</th>
<th>Amount 1957</th>
<th>Percentage of total investment</th>
<th>Amount 1960</th>
<th>No. of Percentage increased</th>
<th>Net addition during the period 1957 to 1960</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>1957</td>
<td>1960</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td></td>
<td>Amount</td>
<td>Percentage</td>
<td>Amount</td>
<td>Percentage</td>
<td>Amount</td>
</tr>
<tr>
<td></td>
<td></td>
<td>of investment in industries.</td>
<td></td>
<td>of the industries.</td>
<td></td>
</tr>
<tr>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>aluminium</td>
<td>264.75</td>
<td>26.475</td>
<td>4</td>
<td>2.9</td>
<td>264.75</td>
</tr>
<tr>
<td>banks</td>
<td>263.12</td>
<td>3.8</td>
<td>296.77</td>
<td>3.2</td>
<td>33.65</td>
</tr>
<tr>
<td>cement</td>
<td>365.96</td>
<td>5.3</td>
<td>533.87</td>
<td>5.8</td>
<td>167.91</td>
</tr>
<tr>
<td>coal</td>
<td>191.93</td>
<td>2.8</td>
<td>235.42</td>
<td>2.6</td>
<td>44.49</td>
</tr>
<tr>
<td>cotton</td>
<td>690.85</td>
<td>10.0</td>
<td>857.36</td>
<td>9.3</td>
<td>166.51</td>
</tr>
<tr>
<td>dy, chemicals &amp; pharmaceuticals</td>
<td>119.94</td>
<td>1.7</td>
<td>182.57</td>
<td>32</td>
<td>2.0</td>
</tr>
<tr>
<td>electricity</td>
<td>829.21</td>
<td>11.9</td>
<td>954.70</td>
<td>55</td>
<td>10.3</td>
</tr>
<tr>
<td>electric goods</td>
<td>-</td>
<td>-</td>
<td>306.33</td>
<td>21</td>
<td>3.3</td>
</tr>
<tr>
<td>engineering</td>
<td>714.21</td>
<td>10.3</td>
<td>909.84</td>
<td>66</td>
<td>9.9</td>
</tr>
<tr>
<td>food, drink &amp; tobacco</td>
<td>-</td>
<td>-</td>
<td>80.53</td>
<td>16</td>
<td>0.9</td>
</tr>
<tr>
<td>insurance</td>
<td>135.82</td>
<td>2.0</td>
<td>259.83</td>
<td>38</td>
<td>2.8</td>
</tr>
<tr>
<td>investment</td>
<td>-</td>
<td>-</td>
<td>-</td>
<td>-</td>
<td>-</td>
</tr>
<tr>
<td>trusts</td>
<td>90.42</td>
<td>0.7</td>
<td>184.63</td>
<td>25</td>
<td>2.0</td>
</tr>
<tr>
<td>iron &amp; steel</td>
<td>548.40</td>
<td>7.9</td>
<td>767.30</td>
<td>2</td>
<td>8.3</td>
</tr>
<tr>
<td>jute</td>
<td>414.63</td>
<td>5.9</td>
<td>431.64</td>
<td>56</td>
<td>4.7</td>
</tr>
<tr>
<td>managing agents</td>
<td>185.44</td>
<td>2.4</td>
<td>177.08</td>
<td>21</td>
<td>2.0</td>
</tr>
<tr>
<td>matches</td>
<td>-</td>
<td>-</td>
<td>57.97</td>
<td>3</td>
<td>0.6</td>
</tr>
<tr>
<td>mining</td>
<td>33.65</td>
<td>0.4</td>
<td>63.66</td>
<td>7</td>
<td>0.7</td>
</tr>
<tr>
<td>mineral oil</td>
<td>-</td>
<td>-</td>
<td>749.24</td>
<td>5</td>
<td>8.1</td>
</tr>
<tr>
<td>paper &amp; boards</td>
<td>309.00</td>
<td>4.5</td>
<td>409.05</td>
<td>17</td>
<td>4.5</td>
</tr>
<tr>
<td>plantation</td>
<td>135.52</td>
<td>1.9</td>
<td>260.32</td>
<td>147</td>
<td>2.2</td>
</tr>
<tr>
<td>railways</td>
<td>70.58</td>
<td>1.0</td>
<td>65.89</td>
<td>16</td>
<td>0.7</td>
</tr>
<tr>
<td>rubber products</td>
<td>-</td>
<td>-</td>
<td>216.21</td>
<td>7</td>
<td>2.4</td>
</tr>
<tr>
<td>shipping and transport</td>
<td>121.39</td>
<td>1.8</td>
<td>96.30</td>
<td>16</td>
<td>1.1</td>
</tr>
<tr>
<td>sugar and brewerias</td>
<td>142.55</td>
<td>2.1</td>
<td>289.66</td>
<td>64</td>
<td>3.2</td>
</tr>
<tr>
<td>textile other than cotton</td>
<td>89.34</td>
<td>1.2</td>
<td>192.31</td>
<td>6</td>
<td>2.1</td>
</tr>
<tr>
<td>vegetables oil</td>
<td>33.22</td>
<td>0.5</td>
<td>65.74</td>
<td>15</td>
<td>0.7</td>
</tr>
<tr>
<td>coopeative</td>
<td>29.61</td>
<td>0.43</td>
<td>23.60</td>
<td>4</td>
<td>0.3</td>
</tr>
<tr>
<td>miscellaneous</td>
<td>1456.18</td>
<td>21.6</td>
<td>331.14</td>
<td>115</td>
<td>3.6</td>
</tr>
</tbody>
</table>

Total: 6913.77 100 9204.91 1031 100 2291.14

SOURCE: L.I.C.'s ANNUAL REPORTS AND ACCOUNTS.
lakh is concentrated only in two companies (See column 4 and 6 of the table B3).

The concentration of L.I.C's investments in certain Industries is also due to its orthodox investment policy. Thus the Reserve Bank Survey of ownership of shares in Joint Stock Companies as at the end of December 1959, shows that in 56 old established companies L.I.C's holdings are about 6.28 per cent of the total value of the shares issued by those companies. As against this L.I.C's investments in 14 new companies is only 1.24 per cent of the total value of the shares issued by these companies.

The same survey also reveals that in the coal, Rubber, Electricity and Cement L.I.C's holdings varies from 8 per cent to 15 per cent. A holding of more than 6 per cent by L.I.C in one company is considered to be carrying sufficient weight against the 'unorganised number of individuals.' In view of the nationalised status of L.I.C. such concentration of holdings in established concerns create suspicion which is detrimental to the growth of private enterprise in India. From 'purely an investment point of view also the concentration of investment is undesirable. But this is inevitable because the number of established concern is limited in India and they are located, due to natural factors, in some regions. It is clear therefore that unless L.I.C. follows a more dynamic and enterprising investment policy to aid the growth of new concern in India it can not have a balanced and diversified portfolio structure. Methods to diversify the investment through intensive and extensive Research have to be devised to help the growth of new concern in different parts of the country. Such an investment policy will bring on the whole, a better return for the policyholders and will also encourage the flow of capital in different regions.

1. L.I.C's Investment for Social Advancement:

Investment for Social Advancement is considered to be an important investment objective of L.I.C. To implement this the corporation selected the financing of

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1. Reserve Bank of India Bulletin; May, 1962. (The share of L.I.C is given with other institutions in that survey. But as pointed in Chapter V the share of other institutions is very insignificant in relation to L.I.C. The survey, therefore, roughly indicates L.I.C's position in various companies and in various industries.)
housing schemes because investment in Real Estate adequately meets the investment
requirements of L.I.C. Moreover, housing is one of the most important social problems
which the country is facing today. An idea of the gravity of the problem can be had
from the fact that as against the annual increase of 4 per cent in the urban popula-
tion new houses have been constructed only at the rate of 2.5 per cent during the
two Plans. The number of cities with a population of 1,00,000 or more has increased
from 75 in 1951 to 115 in 1961 and their population now forms about 43 per cent of
1 total urban population.

A close up of the situation in Bombay reveals the fact that while the population
during the last 17 years has increased by 200 per cent, the increase in the number of
properties is only 17 per cent. Similarly a recent survey in Ahmadabad has shown
that 43 per cent of the population have normal habitation, 32 per cent live in over
crowded houses, while the rest live in huts hardly fit for human habitation. The
2 conditions in other cities are more or less similar.

The rapid increase in urban population has not only resulted in the creation
of slum areas in the cities with grave economic and social consequences but it has
also created serious residential problems for the middle class as the people of this
income group mostly live in rented home in urban areas. The Urban Saving Survey
for instance shows that 40 per cent of the families in urban areas live in their own
3 houses in rented accommodation and the rest in rent free. Those living in rental
4 housing are paying high rents. The high rents heavily tax the budget of income-
earner which affects his efficiency, undermine his earning capacity and saving

1. The Third Five Year Plan, p 689.
2. Report of a Seminar Organised by the Indian Institute of Public Administration
Bombay Regional Brachh Problems of Urban Housing: Popular Book Dept, Bombay,7
Foreword, p III.
New Delhi, 1962, p 110.
ability. Thus the Delhi Saving Survey indicates that one of the important cause of the small middle class saving is due to high rent and high transport charges which the people of this income group are forced to pay for joining their offices from distance places. The small amount of saving, especially from middle class, in turn is responsible for many cobwebs in the planned and rapid economic development of the country.

Again, the rising urban land values due to industrialisation and urbanisation of the country is becoming an important cause for the unequal distribution of wealth which is running contrary to the basic objective of the Socialist pattern of society. It was therefore considered important that L.I.C's investment in housing would not only help in the solution of one of the most important social problems but it would also help the implementation of the policy of Regional development and diversification of investment. Investment in housing is beneficial to the growth of life insurance savings because it relieves the middle class population from the pressure of paying high rents. The surplus on this account can be mobilised by the corporation. Thus to help the solution of the housing problems the corporation adopted the following schemes of housing development in the country.

1. Scheme for grant of Loans on mortgage of property.
2. Staff Cooperative Housing Scheme.
3. Scheme for Grant of Loans to policyholders for construction of houses.
4. Financing of State Housing Schemes.
5. The Corporation has also schemes for grant of loans to (a) Apex Cooperative Housing Finance Societies (b) Public Limited Companies for the purpose of Housing schemes for their employees and (c) Housing Cooperative of employees of Public Limited Companies for construction of houses.

From the commencement of these schemes within the last two years, the total housing loans sanctioned by the corporation amounted to Rs 23.05 crores. These loans have not yet been fully utilised by the agencies which received them. According to information available the State Governments have so far sanctioned loans for the construction of 3,859 middle class houses and 4,238 State employees' houses.

1. For details of these schemes see Yogakshema, 1961, Vols 8-9, pp 60-62.
The Cooperative Housing Finance Societies and other institutions have disbursed loans for the construction of 2,795 houses and the corporation itself has constructed 264 quarters in India besides sanctioning loans to its employees cooperatives for building 116 houses. The number of houses for whose construction or completion mortgage loans have been sanctioned is 95. Thus, the total number of houses constructed or under construction in the country with the aid of L.I.C. funds is 11,367. The Corporation has also indirectly helped the relief of housing shortage by pushing up or completing office buildings worth Rs 3.91 crores, during the last five years.

Considering the acute shortage of houses it can be concluded from the above analysis that the Corporations' investments with regard to housing finance are still in the formative stage. Many defects have also crept in during this time. In the first instance the corporation has placed much reliance on the outside agency which is inefficient and weak. The fact that the total amount of Rs 23.05 crores sanctioned by the corporation to the various State Schemes remained unutilised reflects administrative weakness of the scheme. Either there was no demand for these loans or the procedure was so complicated and the administrative machinery was so slow that it could not make timely disbursements of the loans. Whatever might be the reason its incidence must have fallen on the corporation for it could not invest the earmarked funds in any other permanent assets.

Similarly the so called policyholders loan schemes which the Corporation has so ambitiously drawn is not likely to gain any popularity. Undoubtedly, from the investment point of view the scheme is quite sound as it guarantees adequate return with safety of capital. But from the realistic point of view the scheme will not gain much popularity since for the middle class for whom the scheme has been prepared,

1. In this connection the Chairman of the L.I.C. pointed out that the main cause is the shortage of materials and not of finance (Indian Express, New Delhi (Edition), February 1, 1960. This again underlines the lack of coordination in our planning in which the financial aspect of housing is partially tackled but that of raw materials like Cement and Steel is just neglected.
it is not only the problem of finances for the construction of houses but also the problem of time, supervision, building material, technical knowledge and skill. Most of the people could not spare time from the employment for the collection of housing material and to supervise the construction of houses. It was essential, therefore, on the part of L.I.C, to look to these basic requirements of the middle class population on whose prosperity it thrives. To a certain extent L.I.C's reluctance to take the initiative and to assume the risk of direct financing is understandable. The corporation had the painful experience of inheriting large numbers of unsatisfactory mortgages from various insurers, under the circumstances it can not but be extremely circumspect in granting loans. To my mind this very experience of L.I.C. should have prompted it to finance directly in housing instead of choosing the defensive policy. In the absence of sound mortgage market, the 'defensive investment' policy is not always 'safe'. In the case of the foreclosure of the property, the corporation acquires the title under the most unfavourable circumstances under which it could not disposed it off. The management problem of associated with the Real Estate often discourage the insurer to adopt this method of finance. In my opinion the basis for judging any investment should be its ability to meet the criteria of safety, yield and liquidty and not whether responsibility of management is involved. Since investment in real estate satisfies all the characteristics of sound investment; management problem alone should not be allowed to play the decisive role. Some of the problems involved in real estate management such as rent fixation and realisation; allotment and eviction of the tenants could be solved through the association of employers and institutions. The organisation of a fully equipped building department could manage various L.I.C. Housing projects. The competence of this department will ultimately justify the investment in real estate. Moreover, as explained earlier, the management of the foreclosed property in fact, is more difficult and unfavourable to the corporation than the construction of the building for the exclusive purpose to rent it. In the former case the corporation
has no control over the location, arrangement, standard of construction and selection of material. The corporation finds difficulties in letting the mortgaged building at a reasonable rent and still more difficult is to obtain an adequate value on sale. In case of direct investment on the other hand, the corporation exercises its own discretion in the selection of material and planning of the building. It is comparatively easier for the corporation to realise a suitable rent or to dispose off the property at a fair price. It is surprising, therefore, that despite the social needs of 'housing' and its ability to 'match' insurers liability, this form of investment has not received due consideration at the hands of L.I.C.

It can, therefore, be concluded that in the absence of sound mortgage market and also due to the financial weakness of the municipalities and cooperative societies it will not be a 'safe course' for L.I.C. to follow traditional methods to finance housing development. Similarly financing through the State Housing Scheme and through indirect methods can not be an effective media for the early solution of the housing problem in the country. In the interest of its policyholders as well as for its own future growth the corporation had to take direct financing on the one hand and on the other hand it had to finance the development of ancillary industries producing building material. Unless the corporation undertakes both the functions together, its role will be seriously circumscribed in providing shelter to its constituents and relieving them from the burden of excessive rents.

V Constitution and Working of the Investment Committee

According to section 19(2), the corporation has an investment committee which should not consist of more than seven members of whom not less than three shall be members of the corporation and the remaining members shall be persons (whether members of the corporation or not) who have special knowledge and experience in financial matters, particularly, matters relating to investment of funds.

At present, excluding the Chairman of L.I.C. three members are from Bombay and one each from Calcutta, Delhi and Madras. The Investment Committee has not only

inadequate representation of various sectors but also/nor representation of the important Financial Institutions such as the Reserve Bank of India and Industrial Finance Corporation. The association of these agencies would have enabled the corporation to closely follow the 'Public Policy' which is formulated by the Monetary authority.

Besides the day to day working of the Investment Committee has also shown that its operations are based largely on the prodigious accumulation of detailed information regardless of their pertinency. Before advising on investments the Committee took into account the financial records of the various companies. For this purpose, the office of the corporation prepared background notes, including financial analysis with regard to new ventures where the advice of the Investment Committee was required on specified investments. Besides there were also large numbers of last moment 'offers' received from various stock exchanges. These offers are placed before the Investment Committee without assaying their investment value. The need for adopting such a course was that those were 'time-limit orders', they were made on certain conditions and were open to specified time. According to the Chairman of the L.I.C. the above procedure was essential because if the corporation restricted its investment to time limit orders and ignored last hour transactions, most of its funds might have remained idle.

It is clear from the above account that the investment operation of L.I.C is based on chance and it is lucky if it avoids early failure. It is true that the borrowers and markets in our developing economy are restless creatures, and the temptation to act quickly lest the opportunity is lost often an irresistible one. To overcome this fall, investment management should anticipate demand, maintain readily usable files of investment information, and take immediate steps to catch the market and explore new areas carefully. In this respect only the corporation has failed to investigate the investment opportunities but on numerous occasions it has acted on outside information without analysing the investment values of the

securities. The policies and procedure actually adopted by the corporation for investing its funds were contrary to recognised business principles, against all canons of sound investment and weighted heavily in favour of outside interests to the detriment of the interests of the policyholders. Interested parties, who wanted to get rid of their investments at high prices, could mislead the corporation by raising false alarms regarding the collapse of the stock market. The fact is clearly shown by Justice Chagla in his report when he observes:

"Assuming that the transaction was entered into not to relieve Mundhra of his financial difficulties but to stabilise the market and remove the drag on it as suggested by Mr. Patel, even so the investment has been made from extraneous purpose and not solely in the interest of the policyholders. It is obligatory upon the corporation to consider every investment on its own merits and to decide whether it is sound and prudent investment. It is only when government has issued a directive in writing under Section 21 that it would be incumbent upon the corporation to carry out that directive, even though in its opinion the investment may not be a sound one from the point of view of the yield which it might give or the security of the capital."

The most unfortunate aspect in the instance quoted by Justice Chagla was that an institution which was investing about Rs 10 lakh per day relied on outside information without investigating the facts. As the largest investor of the country it was necessary that the corporation should have made proper research of the various investment outlets and even forecast future investment trends. Instead of providing lead to other investors it has been led by outside interests. Moreover, the carrying out of an active and successful investment programmes require that the investment committee of the corporation should confer upon the investment manager a reasonable amount of latitude in making purchases of approved investments. But the corporation has rigidly fixed this limit by prescribing a limit which bears no reasonable proportion to the amount invested.

2. Ibid, P. 16.
Thus according to the approved rules and procedures under instructions from the Chairman the Director of Investments could make between two successive meetings of the Investment Committee, investments up to a maximum limit of Rs 50 lakhs in respect of Government and approved securities, Rs 5 lakhs in respect of debentures and Rs 5 lakhs in respect of ordinary and preference shares together, provided that investment in no single scrip was of a size larger than Rs 2.5 lakhs in the case of debentures and Rs 1 lakh in the case of preference and ordinary shares. The Executive Director (Investment) was also given standing authority to make, under instructions from the Chairman, investments in foreign countries to the extent of Rs 25 lakhs in the aggregate in between two successive meetings of the committee, subject to certain conditions. In order to prevent the time of the Investment committee being taken up in considering trifling offers, individual offers received for consideration by the Investment Committee involving an investment of Rs 50,000 or more were considered by the Committee while those less than Rs 50,000 were disposed of by the Executive Director (Investment) under instructions from the Chairman. If a company issued suitable shares and there was a time limit for applying for those shares and the Investment Committee was due to meet only after seven or ten days, the local members of the Committee were informally consulted on phone and investments were made irrespective of the amount involved in anticipation of its advice. Thereafter, the matter was put up to the Committee for ratification. It is clear that the powers of the Executive have been unnecessarily circumscribed. The Investment Committee which occasionally holds its meetings, has neither the time nor the ability to choose the investment outlets. In a developing economy the selection, and acquisition of investment is highly technical and dynamic function which should be entrusted to an Executive body consisting of experts. The Investment Committee should formulate broad framework of a policy for the guidance of the Executive. It should also review the investment policy from time to time and appoint the brokers and exercise full control over the Executive but it should not
take over the function of selection of securities.

Further, the corporation has maintained unusually and unnecessary cash balances in current accounts in the last months of the year. This has resulted in loss of interest to the policyholders. The following table reveals the cash position of L.I.C. in December each year.

**TABLE NO 8.4**

<table>
<thead>
<tr>
<th>Current account (crores)</th>
<th>Deposit account (called deposits) (Crores)</th>
</tr>
</thead>
<tbody>
<tr>
<td>December 31, 1957</td>
<td>15.45</td>
</tr>
<tr>
<td>December 31, 1958</td>
<td>15.46</td>
</tr>
<tr>
<td>December 31, 1959</td>
<td>17.42</td>
</tr>
<tr>
<td></td>
<td>5.60</td>
</tr>
<tr>
<td></td>
<td>2.84</td>
</tr>
<tr>
<td></td>
<td>7.25</td>
</tr>
</tbody>
</table>

**SOURCE:** Estimate Committee, p 33.

The reason for maintaining such huge cash balances was due to a large number of proposals which were introduced in the last month of the year when nearly Rs 5 crores were collected as premia. Even on this account the amount maintained by the Corporation is quite excessive as compared with its needs. This is evident from the fact that during the period 1st September, 1956 to 31st December 1959, the investments of the corporation amounted to Rs 108 crores. During the year 1959, these amounted to Rs 35 crores. On an average the amount required for investments every month would come to about Rs 3 crores. As the table on the next page indicates, the average monthly balance during the first three months of 1960 was about Rs 3.5 crores after meeting all expenses other than amount required for investments. If this pattern persisted in earlier months, as is likely, it would appear that the monthly surplus
TABLE NO 85
MONTHLY CASH BALANCES OF L.I.C.

<table>
<thead>
<tr>
<th></th>
<th>Payments into Bank Accounts</th>
<th>Withdrawals from Bank Accounts</th>
<th>Balance</th>
</tr>
</thead>
<tbody>
<tr>
<td>January, 1960</td>
<td>16.35</td>
<td>13.18</td>
<td>3.18</td>
</tr>
<tr>
<td>February, 1960</td>
<td>13.39</td>
<td>10.66</td>
<td>2.73</td>
</tr>
<tr>
<td>March, 1960</td>
<td>11.70</td>
<td>7.04</td>
<td>4.66</td>
</tr>
</tbody>
</table>

SOURCE: Estimate Committee, p 34.

Funds would have been adequate for investments. The large balances, therefore, in current accounts at the end of the year, as indicated in Table 85 could, have been invested gainfully in call deposits.

General Appraisal:

Thus the investment policy of L.I.C. during the period of five years reveals that the corporation has failed to achieve the much avowed objective of nationalisation of life insurance. It is true that this is a short period to judge the usefulness of the policy, yet there is no denying the fact that a more dynamic approach on the part of L.I.C. towards different avenues of investment was urgently called for. Of late, several suggestions have been made to evolve a more satisfactory investment policy for the corporation but the following suggestions are worth mentioning:

An observer who seems to be perturbed by the continuing increase of Government securities in the portfolio structure of the L.I.C. has pointed out:

"It is only logical that when private companies, which had been asked to invest a certain minimum in Government securities with a view to ensuring safety of funds and preventing mis-adventure, are replaced by a State-owned corporation, a maximum limit for investment in such securities is called for." (1)

This suggestion ignores the basic difference in the nature and characteristic of Government securities and corporate securities in relation to the investment

requirements of L.I.C. It may be recalled here that the legal restrictions imposed on the corporate securities was not on account of any fear of the flow of life fund in the private sector but due to the risky nature of such securities. In Contrast to private obligations Government securities are comparatively safe. Thus any attempt to prescribe limit on the investment of L.I.C.'s funds in Government securities will add more rigidity in L.I.C.'s investments without benefiting the policyholders. What is important is to bear in mind that as an autonomous body the corporation should adopt an intelligent and dynamic investment policy.

Another proposal, which is on the other extreme, has been made by the Estimate Committee appointed by the Lok Sabha. This Committee has suggested that the corporation should be relieved of the duties of investment and the function of investment should be entrusted to an Investment Board to be constituted by the Government. This would enable the corporation to concentrate on procuring insurance business and rendering service to the policyholders. Further, it would eliminate the chances of speculative dealings and consequent allegations and aspersions which are likely to undermine the prestige of the corporation. Not only this, the various requirements of diversifications, development, social advancement and furtherance of the interest of the community as a whole would be better served by the suggested Statutory Investment Board. The genesis of the recommendation has been given in the following words:

"The Committee feel that it would be in the interest of the country and the Plan programme for the Government itself to take over the entire investible funds of the L.I.C. as an unfunded debt. The interest payable by Government could be pre-determined periodically in consultation with the corporation to give an adequate return to meet the corporation's liabilities. It should not be difficult for the government to pay an interest @ 3 per cent deemed to be sufficient by the Chairman, L.I.C. or for a matter of that even something more. Such an arrangement would provide in the Third Five Year Plan period an estimated amount of Rs 135 crores in addition to a sum of Rs 315 crores approximately which could be utilised by government to the best advantage for the development plans. The various requirements of diversification, development, social advancement and furtherance of the interests of the community as a whole could be better served by government with the help of the funds provided by L.I.C. for the Plan than could be done by the Corporation itself. Government could likewise provide funds for the development of new industries.

1. Ibid, pp 54-56.
expansion of existing ones contemplated evidently for the private sector under the Plan. Such investment could be made through other financing agencies in the Public Sector, taking into account the size of investments made by the L.I.O. for this purpose in the past and the allocation in the Plan.

The recommendations of the committee to divest L.I.O. from the responsibility of investment is based on the misconception of life insurance and also of the wrong notion of the financial requirements of the country.

Thus the suggestions of the Estimates Committee that the sale and service aspect of the corporation could be improved if it is divested of the worries of investment is based upon an inadequate knowledge of the principles of life insurance. Investment decisions in life insurance investment are based on the one hand on the accumulation of life fund and on the other hand on the changing conditions of the investment market. The inflow and outflow of funds require coordinated action. The pattern as suggested by the Estimate Committee appears to be confusing in view of the consequent increase in 'cash hoards' at various levels. The remark of the Chairman of L.I.O., "to get rid of the bother of looking after investment, obviously is not in the interest of policyholders."

1. Ibid, p 56.

2. It may be pointed out here that the government could not treat the life fund of L.I.O. on the same basis as the accumulated funds under Social security scheme, such as Employees State Insurance Corporation. There are numerous differences in the accumulation of funds under the two schemes. In case of L.I.O. the ability to accumulate funds depends on the one hand on the continuance of premium incomes and the interest on funds already held, and on the other upon the nature of the risks involved, some of which are not foreseeable. In national insurance, the ability to accumulate funds technically depends upon the same factors, but one particular source of income, the Exchequer's contribution as of special nature which depends upon the Government's Policy. Obviously in such a circumstance the Government can exercise greater control on the funds of the Social Security than on L.I.O. funds. Life fund accumulated by L.I.O. can not be taken over by the Government on 'moral' ground as it contributes nothing towards these funds.

(For other differences between National and Private Insurance, see Peacock, Alan T: The Economics of National Insurance, William Hodge and Company Ltd, London, 1952, pp 41-50.)
Secondly, the suggestion of the Estimates Committee is not even in conformity with the economic requirements of the country. There is a basic misconception in the proposal of the committee that the entire addition to the life funds should be treated as a loan to government. The estimates committee seems to consider that only those funds, which are directly spent by government, serve the Plan purpose, and not other funds which are invested by the L.I.C. directly in productive ventures. In India under orders of Capital Control Issue, industries are allowed to raise capital according to the Plan programmes. L.I.C's subscription in such shares should be regarded as investment for financing the plan. Besides in the 'mixed economy' of India, private sector has an important place and its development will also depend in case of 'effective mobilisation of saving' on the resources provided by L.I.C. If the life fund does not flow into capital formation in the private sector whether in the form of 'equities' or loans, a source for the corresponding resources must be provided for its development. The committee seems to be aware of the implication of their recommendation and have therefore suggested that the government themselves may provide funds for the development of new industries or expansion of the existing ones in the private sector through other financing agencies in the public sector taking into account the size of the investment made by the L.I.C. for this purpose in the past and the allocations in the Plan. This means that after having taken over the funds of the L.I.C, Government should make the investment in appropriate industries in the private sector. What I fail to understand is that if direct investments in stocks and shares by the L.I.C. lead to allegations and aspersions and also to speculation, how the other financing agencies or the results of the decisions of these agencies will be immune from them?

The decision of the Committee will simply mean 'robbing Peter to pay Paul' in as much as the policyholders interest is concerned. The primary concern in the investment of life fund as pointed out earlier should be to safeguard and promote the
interest of the policyholders. The investment must, therefore, be made with a view
to their safety, soundness and profitability and larger returns and benefits to the
policyholders in the form of bonus etc. The yield of the investment in the private
sector is higher, and it is not fair to deny this benefit to the policyholders. The
view that it is enough if government take over the entire funds and pay the minimum
rate of interest that would enable the corporation to meet its liabilities is not
justified. It is basically unfair to the profit policyholders, because it
denies them the benefit of rising yields from investments in equities in an expanding
economy.

Rightly, therefore, the government had not acceded to the above recommendation s
of the Estimates Committee, on the ground that the proposal of the Committee would
make the corporation 'static' and would mortgage the policyholders' future by keeping
down the bonuses. In fact the problem of the investment of life fund can not be
solved either by imposing additional curbs on their 'natural flow' nor by divesting
the corporation of its legitimate function. The investment of the life fund is the
integral and essential part of the modern life insurance business. It is only the
corporation as the "seller of security" that can determine the rate of the accumula-
tion of fund and can plan the outflow of funds in the different sectors of the economy.

What is important is:

"L.I.C. should be kept on its toes with regard to investments, servicing and
everything else. Let it answer fully for everything. If it fails, it should
be consured. But merely taking away duties from it may not necessarily help
to improve its efficiency." (1)

It is clear, therefore, that taking over the function of investment from the
L.I.C. will not solve the problem of the investment of life fund. In fact the
corporation has on the one hand to rationalise its investment policy with a view to
meet its obligations of the policyholders and on the other hand to finance the
requirements of an expanding economy.

1. Evidence of the Representative of Finance before the Estimates Committee,
Conclusion:

The main observations as regards the investment policy of L.I.C. can be summarised as follows:

It has been noted that the government securities still dominate the portfolio structure of L.I.C. In fact the ratio of government securities to total assets has considerably increased after nationalisation. This increase is partly due to increasing yield on government securities and partly due to the 'passive investment policy followed by L.I.C. In pursuing such a policy the corporation has no doubt earned adequate yield to discharge its obligations to the policyholders, 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. It has been 'passive' in solving the problems of national economic interest, like the development of housing and removing of the regional imbalance which could have materially added to the welfare of the economy and finally to the development of life insurance in India. By pursuing an active investment policy the corporation could have effectively served the policyholders interest as well as the social and economic advancement of the country. An outline of such a policy is suggested in the next section.

SECTION 3

SUGGESTIONS FOR IMPROVEMENT IN THE INVESTMENT POLICY OF L.I.C.

In the previous section it has been noted that the Corporation has not to a great extent succeeded in achieving the much avowed objectives of nationalisation due to its 'passive investment policy. The Corporation should, however, be made to realise that life insurance was nationalised for the positive objectives of 'effective mobilisation of peoples saving and efficient financing' of economic development. These objectives can only be achieved if the L.I.C. functions like a 'well run insurance company.' The conception of a 'well run insurance company' was rightly elaborated by Mr. C.D. Deshmukh, the then Finance Minister, before the Lok Sabha on
29th February 1956 in the following words:

"The business must be conducted with the utmost economy and with the full realisation that the money belongs to the policyholders. The premium must be no higher than is warranted by strict actuarial considerations. The funds must be invested so as to secure the maximum yield for the policyholders that it may be possible to secure consistent with the safety of the capital. It must render a prompt and efficient service to its policyholders and by its service make insurance widely popular. Finally, the management must be conducted in a trusteeship." (1)

The above aspirations of nationalisation impose great responsibilities on the investment management of L.I.C. They can not be achieved merely through a defensive investment policy. A dynamic and active investment policy is the need of the hour which in turn demands change of attitude towards Government securities. Too much leaning on Government securities no doubt makes the management carefree and to some extent it can also be said that in a planned economy, investment in government securities serves a useful social and economic purpose. But they do not ultimately solve the problem of life fund because the yield on such investments is comparatively low and policyholders' interest ultimately suffers if the corporation continues to make huge investments in the public sector.

Similarly to preserve the best interest of the policyholders it is highly desirable that the composition of government securities should be thoroughly revised. Emphasis should be laid on State Government securities as these securities offer higher yield and would enable the corporation to follow a policy of Regional economic development. The investment of 50 per cent of life fund which has been prescribed by law, should be fairly distributed between the Central Government, State Governments, securities and approved securities.

1. It may be pointed out here that the performance of private life insurance companies was judged against this standard by Mr. C.D. Deshmukh in the Lok Sabha - (Vide Lok Sabha Debates - VolI, No. 12, 29th February 1956, Clause 1139).
Even within the statutory limits, there is sufficient scope for the L.I.C. to diversify its investment policy. Conditions are now being created and through rapid economic development, would continue to be created, under which L.I.C. can safely and profitably invest a part of its funds in what have hitherto been the neglected channels of investment. Moreover, rapid economic development of the country is a matter in which L.I.C. should be interested as it is conducive to its growth. It should give priority to those lines of investments which are likely to accelerate the planned economic development of the country. Needless to say that such investments can not be made haphazardly. An active investment policy requires the establishment of a well-organised Research Department. In a developing economy 'investment opportunities' must be 'unveiled' and tailored according to the investment requirements of L.I.C. The 'unveiling' of the investment opportunities or the acceptance of the 'investment offer' from the 'users of capital,' requires the assessment of the existing investment risks and probable future trends. The proposed Research Department will assess the various investment risks and will advise new avenues for investments. Life offices in the U.S.A. and in other advanced countries rely heavily on their Research Department to pursue highly dynamic and flexible investment policy. L.I.C. being the sole insurer of the country has sufficient resources to bear the cost involved in organising such a department. The expenses of this department can be directly set off against the enhanced yield from securities. It is expected that this department will not entail any extra 'load' on the administrative expenditure of L.I.C. The efficient working of this department will itself justify its existence in future.

For the successful implementation of the investment policy of the L.I.C. it is desirable that the Zonal and Divisional Offices should be given more and more authority to invest in mortgages, real estate and in the distribution of 'Term Loan'. The local investment opportunities can be better exploited through these offices.
than through Central Investment Board. This will also enable the Corporation to spread its investments for Regional Development. Similarly, under the present valuation requirements, it would not be possible for the L.I.C. to increase its holdings in ordinary shares substantially but such an investment is desirable for the general economic development of the country as well as for earning higher yields to protect the best interests of the policyholders. The Corporation will be well advised if it explores the possibility of investing at least 12 to 15 per cent of life fund in ordinary shares. In this connection, as pointed out earlier, the maintenance of Investment Reserve Fund at a proper level is highly desirable. There are other methods, both direct and indirect, through which the Corporation can diversify investments in the interest of its policy holders as well as for the rapid economic development of the country. Some of these methods to finance the capital formation in the country, which have been tailored to suit the investment requirements of L.I.C. are suggested in the following pages.

(a) Direct and Indirect Financing of Industrial Development:

Financing of small-business-helps-capital-formation but it would be hazardous venture if the Corporation makes direct investment in them. It is therefore desirable that L.I.C. should collaborate with specialised institutions such as Industrial Finance Corporation and States Finance Corporations and similar other institutions. The Industrial Finance Corporation Act has recently been amended to enable the IFC to provide equity capital to industry. This step is in the right direction and will help to solve the problem of 'equity capital' of the industry. But the secondary financial institutions could not themselves help the industries unless the primary saving institutions such as L.I.C. provide them with the necessary reserves. The experience of the IFC which has received many requests for assistance than it has been able to accommodate shows that there is plenty of scope in the capital market for augmenting the resources of the existing institutions and for assisting the growth of more specialised agencies.
Another method which L.I.C. could adopt to finance the industrial growth is through 'Term Loans'. Insurance companies as pointed out earlier have earned satisfactorily high yield with adequate safety in U.S.A. and Japan through investment in Term Loans. The important features of these loans is that they are devised with the mutual agreement of the lender (insurers) and the borrower and in this way both the parties could decide the 'term' of the loan according to their requirements. The 'Term Loans' carry the provision for amortisation or a sinking fund. As a rule Term Loans are unsecured though occasionally they may be secured by collateral or a mortgage. But carefully drawn conditions relating to the conservation of assets, the use of earnings, sinking funds, interest, and provision of repayments, makes such loans quite 'safe' from an investment stand point. These loans, however, impose extra problems of the investigation of the financial and credit conditions which can be easily collected through Zonal and Divisional Offices of L.I.C. To compensate for higher acquisition and service costs, and the risk involved due to lack of marketability in Term Loans, the yield is somewhat higher than the public issue: of debentures etc.

Another aspect of 'Term' Loans deserves mention. Being made to relatively small enterprises of which there are many, they offer the possibility of substantial volume if aggressively sought. This could alone reduce the cost involved in the distribution and supervision of loans. Besides the borrowing companies are usually in the sub-urban areas and less-developed regions and investment in them would also enable the corporation to diversify its loans.

In extending such loans L.I.C. can further reduce the 'risk' by using the 'Guarantee Organisation' set up by the Government of India. The guarantee organisation is operated by the Reserve Bank of India. L.I.C. can avail the facility to cover a part of its risks. Another method to minimise the risk in financing the Small concern is through 'Joint Financing.' The system of 'Joint Financing'

has come into prominence under the leadership of IFC only recently for the financing of large projects. The system of Joint participation by different financial institutions including L.I.C. has helped in establishing healthy practices regarding the scrutiny of applications, coverage of loans and the follow-up operations.

The system of 'Joint Financing' can be encouraged by L.I.C. in collaboration with the State Finance Corporations, the National Small Industries Corporation, and many other small industries corporations which are being established by the State Governments for the development of industrial estates. Besides holdings the shares and bonds L.I.C. can also collaborate with these agencies in extending loans to the small scale industries. This will create an understanding among the institutions and would minimise the chances of losses.

Similarly L.I.C. could also assist the development of industrial estates through the Guarantee provided by the State Governments. The establishment of industrial estates on cooperative basis has recently attracted small industrialists. It is expected that during the Third Five Year Plan period one hundred cooperative industrial estates would be set up all over the country. The Government has also planned to set up three hundred new industrial estates of varying sizes and types. They will be located as far as possible near small and medium sized towns and in selected rural areas. The loans to the Industrial Estates are secured by the equity capital provided by the State Governments and also by the hundred per cent guarantee given by the State Governments. Again the higher yield in these loans will compensate for the risk involved due to lack of marketability. Investment in Industrial Estates would also serve a useful social function as they would facilitate the scheme of Regional Development. Moreover, in future L.I.C. is expected to mobilise huge rural saving. It is desirable that these funds be invested for rural development in the interest of rural policyholders. In the absence of

2. Third Five Year Plan, p 449.
alternatives out lets, investment in industrial estates can be a suitable venue for L.I.C.

(ii) The Development of Housing Schemes:

(a) A Proposal for the Establishment of Central Housing Finance Corporation:

Mortgage Finance in U.S.A. provides a good example as to how the insurers can effectively combine and attain the self-imposed obligations of investment of social advancement with safety, yield and liquidity. I have pointed out earlier that one of the reasons of the huge investment in real estates in USA is the extensive use of specialised agencies such as Federal Housing Administration, Veterans Administration, Federal National Mortgage Association, Farmers Home Administration etc. These agencies have considerably reduced the risk involved in Real Estate Finance. Thus the first and primary condition for L.I.C.'s investment in housing is the creation of an agency which could assume the risk of such investment. In this connection I propose that the government should examine the possibility of establishing a Central Housing Finance Corporation. This organisation will help to channel the L.I.C.'s funds into housing schemes. It will also encourage the flow of credit on easy terms, amongst other things, by means of insured mortgages. The proposed Corporation will grant mortgage loans to the individuals and the institutions either directly or it can guarantee loans to the approved borrowers on the lines of Federal Housing Board and Veterans Administration in the United States of America. The proposed corporation should function through State Housing Finance Corporation in each State. The corporations at the Centre and in States can be useful links in connecting and coordinating various Housing Schemes of the State Governments. It can also assist the Government in its lands acquisition programme during the Third Five Year Plan.

The capital of the proposed Housing Finance Corporations should be provided by the financial institutions and the Government as in the case of Industrial Finance.
Corporation. The establishment of a Central Housing Corporation and the State Housing Corporations can also assist in evolving a uniform housing policies in all the States. It would facilitate the construction of houses by persons of limited means for their own use and enable the L.I.C. commercial Banks and other financial institutions to undertake various services involved in the development of Housing in the country.

(B) Direct Financing of Housing Development:

It was also pointed out earlier that in the absence of specialised agencies, it is not 'safe' for L.I.C. to extend mortgage loans. The establishment of the proposed Housing Finance Corporations will considerably reduce the risk in mortgage Finance. However, the demand for housing in the country is increasing and as shown earlier equity investment in Real Estate besides meeting the investment requirements of L.I.C. promises a better return. L.I.C. can afford to meet the expenses of fully equipped building department attached to its Zonal and Divisional offices. It is therefore suggested that the corporation should also examine the possibility of direct investment in Housing.

The actual planning and administration, designing of houses are all technical matters which depend upon the local conditions. As far as possible the sites for the proposed L.I.C.Colonies should be selected with the coordination of Local government offices, universities, colleges, factories and other institutions and public bodies. The corporation should enter into agreement with these bodies for the allotment of houses and the realisation of rents from the pay roll of the allottees. Since the Government offices and other institutions are themselves keen to provide housing facilities to their employees to their place of work, they would willingly extend all possible cooperation to the L.I.C.

The direct L.I.C's investment in housing would have considerable impact on the pattern of economic development. Improvement in the standard of living of those who will be provided with comfortable, cheap and standard houses by L.I.C. and the
new employment opportunities for those who will get employment in the building industries will generate new income and create additional saving margin. This would enable the corporation to mobilise more and more middle class savings in the form of life insurance. Further, smart L.I.C's colonies with some distinct designs and features in different parts of the country can be good media of publicity to push the sales of life insurance. L.I.C's direct investment in housing can, therefore, make a significant contribution towards the economic and social advancement of the country.

In future, the pattern of economic development will be such that L.I.C's housing construction will justify its investment in housing more and more convincingly. We are approaching a stage that has already been reached in many other countries. Land is growing scarcer in towns and there is increasing trend of population growth. Attention must now be given to the establishment of city housing estates in the countryside. This will not be possible without the L.I.C's investment. National and regional planning is a beginning of this development, but is still inadequate from the investment point of view. Private individuals and institutions will not be able to handle this problem unless financial institutions are prepared to put up with the anarchy of wield over building. But as regards price, too, it will become more difficult, indeed impossible, as time goes on, for private building efforts to provide suitable housing for the masses. The increase in the population and its concentration in urban areas will raise more and more problems of housing accommodation which can only be solved by the country as a whole, and in the solution of which the L.I.C. has an important part to play.

Apart from the social point of view, investment in the acquisition of land is justified purely on financial grounds and business principles. In some towns, there are powerful factors like the starting up of new industries and the establishment of new public and other offices which will considerably increase the value of land in those areas. L.I.C's can take advantage of these tendencies after

1. The Third Five Year Plan: p 690.
consulting the Planning Commission and Town Planning Committees in the various regions.

(C) **Financing the Research and Development of Cheap Varieties of Housing Material:**

It is not only the problem of finance but also the shortage of Building Material that causes serious bottleneck to housing development in the country. The fact that the prices of building material have gone up beyond the reach of persons of average means and that due to the scarcity of building material numerous difficulties involved in its procurement, are well known and need no documentation.

The loans sanctioned by L.I.C. whether directly or indirectly through the various State Housing Finance Corporations will generate new demand for building material such as cement, iron and bricks. The greater part of the loan sanctioned will thus be absorbed by the black-marketers profit. Even the demand for building material by L.I.C. for its own housing projects will result into speculative rise in prices which will affect building activity elsewhere in the economy. Moreover, rising prices of building material will increase the cost of construction of L.I.C's building projects and it will not be possible for the corporation to let the houses at low rent. This will be self defeating. It is essential, therefore, that in a planned scheme of housing development in the country there must be active cooperation and co-ordination between various official and non-official agencies involved in different services e.g. finance, material producing industries, institutions engaged in the research and development of cheap, varieties of building material and organisations doing planning and designing of low cost houses.

1. The planning commission also proposes to set up Town Planning Organisation each State and a Central Regional and Urban Planning Organisation to assist the State Governments in the establishment of new towns, in the preparation of master plans and formulating suitable urban and regional development policies (Third Five Year Plan, p 692). L.I.C. can acquire virgin lands in consultation with the proposed Planning Organisation in the various States.
The above recommendations are designed to enable the L.I.C. to fulfil satisfactorily its role as an important source of loanable funds for capital formation without jeopardising its primary function as an insurer. It has been suggested that L.I.C. should try to remedy the deficiencies of the capital market through a more active and dynamic investment policy. The adoption of an enterprising policy should not necessarily mean the undertaking of undue risks. But it must be cautious and well conceived policy. Investment opportunities should be uncovered through the Research Department. In pursuing a dynamic investment policy the maintenance of Investment Reserve Fund at a proper level is highly desirable.

It can be said without any fear of contradiction that within the present legal framework, there is considerable scope for L.I.C. to follow a more comprehensive and active investment policy. Suggestions which have been tailored to meet the investment requirements of L.I.C. have therefore been made for financing the economic development of the country. It has been maintained that under the present valuation requirements it is not possible for L.I.C. to make investment in ordinary shares substantially. L.I.C. could, however, adopt other direct and indirect methods to finance the industrial development.

As regards Housing development it has been suggested that besides 'mortgage lending' through the proposed Central Housing Finance Corporation and States Housing Finance Corporations, L.I.C. should make direct investment in housing colonies. This will enable the corporation to play a more dynamic role for the social and economic advancement of the country.

Main Conclusions:

In this Chapter I have examined the investment policy of L.I.C. with special reference to the economic development and capital formation in the country. The analysis in the first section has shown that economic changes have 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 antici-
pate economic changes and forecast demand for capital funds in the various sectors
of the economy. They devise means to enter the new investment market first and
take full advantage of their position. This enable them to earn more and serve
the best interest of their policyholders.

In the light of the above observation and also in the background of the
discussion in Chapter VI and VII, it can be pointed out that the corporation has
not to a great extent succeeded in achieving the much avowed objectives of national-
isation. The ratio of Government securities to total assets has considerably
increased since nationalisation. Thus the corporation has all along followed a
defensive investment policy which has no doubt earned adequate yield to discharge
its obligations but it has not taken full advantage of its position as the largest
investor in the country. It has for instance not diversified its investments in for
regional development, housing programmes and in removing the deficiencies of the
capital market.

In reviewing the investment policy of L.I.C. one can take the view that as
an insurer, LIC has no responsibility in remedying the deficiencies of the capital
market. This is rather a negative view and it can even obstruct the process of
growth. In future L.I.C. is expected to mobilise huge personal saving and as such
the corporation can not escape the responsibilities of financing the economic
development in the country. It is therefore suggested that after a thorough search
of the investment opportunities, L.I.C. should devise the methods to assist the
development of new concerns. This includes financing through specialised agencies,
distribution of Term Loan through State Governments and the Guarantee Organisation
of the Government of India. Direct Financing in housing to relieve the middle
class population from pressure of high rents can be of special significance to LIC.
Moreover, rapid economic growth of the country is a matter in which L.I.C. is deeply interested; and consistent with the policyholders interest L.I.C. should give priority to those lines of investment which are likely to help the planned economic development of the country. By suggesting an active investment policy I never advocated that the corporation should take unproportionate risk. What I recommend is the spreading risks both geographically and industrially so that chances of losses be minimised. Such an expansion would benefit the capital market without impairing the profitability of the corporation. It can be emphasised in the end that L.I.C., to justify its existence as a nationalised institution, should pursue an intelligent, dynamic, elastic and diversified investment policy rather than faithfully following the old pattern of the defensive investment policy.