ABSTRACT

RATIONALE OF INVESTMENT POLICY OF LIFE INSURANCE CORPORATION’S FUND AND ITS IMPACT ON CAPITAL FORMATION IN INDIA
ABSTRACT

The investment policy of Life Insurance Corporation has evoked considerable public interest because life insurance was nationalized in India for the 'effective mobilisation of savings' and 'efficient financing of economic development.' Both these objectives of nationalisation are interdependent. The successful performance of the effective mobilisation of savings super imposes the responsibilities of the efficient financing of economic development. This in itself creates a problem as the economic development depends upon the pioneering efforts of the small concerns which have very little to offer as financial security to L.I.C. In view of the liability characteristics of L.I.C., both the legislative mandates and the investment management have emphasised the traditional investment policy which favour investment in fixed earning securities of established concerns as against the fluctuating earning securities of new ventures. The traditional policy followed by L.I.C., apart from creating the problem of concentration of investments in few companies, has deprived the new ventures of the personal savings of the vast majority of policyholders. In future, with the effective mobilisation of savings, the investment responsibilities of L.I.C. will considerably increase because accumulation of savings that cannot be employed in the types of investments available at the time may lead to a stagnant economy. Direction of investment into particular sectors is likely to result in overstimulation of those areas and bring on subsequent difficulties. Large-scale shifts from one type of investment to another without corresponding changes in investment demands might also upset adjustments in the economy. It is essential, therefore, that the investment policy of L.I.C. be adapted to changing needs so that it should not work against stable progress.

In pursuing this work I was mainly concerned to enquire if the investment policy of the L.I.C. represents the true character of its liabilities? Whether
L.I.C. should continue to invest more and more in Government securities and play 'safe' or a new route be charted in the interest of its policyholders as well as of the economic development of the country? The present study discloses that the investment policy of L.I.C. has not been commensurate with national interest. The Corporation has not taken full advantage of its administrative capacity and has not utilised the vast accumulation of the life fund to the best of its ability. The analysis further reveals that if we apply the same economic test which the Government applied in judging the performance of private life insurance at the time of nationalisation, we find that L.I.C. has not to a great extent, succeeded in achieving the much avowed objective of nationalisation. 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 added to the welfare of the economy and finally to the development of life insurance.

In defence of L.I.C. it may be argued that as insurer, it is freed from all other responsibilities and is prevented by its obligations from contributing to the solution of the 'deficiencies' of the capital market. But the basic idea of effective mobilisation of personal savings does not relieve the L.I.C. of its responsibilities. Thus, after a thorough analysis of the legal framework, liability characteristics of L.I.C. and socio-economic requirements of the country, I have recommended that L.I.C. should follow a more active investment policy. In fact, the analysis indicates that the 'policyholders interest' and 'national economic interest' are not contradictory to each other. A possible compromise could be made through a rational investment policy. An active investment policy should aim at the maximisation of return on investment consistent with the safety of funds. This in turn requires the 'unveiling of investment opportunities' in a developing economy and the flow of capital, after a constant search, in the areas of relative scarcity and growth.
In advocating for an active investment policy I do not mean that the Corporation should take unproportionate or undue risk. What I have suggested is that in the interests of economic stability and progress it is important that the L.I.C. should not vary unnecessarily the rate at which it invests its funds and should not be too conservative in the choice of its investments. For the effectiveness of its working the Corporation should fully diversify its investments and follow a broad based investment policy. By spreading its risks both geographically and industrially and by distributing its investments over a wide range of business, it would earn compensation for losses in one direction through profits in another. Such a policy would benefit the capital market without impairing the profitability of the L.I.C. The study in this manner has made an important contribution in the existing field of knowledge. It presents a compromise formula between the policy-holders' interest and 'national economic interest.' Concrete proposals, as regard investments in small industries and in housing have been made to enable the L.I.C. to fulfil its role as an important source for capital formation without jeopardising its primary function as an insurer.