CHAPTER 1

INTRODUCTION
CHAPTER – I
INTRODUCTION

1.1 INTRODUCTION:

Financial institutions broadly can be classified into banking and non-banking ones or intermediaries and non-intermediaries. Intermediaries link savers and investors. They lend money as well as mobilize savings. Their liabilities are towards the ultimate savers, while their assets are from the investors or borrowers. Non-intermediary institutions conduct the lending business, but their resources are mobilized in the form of saving devices. Many non-banking institutions also act as intermediaries, and when they do so they are known as Non-Banking Financial Intermediaries (NBFI). Life Insurance Corporation of India (LIC), General Insurance Corporation (GIC) and Unit Trust of India (UTI) come under the head Non-Banking Financial Intermediaries in India. A host of NBFI’s have been established in the post independence period. Their liabilities are close substitutes for money and represent, in part, a desire of the community to hold more of its savings in the form of financial claims. Over the years, in general, these have recorded a phenomenal growth and in particular, LIC has come to serve as apex institution.

1.2 SIGNIFICANCE OF THE STUDY:

Insurance plays a significant role in a country’s economy as it helps directly and indirectly in mobilization of small savings and acceleration of investment. It eliminates some of the risks of production—both human and material. It stimulates
and collects savings scattered in urban and remote rural areas. It taps potential savings and thus increases the supply of funds for investment. It influences economic development through allocation of its own investment funds as well as through the effects of its activities on the investment pattern of industries in general. Investment, on the other hand, increases output and helps in the rapid industrialization of the country. By providing investible resources to social and economic overheads, it eliminates some of the risks of production. It however, creates new risks through extension of the scale of production and increased sophistication in the methods of production. A large amount of literature on insurance deals either with the theory and practice of insurance business for the benefit of those who are interested in the business as such, or with the historical and descriptive study of the science of insurance, for the benefit of those who have academic interest in the subject.

Economic analysis has rarely been found to bear on the role of insurance as a non-banking financial intermediary and as an agency, which can have an important part in the economic development of a country. The present study is a modest effort in that direction. Scope of life insurance is widened when we begin to take recourse to life insurance. Through life insurance the family is expected to lead a comfortable life by avoiding risks and huge investment for acceleration of economic growth and employment. It enables the widow to keep the home together to buy nourishing food and proper clothing for herself and children, it enables her to devote her full time for bringing up properly her children during
their formative years. It is guaranteed by the life insurance company/corporation that if the policy holders earning power ceases due to early death, his wife will have comfort and security, and decency as long as she lives and not just as long as he is there to provide all these facilities to her. The primary object of life insurance is to provide protection against monetary loss that may be caused by death or disabilities. Therefore, it changes uncertainty into certainty and enables the insured to transfer the hazard of premature death to the insurer at the lowest possible cost.

One may effect life insurance for making provision for oneself in old age. In old age, there is need for an income for one's livelihood or he must suffer the humiliation of dependence on others. Life insurance guarantees that when one's earning capacity diminishes in old age, one can maintain his/her economic solvency and can live a decent life without doing any work. It gives him/her a happy and peaceful tenure of life. It is therefore, life insurance alone that can take advantage of the 'Annuity Principle'. The miracle of this system is that no matter how long a man may live, he can never out live his income. Life insurance plays a very significant role in promoting small savings of individual, not only in our country but throughout the world. Its importance as promoter of small savings of the people has been recognised year after year.

LIC is financing projects with due emphasis on development of backward areas and down-trodden sections of the society and thereby provides productive justice. LIC also caters to mass consumption requirements like water supply,
transport, electricity and also helps small scale industries. Resources mobilised from the ‘haves’ are utilised for the benefit of the ‘have nots’. This aspect was conspicuous by its absence in respect of private insurance companies before nationalization. LIC has been meeting the challenge of social responsibilities to the best possible extent. It is also fulfilling the essential social obligations in the form of socially oriented investments for the welfare of the community at large. It is a measure conceived in a genuine spirit of service to the people. Its motto is “People’s Money for People’s Welfare”. LIC has made special efforts to extend insurance cover at the lowest cost through 'Group Insurance Schemes' to the economically weaker sections of the society such as agricultural and forest labourers, municipal workers, self-employed women groups etc.

India has completed 55 years of her independence, and the LIC has completed 46 years of service since its formation. These are the events, always to be remembered in the history of India. The LIC of India, since its formation in 1956 has shown significant progress, and has come to occupy the top position amongst the financial institutions of the country. In a period of forty-six years, the corporation has shown 153 fold increase in its business and 159 fold increase in its premium income by the year ending 1996. The number of branch offices increased from 240 to 2046 with significant progress, and has come to occupy the top position amongst all financial institutions. Hence, the study for assessing its growth and contributions to the economy has assumed a great significance at present.
1.3 **Statement of the Research Problem:**

Most of the research works done so far on the banking sector pertain to their theoretical/conceptual issues, performance and structural adjustment reforms, but there are very few studies carried out on the NBFI's, particularly, on the LIC of India. Although, it is one of the leading NBFI's in India and contributed enormously to economic development of the country since independence indirectly, it is criticised that it has meagerly mobilized the people's savings, particularly from rural and semi urban areas and not provided good returns to them ensuring safety. As reported, the LIC invested its huge funds in government approved channels and it needs to be examined as to how far the same has been utilized for socio-economic development in India.

In spite of tremendous efforts made by the LIC of India in an unprecedented increased volume of its income by way of premium income, investment income etc. since its inception in 1956, a large section of the community is still suffering from the high premium cost and lapsation of life policies. It draws the attention of economists, political thinkers, social ideologists and others, to think of towards precluding for the structural adjustment in the insurance sector by opening up of the life insurance industry to the new players for spreading more life insurance cover to every nook and null of the untapped insurable population in the country. Problems existing at present in the life insurance industry specially, high premium cost, lapsation of life policies, lack of competition, huge untapped market, over staffing, growth of restrictive staff practice, lack of awareness, lags in software technology etc. received more attention of the academic, institutional and other professional/organisational researchers to study the problems and suggest suitable measures for solving the said problems.
In this connection, the present study has made an attempt to assess the actual performance of the activities of the LIC in respect of its major themes for which it was established and nationalised; and has come out with an element of truth. This study has made efforts in finding out the facts in which the real faults lie and also proposed many remedial measures for the problems.

1.4 **Review of Literature:**

A good account of work has been carried out in the past on life insurance in India for the twin objectives of maximizing profits for the insurance companies on the one hand and providing social and economic security to the policyholders on the other. The few works carried out after the nationalization of life insurance, have not been able to focus their attention on performance of LIC in respect of savings mobilization through its various business activities, investment made by the LIC in various sectors of the economy, income and expenditure of LIC, and its comparative study with overseas insurance companies and hence the importance and significance of this study. Hence, some of the important studies undertaken are examined and summarized in brief here below:

Kabra K. N. ¹ (1986) elaborated the need of nationalization of life insurance in India, where nationalization was an important landmark in the extension of direct public control and ownership over the organised financial institutions in the country. Accordingly life insurance business was nationalized and developed to the

---

best advantage of the community, which created a legal public sector monopoly. In view of this Kabra examined some of the performance indicators of the LIC, and concluded that the growth record of life insurance in absolute terms is fairly impressive.

The relevance of the "LIC in the Indian Capital Market: An Appraisal", made by Mrs. Singh, P.² in 1980 shows that the LIC as a long term investor did not indulge in speculation but in the nature of things necessarily invests on a long term basis. LIC supported securities' market during temporary crises, thereby lending stability to the market and, thus creating confidence in the minds of the investing public. LIC attracted the genuine investors and has the effect of improving the allocational efficiency of the capital market and its another outstanding contribution is to the underwriting system in India.

According to Mrs. Singh, the LIC as the largest buyer and holder of corporate securities has huge responsibility to support the capital market. She found that net yield on LIC investment increased from 5 per cent in 1965-66 to 6.25 per cent in 1974-75. However, it is considerably lower as compared to the yield return on other saving media including the UTI, NSCs. The study clearly revealed that the interest of the policyholders call for a modification in the investment policy of the LIC. For effective mobilization of national savings for economic development, it is essential that life insurance is made cheaper by enabling the LIC to earn higher yields on its investments. LIC can expand its direct financing industry through the financing of social overhead capital requirement, housing especially via mortgage debt.

The study on the "Financial Intermediation and Rural Development" by Sharma S.B.\textsuperscript{3} (1978), pointed out that the LIC has been playing a very important role in the economic growth of the country. The LIC has contributed to the rural credit by financing the co-operative agencies which cater to the medium and long term credit needs of the agriculturists. The main feature of the LIC contribution in the field of agriculture is that its assistance flows indirectly in the form of loans and advances and purchase of ordinary shares, debentures and bonds of the various financial institutions and also by way of underwriting the debentures and bonds of Central Co-operative Land Development Banks (LDBs) etc. Investments in bonds and debentures of IDBI, IFC, SFC etc. goes to help small and medium industries. Growth of these industries is essential for rural development and creating employment opportunities at large. With its countrywide reach and socially purposive investments, the LIC has become a part and parcel of nation's economy. However, it has not been able to make desired impact on rural India.

Joshi N.C.\textsuperscript{4} (1981) examined the progress of LIC during twenty five years of its existence and identified its remarkable progress in various fields. An important study was made by Brahmanand Rao\textsuperscript{5} (1968) about the investment policy of the nationalized life insurance industry. Accordingly, the investment of life insurance funds in the nationalized set up is necessarily based on the attainment of socially desirable ends.

Subramanian T.P.6 (1959) examined some of the major aspects of investment policy of the LIC of India. Prior to the nationalization there was no statutory regulation of the investment of insurance funds (prior to 1939). During the second world war (1940-45) showed a steady rise in the investment in government securities in response to the growing requirements of war finance from 54.4 per cent in 1940 to 64.7 per cent in 1945. However, the insurance companies in many countries of the world showed a similar trend. But the post war period (1946-55) showed a reversal of the war period tendency of increasing investment in government securities. Inspite of the high degree of conservatism imposed by statutory regulation, the investment pattern of Indian insurance companies during 27 years then, certainly shown a subdued degree of dynamism in the shape of a gradual response to the changing needs of the economy.

The insurance Act. 1939 stated that atleast 50 per cent of the controlled funds should be in gilt-edged investment, the other 50 per cent could be in different investments approved by the Act. The 1956 life insurance bill, pointed out that the life insurance funds must be invested to secure the maximum yield for the policyholder consistent with safety of capital. However, it was pleaded for a dynamic approach and progressive shift of preference from government securities to industrial investments as far as investment policy of LIC is concerned. It was suggested for implementation of the proposal to create a separate statutory body

which would be entrusted with the task of investment leaving the life insurance
corporation free to devote itself to the main business of expanding life insurance.

"The Productive Performance of French Insurance Industry", a notable work
carried out by Fecher F., D. Kessler., S. Perelman and Pestieau ⁷ (1991) explains the
productive efficiency of insurance companies at the macro level and it covers 84
life companies and 243 non life in France for the entire 5 years from 1984-89. It
has sought to spotlight many important issues of both life and non life insurance in
the country. It compares the wide dispersion of efficiency, average efficiency
between 50 per cent for non-life and 30 per cent for life insurance. Further, the
comparative research on insurance industries as a whole European Economic
Community (EEC) would be highly desirable.

"The Life Insurance Corporation and Corporate Financing in India: New
Dimensions", a study made by Khan M.Y., and Preeti Sing⁸ (1980) reveals that
LIC finances the private industry through subscriptions to the shares and bonds of
industrial financing institutions such as IDBI, SFCs, the IFCI etc. It mainly found
out that the significant changes in the complexion of LIC’s financing operations of
private industry and emerging popularity of subscriptions to the securities of
industrial financing institutions are amply indicative of the emerging trend

Nandagopalan R.⁹ (1969) made an attempt to find out the achievement of

---

   Dimensions" Prajnan, 1980. 9(1) : PP.41-56.
⁹. Nandagopalan R. "Has the LIC Achieved its objectives?" Industrial India. 1969. PP. 17-22.
most objectives of the LIC, particularly rural areas, the poor and the modest targets set before 1956. The study found that the percentage proportion of policies from rural and urban areas was 35.9:64.1 and the averages sum assured were 29:71 respectively for the period from 1961 to 1968-69. It indicated that the LIC mainly concentrated more and more in urban areas neglecting the village population which forms a major part of India. Hence, there is a vast scope for expansion of LIC business in rural areas. Further, it is found that there is a marked shift in the size of policies from lower sum assured groups to higher sum assured groups. The 64.13 per cent of the new policies issued up to Rs.3,000 in 1961 came down to 43 per cent in 1968-69, but the sum assured about Rs.3,000 was significantly increased and it was common fact that only poor and lower income groups can take policies up to Rs.3000 as their capacity to save in those days was very limited. It implies that the LIC issued policies only to those having large amounts as sum assured without serving the poor.

"Role of Life Insurance in National Economy", a relevant paper by Era Sezhiyan10 (1985) was comprehensive study of life insurance in India. The study compared the expenditures of the central government with the those of developed countries. However, with small amount of central government expenditure at 4.2 per cent in 1981, insurance in India has a very big role to play in offering security to the vast sections of the disadvantaged people. Apart from this, the corporation

---

has reported rapid progress in many directions. In 1983–84 the life insurance business was risen by Rs.278 crores under eight lakh policies, the outstanding claims was 12.64 per cent sum assured.

Further, he examined the NCAER survey and finds that 35.1 per cent of salaried earners and 2.3 per cent self employed were insured and so far less than 10 per cent of the total insurable male population covered through the life insurance. Household savings through the life insurance has fallen from 10.6 per cent in 1970-71 to 7.3 per cent in 1983-84 whereas deposits in banks and non-banking companies increased by 41.3 per cent to 46.6 per cent during the same period. It is concluded that the life insurance is loosing ground against other media of savings and suggested that the unless effective remedial measures are taken to resurrect LIC as a viable savings medium and as an efficient service organisation, the role of LIC and insurance will become decadent in the national economy.

A comprehensive study of Simha S.L.N.\(^\text{11}\)(1975) exaggerated simultaneously the progress of banking and insurance, particularly for mobilizing and channelising the savings of the community. Banks and insurance companies form the most outstanding constituent of money market and capital market. The growth of banking and insurance are an important index of economic development. The banks progress began to rise since the nationalization in July 1969. The twenty two public sector banks accounted for over 80 per cent of the deposits of the commercial banks then. Since 1956 people have a giant monolithic institution in the LIC of India.

Since nationalization, the number of offices of commercial banks more than
doubled from 8,321 to 16,936 during 5 years from July 1969 to June 1974 and also
the largest expansion has taken place in rural branches.

Prior to the independence, the life insurance business was not much developed
and confined to the urban areas only, particularly to the salaried and higher income
groups, but in the post independence period substantial progress has been taken place,
and was not good enough. Investment in the form of government and quasi-
government securities and loans constitutes about 75 per cent, and the rest being in
private sector companies. He concludes that there should be a national forum for
discussing the problems of the money market and capital market. Hence, the
government review the national credit council thereby the financial machinery can be
made to do a good job of promoting growth, balanced regional development and
operational efficiency.

The NCAER$^{12}$ (1979) studied the pattern of income, saving, investment and
wealth of the households spread over the rural and urban areas of the country and
concluded that 48.64 per cent of rural households had have a net annual income of
over Rs.5,000. Every household with a net income of Rs.5,000 per annum could save
48.68 per cent of the 8.76 per cent of the rural households which had the ability to
save. This means that around 4.2 crores rural house-holds which were in the age
group 20-49 and had been covered by the LIC had the saving capacity, and 30 per
cent of the total policies taken by them represented the rural business in force.

Around 76 lakhs of rural policies in force had a potential market of 4.2 crores of insurable male lives in rural India.

"Claims settlement by LIC: Facts V/s. Fiction" at the national level study by Joshi J.R.\textsuperscript{13} (1982) explained that the number of complaints received by the central office increased from 0.47 to 0.49 per thousand policies during one year period from 1978-79 to 1980-81, and 11,000 complaints per year in the central office with 55,000 employees. It observed that at least 50-60 per cent of the maturity claims were settled on or before the date of maturity, and a hundred per cent of the maturity claims were settled within one month from the date of maturity. The number of claims settled was increased from 4.68 lakh to 7.41 lakh from 1974-75 to 1980-81 and the amount was also increased from Rs.145.17 crores to Rs.295.50 crores from 1974.75 to 1980-81.

Mishra M. N. and O. P. Rai\textsuperscript{14} (1986) studied the "Life Insurance Corporation of India: A study of its performance" at the Macro Level and concluded that the business of the corporation was increased during the period under review. This highlights the growth of business and the experience gained. Rules have been relaxed to provide the much needed insurance cover to the insuring public at attractive terms.

"Role of Life Insurance Corporation of India in Rural Economy"-a comprehensive study carried out by Ghose B.C.\textsuperscript{15} (1986), who examined plans for

\begin{itemize}
\end{itemize}
various social welfare schemes to protect the downtrodden and the poorest section of the society and to give relief to the under privileged in times of distress, and concluded that LIC could play a crucial role in the Indian economy, while incurring expenditure on social security and welfare schemes. The study stated that the new business from rural areas to business was declined in terms of policies to 35.1 per cent in 1984 from 38.5 per cent in 1963. In fact, the craze for new business figures had made the LIC to concentrate on urban areas and that too among the salaried class. Further, he concluded that the insurance coverage to the rural people might be expanded if co-operative banks and co-operative credit societies were directed to work in close liaison with the LIC.

Bharadi H. H. 16 (1997) in a micro level study on the performance of LIC of India under Dharwad Division in Karnataka State, examined the various business indicators of Dharwad Division and concluded that the progress of rural and non-medical business did not perform satisfactorily when compared to the urban as well as medical business. Insurance coverage under the agricultural group showed a negative growth. Housing loan facilities granted by the LICHFL were limited only to the Municipal Centres, Taluka Head Quarters, Branch Head Office Quarters. But the study did not look the progress made by the LIC at the national level or at any other division or Branch offices.

From the above literature, it is clear that there is a greater need to make a comprehensive assessment of the performance of the LIC in respect of particularly savings mobilization and its investment assessment, income and expenditure pattern

of the LIC, and its comparative business performance with the overseas insurance companies. The present study is undertaken as an economic analysis of savings and investment of LIC and its related area. Therefore, this work has aimed at filling the research gap by assessing the performance of LIC. In this connection, present study is a modest one and has examined the multi-dimensions of LIC operations over a period of time in India.

1.5 Objectives of the Study:

The following are the specific objectives of the present study:

1) To understand the theoretical framework of insurance along with a historical perspective.

2) To examine the mobilization of people's savings through life insurance linked savings under different business activities of LIC in India.

3) To assess the existing pattern of investment made by the LIC in different sectors and sub-sectors of the economy.

4) To examine the contribution of LIC towards the development of corporate sector, public utility services (housing, electricity, water supply and sewerage, transport and industrial development) and other various plans of government.

5) To study the zonal-wise distribution of LIC investment in India as well as across the countries.

6) To examine the income and expenditure pattern of the LIC of India.

7) To study the comparative position of insurance business, potentiality, competitiveness and necessity of opening up of the Indian life insurance sector to the private new players.

8) To propose suitable remedial measures for the development of Indian life insurance industry.
1.6 **Hypotheses:**

The present study has tested the following broad hypotheses:

1) $H_1$: Investment in the public sector made by the LIC is more promotional compared to that of co-operative and private sectors.

2) $H_2$: The LIC was nationalized and developed to the best advantage of the society.

3) $H_3$: LIC as a monolithic institutional structure contributes to the higher profitability in the organisational structure.

1.7 **Research Design and Methodology:**

(a) The present study is an analytical research based on quantitative data using statistical methods. It has aimed at testing hypotheses. It has concentrated on analysing data in depth and examining relationship from various angles by bringing in as many relevant variables as possible in the analysis plan. Structural approach has been adopted to examine relationship between various variables and performance of the LIC business. In addition, diagnostic approach is also used wherever necessary.

(b) Sources of Data:

The study is based mainly on secondary data published by the LIC of India, the RBI, the Government of India, Insurance organisations in India and even from abroad, and also data obtained from the officials of the investment department of the LIC through interviews about the practical aspects of the problem and also from various reports of various government departments, both published and unpublished.
(c) Tools of Analysis used:

For analysing data simple statistical techniques like arithmetic mean, ratios, annual growth rates, mean growth rate, five yearly and decade wise growth rates are adopted. In addition, graphic and tabular methods are also adopted wherever necessary.

(d) Area and Scope of the Study:

The present study has covered the activities of the LIC and its operations all over India. To examine the growth of investment made by the LIC of India into the various sectors–public sector, private and co-operative, growth of its life fund, new business, zone wise average sum assured per policy etc. the time series data collected since 1956 are used; whereas in respect of GDP and GDS data from 1950 are used. But, for other business performances, investment analysis of LIC and with other institutions, time series data which were collected since 1980-81 are used. Further, for evaluating other business and investment activities the data of different periods are used according to their availability. The years 1950, 1956, 1980-81 and 1990 onwards are considered for study as a land mark in the history of Indian economy as well as the LIC of India.

1.8 LIMITATIONS OF THE STUDY:

The present study relates to the performance of the LIC of India at the national level. In spite of the fact that plenty of data are available about the various performance aspects of the LIC, the researcher has experienced the problem of lack of information about the functioning of other NBFI’s in public sectors, viz., Unit Trust of India and General Insurance Corporation of India, and the time factor etc. However, there is a good scope for future researchers to continue with the following limitations of the present study:
"The study has not examined the performance of particular policies of LIC, declaration of bonus, mortality rate (premium table) of LIC, and a detailed picture of comparative performance of other NBFI's in India, progress of new business under group Super annuation schemes, salary saving scheme business, medical and non-medical business, productivity and cost benefit analysis of the policies".

1.9 **CHAPTER SCHEME AND BRIEF OUTLINE OF THE STUDY:**

The present study is organised into eight chapters as mentioned below.

**Chapter-I: Introduction**

Introduction-significance of the study-Statement of the Research Problem-Review of Literature-Objectives and Hypotheses of the Study-Research Design and Methodology-Limitations of the Study and Chapter Scheme and Brief Outline of the Study.

**Chapter-II:**


**Chapter-III:**

The Life Insurance Corporation of India: A Historical Perspective.

**Chapter-IV:**

The Life Insurance Corporation of India and Savings Mobilization in the National Economy.

**Chapter-V:**

Investment Pattern of the Life Insurance Corporation of India: An Assessment.

**Chapter-VI:**

Economics of the Life Insurance Corporation of India.

**Chapter-VII:**

Reforms in the Indian Insurance Sector.

**Chapter-VIII:**

Summary and Conclusions.
The first chapter covers the significance of the study, statement of the problem, review of literature, objectives and hypotheses of the study. In addition, Research Design and Methodology, Limitations of the Study etc. are also highlighted along with the chapter scheme.

The second chapter deals with the conceptual clarifications of insurance, features of insurance, difference between the assurance and insurance, functions of insurance, pre-requisites for the success of the insurance, limitations of the insurance, scope and kinds of insurance, principles of insurance, double insurance and re-insurance, risk, uncertainty and probability, underwriting of risk, life insurance policies, the role of insurance in the development of industry and commerce, and its significance in the economy.

The third chapter highlights the emergence of insurance, and life insurance in India, necessity of life insurance in India, life insurance in India before and after nationalization, objectives and the functions of the LIC, and organisational set up of the LIC.

The fourth chapter has made an attempt to study the pattern of savings in the Indian economy including savings trends in household sector, in public sector and in private corporate sector, savings through the LIC, savings through the life fund and savings in the policies of LIC, progress of LIC business in force, new business, business in rural and urban areas, zonal wise business, zonal wise average sum assured per policy etc.
In the fifth chapter, pattern of investment in Indian economy, modes of investment, induced and autonomous investment are discussed; besides capital formation and trends in Indian economy are evaluated. Significance of the investment function and its investment policy of the LIC, analysis of the life insurance fund and its assets, sector wise and sub-sector wise distribution of LIC investments, lending of LIC to the corporate sector and its assistance to the various developmental activities, industry-wise assistance, scheme-wise assistance, state wise assistance sanctioned and disbursement of LIC and other institutions, zonal wise distribution of investment of the LIC, investment of LIC in loans, stock exchange securities and in others, country wise distribution of LIC investments outside India are also discussed critically along with valuable suggestions.

Chapter six throws a light on the income earning from different sources of LIC, and its outgo to the different heads along with the profitability.

Chapter seven has covered the aspects of privatization and liberalization of insurance sector. Market highlights and prospects, insurance business, potential of competitiveness for life insurance business in India, and its comparative analysis, opening up of the insurance sector, advantages of liberalization and features of IRDA etc. are also discussed.

Chapter eight gives brief summary and major findings of the study and also proposes some remedial measures for the development of LIC of India, keeping in view the changing scenario of world economy.