

CHAPTER III

INVESTMENT OF LIFE INSURANCE FUND OF LIC

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CHAPTER III

INVESTMENT OF LIFE INSURANCE FUND OF LIC

3.1 INTRODUCTION

Before making an analysis of the investments of the life insurance corporation, the basic principles of the life insurance fund must be considered. These principles are discussed below:

There are certain well known principles of life insurance fund investment. The first principle is of security of capital. This principle states that the reserves that go into the building up of the life fund should be free from the risk of being deflated that to loss of capital. The insurer should act as a "conservative" investor so that he may not be a victim of temptation of the increasing the values of investment by the wrong selection of securities.

The second principle is of profitability of investment. However, one should be aware of the negative relationship between security and profitability of "investments". It would therefore, be proper to consider the second principle as a subordinate to the first principle by the insurer.

The third principle is that of liquidity, which states that it would be desirable to hold the investments in an early realisable

form in order to enable the insurer to meet his payment obligations arising from surrenders of policy claims of catastrophic nature. Usually the inflow of funds through receipts of premiums etc., is more than enough to meet the maturing obligations, under this principle. However, a case can be made out of the proper scheduling of the maturity of investments, so as to coincide with the maturing obligations.

Last but not the least is the principle of "diversification" which the insurer should consider. It means that life insurance funds should be distributed both geographically and among the different classes of "investment". It is considered as a sound policy not to rely excessively on a single class of investments. AS It is rightly said " Do not have all eggs in one basket ".

These are the basic principles of investments of the life insurance corporation. All these principles have been taken into account. For the purpose of analysing the investment, pattern of LIC, the role of investments in fulfilling the socio-economic needs of the society, of which they are a member, should be considered.

3.2 TYPES OF INVESTMENTS

Having discussed the principles of sound investment for the life insurance corporation, the various categories of investments are evaluated below.

i) Government Securities :- Analysis of investments begins from the Government securities, not only because these constitute about 50.25 percent of total investments of the corporation in the year 1986, but also are of primary standard, in terms of which the investment qualities of alternative investments can be judged. The Indian Government and the State Government securities enjoy an unique investment status, in the portfolio of LIC from an investment point of view, the Government securities are quite safe as the Central and State Government have power to issue money and power to tax.

ii) Corporate Securities :- Corporate securities are also important types of investments for life insurance funds. They occupy a position only second to the Government securities in the investment portfolio of LIC. In 1952, LIC invested 9.36 percent of the total investment and in 1986, it invested 9.31 percent in corporate securities. Corporate securities comprise of debentures, preferential shares and equity shares.

[a] Debentures :- These are viewed with greater favour by LIC since these offer considerable security of income and capital safety. But, these do not offer any security against inflation.

[b] Preference Share :- This is a kind of hybrid security having some features of debentures and some of ordinary shares.

[c] Equity (Ordinary) Shares :- These suffer from the disadvantage that they fluctuate to a greater extent in capital value and also incur considerable administrative cost.

iii) Mortgages :- These are important assets having advantage of security of capital and a satisfactory yield. These may also be diversified both geographically and by the type of security. In addition, high class mortgage investments are readily marketable.

These are suitable for investment to substantial proportion of LIC funds, provided that their proportions are kept under close supervision and proper margin is kept between the loan and appraisal valuation. Mortgages are a specialised form of investment and as such need skill and experience in their management. Therefore, part of the interest earned on them must be treated as management expenses of the investment department.

iv) Real Estate :- The investment in real estate provides a good edge against inflation. In one respect, real estate is superior to equity in that, it enjoys greater stability of value. Its main advantage is that it is not easily marketable and is particularly sensitive to political influences. But, the demand for housing is increasing in the country and the climate for mortgage is not favourable too. Hence, LIC provides direct finance for housing projects.

LIC disbursed in the year 1982, loans for housing development including mortgages and property to the extent of Rs. 873.17 crores. It substantially increased in the year 1986 to Rs. 1,966.93 crores.

v) Policy Loans :- When an insurance company advances loans to the policy holder against the security of the surrender value of policy, these loans are called as policy loans. The amount of outstanding loans and the interest on it at any time is not allowed to exceed the net amount which the policy holder can get on surrendering the policy. From the point of view of LIC, this investment is quite safe and brings in sufficient returns as well. However, there is no liquidity if the policy holder refuses to repay policy loan, in such event corporation has no tangible security out of which unpaid loans can be realised.. At the best, the policy can be terminated but money does not come back to the corporation. However, it is an important investment since it improves the business, customer relationship and serves as a vital facility to the policy holder.

3.3 VOLUME OF INVESTMENT OF LIC

In the light of general principles of investment for LIC and the suitability of various types of investment media, researcher has briefly examined the investment performance of LIC in respect to the following three points :

1) Increase in Total Volume in Assets :- Total volume of assets has shown substantial increasing trend in the span of eight years.

2) Total Volume in Investments :- The investment policy is very important policy of Life Insurance Corporation. At the time of formulation of investment policy, the concerned department has to take number of points into consideration. The composition of assets and investments of LIC is shown in TABLE 1 and TABLE 2.

TABLE 1

COMPOSITION OF ASSETS OF LIC

NUMBER	YEAR	ASSETS (₹ crores)	YEARLY GROWTH (₹ crores]
1	1981 - 82	8,067.93	-
2	1982 - 83	9,102.10	1,034.17
3	1983, - 84	10,256.34	1,154.24
4	1984 - 85	11,643.97	1,387.63
5	1985 - 86	13,120.53	1,476.56
6	1986 - 87	14,973.51	1,852.98
7	1987 - 88	17,318.11	2,344.60
8	1988 - 89	20,428.31	3,110.20

SOURCE : Compiled from Accounts & Reports of LIC

The growth of assets depends upon the accumulation of the life fund. When the assets of LIC increases at that time the investment increases, so that the relation of the assets and investment is very close.

The TABLE 1 clearly shows that the total assets of Life Insurance Corporation have increased from Rs. 8,067.93 crores as on 31st March, 1982 to Rs. 13,120.53 crores as on 31st March 1986, showing an increase of Rs. 5,052.60 in five years. The assets further increased to Rs. 20,428.31 crores at the end of March 1989, showing two and half times increase during the period of eight years. It can therefore, be concluded that the assets of LIC are growing at a much faster rate.

The composition of the investments of LIC is depicted in TABLE 2 below. Similar to the composition of assets, the investments of LIC are also increasing at a rapid rate. In the year 1981-82, the total investments of LIC were amounting to Rs. 7,473.01, which increased to Rs. 12,264.35 crores in 1985-86. These further have increased to Rs. 18,702.30 crores in 1988-89.

It is clear that the investment department of the Life Insurance Corporation has invested approximately Rs. 30,000 per day. These investments are made in different sectors of the economy in accordance to the pre-determined investment policy of

TABLE 2

COMPOSITION OF INVESTMENTS OF LIC
(Rs in crores)

NUMBER	YEAR	INVESTMENT IN GOVT.	INVESTMENT IN OTHERS	TOTAL INVESTMENT
1	1981 - 82	3,605.64	3,867.37	7,473.01
2	1982 - 83	4,130.47	4,368.04	8,498.51
3	1983 - 84	4,694.17	4,919.57	9,613.74
4	1984 - 85	5,301.47	5,502.56	10,804.03
5	1985 - 86	6,012.81	6,251.34	12,264.35
6	1986 - 87	6,843.24	7,092.76	13,936.00
7	1987 - 88	7,863.80	8,098.39	15,962.19
8	1988 - 89	9,200.72	9,501.58	18,702.30

SOURCE : Reports & Accounts of LIC

LIC. The corporation continuously plans its investments in such a way that it has liquid funds for immediate satisfaction of the share holders as well as secured and long term investments for the purpose of earning the higher rate of interest. The data in above table further reveals that the investments in the Government securities and in other forms are almost in the same proportion i.e. 50: 50, through out the study period of eight years. In view of the securities of the investment, it appears that LIC adopts such conservative policy in setting the composition of the investments.

3) Relation between Growth of Assets & Investment :-

The relative growth of assets and investments of LIC during eight years period is shown in TABLE 3.

TABLE 3

COMPOSITION OF DIFFERENCE BETWEEN ASSETS & INVESTMENTS
(Rs. in crores)

NUMBER	YEAR	ASSETS	INVESTMENTS	DIFFERENCE
1	1981 - 82	8,067.93	7,473.01	594.92
2	1982 - 83	9,102.10	8,498.51	603.59
3	1983 - 84	10,256.34	9,613.74	642.60
4	1984 - 85	11,643.97	10,804.03	839.94
5	1985 - 86	13,120.53	12,264.35	856.18
6	1986 - 87	14,973.51	13,936.00	1,037.51
7	1987 - 88	17,318.11	15,962.19	1,356.92
8	1988 - 89	20,428.31	18,702.30	1,726.01

SOURCE : Reports and Accounts of LIC

It is noticed from the above table that the difference between the assets and the investments in 1981-82 was Rs. 594.92 crores, which increased as high as three times to Rs. 1,726.01 crores in 1988-89, just in the span of eight years. As observed in the above tables, the composition of assets and investments not only is same (50 : 50) but the growth in each of them is also to the same extent.

3.4 SECTOR-WISE DISTRIBUTION

Life Insurance Corporation has made investments in three types of sectors. These are as follows :

- 1) Public Sector
- 2) Co-operative Sector
- 3) Joint Sector

The sectoral distribution of the investments of LIC is shown in TABLE 4 below.

TABLE 4

SECTOR-WISE DISTRIBUTION OF INVESTMENTS OF LIC

(Rs. in crores)

NUMBER	YEAR	PUBLIC SECTOR	CO-OPERATIVE SECTOR	PRIVATE SECTOR
1	1981 - 82	5,410.72	752.94	730.70
2	1982 - 83	6,189.66	825.19	820.16
3	1983 - 84	7,020.81	905.30	931.47
4	1984 - 85	7,919.54	972.87	1,061.79
5	1985 - 86	9,063.76	1,036.83	1,185.32
6	1986 - 87	10,259.31	1,058.63	1,494.93
7	1987 - 88	11,837.27	1,161.68	1,713.25
8	1988 - 89	14,032.34	1,240.12	2,070.24

SOURCE : Reports & Accounts of LIC

1) Public Sector :- The table 4 above shows that the investments of LIC in public sector is substantial. The percentage of total investment in public sector in the year 1985-86 is 80.3 percent which has marginally increased to 80.9 percent in 1988-89. The Finance Minister in his budget speech granted the public sector units the access to public deposits⁴.

2) Co-operative Sector :- Today, Government has taken keen interest in the development of co-operative sector. In co-operative sector, the ownership exists on the basis of co-operative system. The LIC has invested in this sector to the extent of 10.9 percent of the total investments in the year 1981-82. But in the year 1985-86, the investment decreased to 9.2 percent which further decreased substantially to 7.2 percent in 1988-89.

3) Joint Sector :- LIC has invested its life funds in this particular sector to the tune of 10.6 percent of the total investments in 1981-82. However, in the year 1985-86 the investment proportion was 10.5 percent which subsequently increased to 11.9 percent in the year 1988-89.

The data in the above table shows that in 1981-82, the investment of LIC in public sector was Rs. 5,410.72 crores and in co-operative and private sector it was Rs. 752.94 crores and Rs. 730.70 crores respectively. However, in 1988-89 the investment in public, co-operative and private sectors were Rs. 14,032.34, Rs. 1,240.12 and Rs. 2,070.24 crores respectively.

The sector-wise distribution of investment of LIC over last eight years is shown in TABLE 5.

TABLE 5

SECTOR-WISE COMPOSITION OF INVESTMENT OF LIC

(Figures in percentage)

NUMBER	YEAR	PUBLIC SECTOR	CO-OPERATIVE SECTOR	PRIVATE SECTOR
1	1981 - 82	78.5	10.9	10.6
2	1982 - 83	79.0	10.5	10.5
3	1983 - 84	79.3	10.2	10.5
4	1984 - 85	79.6	9.8	10.6
5	1985 - 86	80.3	9.2	10.5
6	1986 - 87	80.1	8.3	10.6
7	1987 - 88	80.5	7.9	11.6
8	1988 - 89	80.9	7.2	11.9

SOURCE : Reports and Accounts of LIC

The above table shows that the share of public sector investment is maximum followed by private sector and co-operative sector. Furthermore, the composition of public sector is increasing steadily in relation to the private sector investment. However, the co-operative sector investment is decreasing over the span of eight years.

The distribution between the public and private sector however, is losing its validity as the funds advanced to the public sector are often utilised for the benefit of private sector undertakings. For instance, the corporation's investments in the Industrial Finance Corporations are utilised by these institutions for the purpose of financing industries in the private sector. Similarly, the housing loans advanced by LIC to the State Governments are used by them for distribution to their employees as well as private persons for construction of houses.

3.5 COMPARISON OF TOTAL ASSETS WITH TOTAL INVESTMENT

LIC plays a vital role in making investments in all fields. The corporation owns lot of assets which it invests in one or the other form of investment. The various types of such investments done by the LIC out of its own assets are discussed below.

1) Government Securities :- This is very important type of investment. The investment in Govt. securities constitutes 52.25 percent of the total investments in 1985-86. These securities comprise of three types, a) securities of Central Govt.; and b) securities of State Govt. and c) other securities which are special deposits with Govt. of India. LIC is interested in investing in these securities since these are deemed to be the safest and fluctuate marginally in their value as compared to the other types of investments.

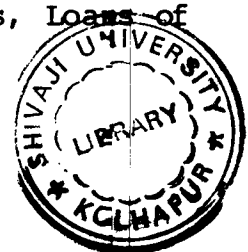
2) Corporate Securities :- Corporate securities also form an important type of LIC's investment source. These occupy second position to the Govt. securities. Corporate securities comprise of debentures, preference shares and ordinary shares. These investments are meant for the purpose of securities in the industrial securities market and under-writing of new securities, invariably by way of a firm commitment⁵.

3) Minor Investments :- LIC also invests under the head 'Minor Investments'. These comprise of a) contribution to initial capital of Unit Trust of India, b) application money for securities and 3) shares. However, the amount invested in this type forms a marginal proportion of the total investment of LIC.

3.6 COMPOSITION OF TOTAL INVESTMENT OF LIC

With the help of principles of investment, the Life Insurance Corporation is making various types of investments. It is known that the LIC makes investments in the Government Securities in large scale, but from securities of Government the rate of interest is very low. So the LIC has changed the direction of investment to other types of investments for achieving additional income or growth in value.

The LIC makes investments in Government Securities, Securities of State Government, other approved Securities, Loans of



various types; and also in various types of minor investments. Table No. 6 shows the yearwise investment in various types. The Table No. 6 reveals the composition of investments which is discussed in following important heads.

1) Government Securities :- In Government Securities the LIC has made investments of Rs. 3,605.64 crores in 1982 and in 1986 under the same head investments of Rs. 6,012.81 crores have been made (which is double the investment made in 1982). The notable thing is that such investments reached to Rs. 9200.7 crores in the year 1988 - 89.

2) Special Deposits with Government :- Amount of Special Deposit with Government has also increased very fast. In 1982 the amount was Rs. 241.00 crores, and in 1986 the same amount was raised to Rs. 771.00 and at the end of 1989 it stood at Rs. 1259.40 crores which is five times more than the 1982's investments.

3) Corporate Securities :- Corporate Securities rank second in investments of LIC. In corporate securities in 1982 the amount invested was Rs. 360.38 crores while in 1989 it was Rs. 1682.27 crores. So, it is also clear that in 1989 the amount is almost five times more than that of the amount of 1982. It shows the LIC's large interest in investment in corporate securities.

TABLE 6

INVESTMENTS OF LIC

RS. Crores

(Book Value of Investments)

PARTICULARS	1982	1983	1984	1985	1986	1987	1988	1989
Government Securities & Other Approved Securities	3605.64	4130.47	4694.17	5301.47	6012.86	6843.24	7863.80	9200.72
Special Deposit with Govt.	241.00	341.00	471.00	621.00	771.00	921.00	1071.00	1259.41
Municipal and Other Securities not guaranteed by the Government.	74.62	76.17	78.25	79.83	71.41	63.00	56.77	49.36
Co. Shares & Debentures	360.38	396.62	466.75	566.54	738.58	1023.38	1315.09	1682.27
Loans for Hsg. Development including mortgage of Property	873.17	967.16	1077.47	1190.80	1302.02	1393.79	1566.49	1834.34
Loans to Development Authority in Nagaland	1.44	1.44	1.44	7.51	1.21	1.10	0.99	0.88
Loans to State Electricity boards North Eastern Electric Power	965.35	950.45	1043.14	102.20	1211.57	1299.52	1455.52	1645.48

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TABLE 6 Contd.....

Particulars	1982	1983	1984	1985	1986	1987	1988	1989
Loans to Water Supply and Sewage Schemes	356.40	414.41	459.94	18.50	547.79	560.56	629.19	684.06
Loans to State Road Transport Corporation	75.54	89.43	96.37	25.10	109.40	116.17	122.30	123.22
Loans to Sugar Co-op Soc.	25.79	22.62	20.39	342.50	16.66	10.24	13.14	10.13
Loans for setting up Industrial Estates	19.04	23.07	24.42	83.80	23.94	13.92	12.82	12.18
Term Loans to Companies	392.47	-	310.90	0.05	376.19	442.51	579.31	671.00
Short Term loans to Co.	2.75	421.48	117.59	687.21	106.51	119.39	89.59	74.70
Loans on Personal Security	0.09	0.07	0.05	0.75	0.05	0.05	0.05	0.05
Loans on insured policies with their surrender value including DNF advance	459.74	536.61	608.57	2.09	778.66	903.46	1002.36	1067.49
Contribution to initial capital of UTI	0.75	0.75	0.75	0.75	0.75	0.75	0.75	0.75
Application money for Securities and Shares	0.35	1.02	4.37	2.09	8.63	-	5.08	11.81
Advance Subscription for Securities	2.07	0.57	3.27	6.03	9.83	11.37	9.60	13.71
Inv't. in Foreign Countries	41.18	40.99	46.00	49.18	59.73	77.51	88.74	103.15
House Property and Land	75.26	84.23	93.90	105.27	117.34	130.74	144.16	163.41

SOURCE : Annual Reports and Accounts of LIC.

4) Loans (various types) :- The Life Insurance Corporation extends loans to various sectors in the country. The main purpose of giving the loans is to earn a high rate of interest and with this LIC tries to maintain the principle of profitability.

5) Minor Investment :- The LIC also makes some minor investments. The LIC has taken little interest in this, and since the amount invested is little, the returns are also low as compared to other securities discussed above.

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