

CHAPTER II

LIFE INSURANCE CORPORATION OF INDIA AND ITS FUNDS

- 2.1 *Introduction*
- 2.2 *Growth of the Net Income*
- 2.3 *Composition of the Net Income*
- 2.4 *Analysis of the Corporation's Outgo*
- 2.5 *Benefits to the Policy Holders*
- 2.6 *Managerial Expenses*
- 2.7 *Transfer to Special Reserve*
- 2.8 *Growth of Life Insurance Fund*
- 2.9 *Investment of the LIC Fund*

CHAPTER II

LIFE INSURANCE CORPORATION OF INDIA AND ITS FUNDS

2.1 INTRODUCTION

Life Insurance has a vital role to play in the economic and social life of the country. It was due to this strategic importance of life insurance that the Government of India decided to nationalise it in 1956. Life Insurance Corporation of India is primarily an organisation for selling life insurance protection to its customers but at the same time, it is a financial institution of great importance.

One of the important objectives of the nationalisation is to invest the money for the best advantages of the policy holders as well as the community as a whole. In the latter capacity, it collects premiums from a large number of policy holders which are applied for meeting the current year cost of insurance and expenses of management and for accumulating a life insurance fund. These premiums may be determined according to assessment plan, natural plan or according to level premium plan.

The regular premiums charged according to the level premium plan are higher than the actual cost of insurance during

the early policy years. The excess payment involved in this is reserved for use in mortality costs in the later years, when the premiums are insufficient for the purpose. This excess amount accumulates in a fund which is called, the Life Insurance Fund¹.

A Life Insurance Fund at the disposal of the L.I.C. represents the accumulated excess of income over outgo². The income consists of premiums, interest, dividends and rents, and the outgo is made up of claims, surrenders, annuities, managerial expenses and contributions to special reserves.

Let us proceed to the study of the growth of life fund with special reference to Life Insurance Corporation, since life fund is accumulated net balance of these two items.

2.2 i) Growth of the Net Income

The income of the L.I.C. has been increasing ever since its incorporation. The total income of L.I.C. in 1980-81 was Rs. 1,461.29 crores and in 1985-86 the income was Rs. 2,9~~1~~.31 crores³.

The following table shows the changes of the total income of the L.I.C. during the period 1981-82 to 1988-89.

TABLE 1

COMPOSITION OF TOTAL INCOME OF THE L.I.C.

(Rs. in crores)

| NO. | YEARS | TOTAL INCOME |
|------------|--------------|---------------------|
| 1 | 1981 - 82 | 1,675.64 |
| 2 | 1982 - 83 | 1,907.39 |
| 3 | 1983 - 84 | 2,173.22 |
| 4 | 1984 - 85 | 2,519.99 |
| 5 | 1985 - 86 | 2,941.31 |
| 6 | 1986 - 87 | 3,458.97 |
| 7 | 1987 - 88 | 4,247.09 |
| 8 | 1988 - 89 | 5,370.41 |

SOURCE : Reports and Accounts of the L.I.C.

The data in the above table shows that total income increased from Rs. 1,675.64 crores in 1981-82 to Rs. 2,941.31 crores in 1985-86, which reached to Rs. 5,370.41 crores in 1988-89 i.e. about four times increase.

2.3 ii) Composition of the Net Income

The main composition of the income of the Life Insurance Corporation of India is Renewal Premium, Single Premium for Annuities, income from the Investments, First Year Premium and

Miscellaneous ⁴. The relative position of each component is shown in Table 2 below.

TABLE 2
COMPOSITION OF THE INCOME

| NO. | YEAR | PERCENTAGE OF TOTAL INCOME | | |
|-----|-----------|----------------------------|------------|-----------------------|
| | | PREMIUM | INVESTMENT | MISCELLANEOUS SOURCES |
| 1 | 1981 - 82 | 62.22 | 37.79 | - 0.01 |
| 2 | 1982 - 83 | 63.86 | 35.90 | 0.24 |
| 3 | 1983 - 84 | 62.36 | 37.39 | 0.25 |
| 4 | 1984 - 85 | 61.88 | 37.72 | 0.40 |
| 5 | 1985 - 86 | 60.62 | 38.32 | 1.06 |
| 6 | 1986 - 87 | 60.63 | 38.57 | 0.80 |
| 7 | 1987 - 88 | 62.91 | 36.67 | 0.42 |
| 8 | 1988 - 89 | 63.92 | 35.10 | 0.98 |

SOURCE : Reports and Accounts of the L.I.C. 1981-82 to 1988-89

It is seen from the table above that premiums are the main item of the income of L.I.C. Nearly 62 percent of the net income being received in the form of premiums. Income from the investments is another important item of income. Nearly 37 percent of the net income is received in the form of income from investment.

Whereas, income from the miscellaneous sources is substantial low i.e. in the range of 1.0 percent of the total income.

1] Income from Premium

Life Insurance Premium is the payment of one of the periodic payments a policy holder is required to make for a life insurance policy. Premium of life insurance policies is the most important source of income of Life Insurance Corporation. We have already seen from Table 2 that on an average about 62 percent of the total net income of the L.I.C. comes from this source.

But, it is interesting to note that the real indicators of the progress of Life Insurance business are the first year premiums and not the renewal premiums. Hence, the composition of total premium income can be examined from the details given in Table 3.

In case of L.I.C., the absolute amount is received from the 'Renewal Premiums'. ' But, we cannot understand the growth of Life Insurance Corporation from it. For understanding the growth, we must consider the first year premiums of the L.I.C.

It is shown in the Table 3 below, that all items of the premiums have increased from 1982 onwards. However, from other items of premiums the L.I.C. is receiving very poor amount.

TABLE 3

COMPOSITION OF L.I.C. PREMIUMS INCOME

Rs 1988-89

| NO. | YEAR | FIRST YEAR PREMIUM | RENEWAL PREMIUM | OTHERS | TOTAL |
|------------|-------------|---------------------------|------------------------|---------------|--------------|
| 1 | 1981 - 82 | 158.39 | 854.10 | 0.38 | 1,012.87 |
| 2 | 1982 - 83 | 181.21 | 933.24 | - | 1,114.45 |
| 3 | 1983 - 84 | 191.25 | 1044.63 | 0.55 | 1,236.43 |
| 4 | 1984 - 85 | 225.57 | 1186.69 | 0.56 | 1,412.82 |
| 5 | 1985 - 86 | 286.69 | 1331.31 | 0.50 | 1,618.50 |
| 6 | 1986 - 87 | 373.49 | 1522.92 | 0.94 | 1,897.35 |
| 7 | 1987 - 88 | 531.62 | 1821.77 | 7.68 | 2,361.07 |
| 8 | 1988 - 89 | 715.93 | 8236.82 | 3.68 | 2, 956.43 |

SOURCE : Annual Reports and Accounts of L.I.C. 1981-82 to 1988-89

2] Interest, Dividend, Rent, etc.,

Life insurance contracts are mostly long term contracts. All whole life policies and almost all endowment policies are taken for a large number of years. The Insurance Corporation keeps on getting substantial amounts from policy holders and has to preserve them for meeting claims from policy holders. These amounts are invested to earn income for the insurance company.

Life Insurance Corporation invests these funds in Government Securities, Policy Loans and Loans on Mortgage of property. The funds may also be invested in shares and debentures of Joint Stock Companies. A substantial portion of the funds is invested in buildings which are rented out and rent received forms a part of the income of the Life Insurance Corporation.

TABLE 4

INCOME FROM INTEREST, DIVIDEND AND RENT

| NO. | YEAR | AMOUNT (Rs in crores) | PERCENTAGE TO TOTAL INCOME |
|------------|-------------|----------------------------------|---------------------------------------|
| 1 | 1981 - 82 | 583.03 | 34.79 |
| 2 | 1982 - 83 | 684.84 | 35.90 |
| 3 | 1983 - 84 | 812.62 | 37.39 |
| 4 | 1984 - 85 | 950.58 | 37.72 |
| 5 | 1985 - 86 | 1127.10 | 38.32 |
| 6 | 1986 - 87 | 1334.12 | 38.57 |
| 7 | 1987 - 88 | 1557.40 | 36.67 |
| 8 | 1988 - 89 | 1885.01 | 35.10 |

SOURCE : Reports and Accounts of L.I.C. 1981-82 to 1988-89

The table above shows the distribution of L.I.C.'s income from interest on loans, rents, dividend, etc. during the study period.

The ratio of interest, dividend and rent to total income has also shown a significant increase. In 1981-82, the amount was Rs. 583.03 crores which has more than trebled in 1988-89 to Rs. 1885.01 crores in a period of just seven years. However, the percentage to total income started declining from 1987-88, which reached to 35.10 percent at the end of 1988-89.

3] Miscellaneous Receipts

Under this head are included registration and other fees, refund of income tax, old claims outstanding unclaimed deposits and other amounts returned. The receipts under this head in 1981-82 were Rs. 3.60 crores and increased substantially in 1985-86 to Rs. 31.35 crores. It is also clear that the amount of miscellaneous receipts has increased from 1982 onwards.

2.4 ANALYSIS OF THE CORPORATION'S OUTGO

By outgo we mean the payments made by Life Insurance Corporation out of its income. These payments amounted to Rs. 207.49 crores in 1971-72 and in 1981-82 Rs. 754.47 crores with a ratio to total income of 45.03 percent.

In 1985-86, the total outgo of L.I.C. was Rs. 1,466.45 crores which formed 49.86 percent to the total income. The ratio was highest in the year 1987-88 amounting to 49.87 percent followed

by 49.86 percent in 1985-86. But it decreased to 45.17 percent in 1988-89. The relative growth of outgo can be studied from the following table.

TABLE 5

GROWTH OF OUTGO OF L.I.C.

| NO. | YEAR | AMOUNT (Rs in crores) | RATIO TO TOTAL INCOME (%) |
|------------|-------------|----------------------------------|--|
| 1 | 1981 - 82 | 754.47 | 45.03 |
| 2 | 1982 - 83 | 838.28 | 43.95 |
| 3 | 1983 - 84 | 1,004.56 | 46.22 |
| 4 | 1984 - 85 | 1,194.56 | 47.40 |
| 5 | 1985 - 86 | 1,466.45 | 49.86 |
| 6 | 1986 - 87 | 1,622.72 | 46.91 |
| 7 | 1987 - 88 | 2,117.45 | 49.87 |
| 8 | 1988 - 89 | 2,426.22 | 45.17 |

SOURCE : Reports and Accounts of L.I.C. 1981-82 to 1988-89

Composition of Total Outgo

The total outgo comprises of payment to policy holders, expenses of management, Government's share of yearly valuation surplus, transfer to reserve, and excess of income outgo added. The yearwise distribution of outgo is shown in Table 6.

TABLE 6

COMPOSITION OF TOTAL OUTGO

(figures in percentages)

| NO. | PARTICULARS | 1981-82 | 1982-83 | 1983-84 | 1984-85 | 1985-86 | 1986-87 | 1987-88 | 1988-89 |
|-----|--|---------|---------|---------|---------|---------|---------|---------|---------|
| A] | <u>Payment to policy holders</u> | | | | | | | | |
| 1. | Claims by maturity | 17.49 | 18.38 | 19.26 | 20.89 | 20.23 | 19.85 | 19.59 | 18.46 |
| 2. | Claims by death | 4.75 | 4.53 | 4.55 | 4.44 | 4.32 | 4.07 | 4.01 | 4.09 |
| 3. | Annuities | 0.36 | 0.41 | 0.44 | 0.49 | 0.57 | 0.60 | 0.60 | 0.56 |
| 4. | Surrenders, etc. | 3.45 | 4.10 | 3.86 | 3.69 | 3.97 | 3.84 | 3.39 | 2.48 |
| B] | <u>Expenses of management</u> | | | | | | | | |
| 1. | Commision to agents | 5.10 | 5.39 | 4.70 | 4.65 | 5.01 | 5.18 | 5.60 | 6.10 |
| 2. | Salary & other benefits to employees | 8.35 | 6.28 | 7.19 | 8.69 | 8.38 | 8.15 | 7.36 | 7.73 |
| 3. | Other expenses | 1.80 | 2.04 | 2.05 | 1.93 | 2.15 | 2.30 | 2.39 | 2.49 |
| C] | <u>Govt. share of yearly valuation surplus</u> | 1.56 | - | 1.80 | - | 1.79 | 0.84 | 0.93 | 0.89 |
| D] | <u>Tax transfer to Reserve</u> | 2.17 | 2.82 | 2.37 | 2.62 | 3.44 | - | - | - |
| E] | <u>Excess of income over outgo added to LIC fund</u> | 54.97 | 56.05 | 53.78 | 52.60 | 50.14 | 53.09 | 50.14 | 54.82 |

SOURCE : Reports and Accounts of LIC.

After analysing the table following conclusions can be drawn.

1) Payment to Policy Holders :- It is seen from the table that the benefits paid to the policy holders constitute more than 25 percent of the total outgo of L.I.C. In 1981-82, it is 25.74 percent which increased to a maximum of 29.51 percent in 1984-85 and subsequently reduced to 26.39 percent in 1988-89.

2) Expenses of Management :- Management expenses are the items of the outgo comprising of commission to the agents, salary and other benefits to the employees and other expenses. These expenses on an average constitute 15 percent of the total outgo and can not be considered as a major item⁵.

3) Government's Share of Yearly Valuation Surplus :- It is observed from the table that the Government's share of yearly valuation surplus hovers around 1 to 2 percent in the study period 1981-82 to 1988-89.

4) Transfer to Reserve Funds :- During the study period 1981-82 to 1988-89 there have been transfers to the reserve funds during the period 1981-82 to 1985-86. Thereafter, no amount is transferred to the reserve funds.

5) Excess of Income Over Outgo :- The excess of income over outgo added to L.I.C. fund on an average is more than 50 percent during the study period.

2.5 Benefits to Policy Holders

The benefits to the policy holders are given in the form of payment of claims, surrender values, annuities and bonus. The following table shows the benefits paid to the policy holders during the period 1981-82 to 1985-86.

TABLE 7

BENEFITS TO POLICY HOLDERS

| NO. | YEAR | BENEFITS (Rs in crores) | RATIO TO TOTAL OUTGO | RATIO TO TOTAL INCOME |
|-----|-----------|----------------------------|----------------------------|-----------------------------|
| 1 | 1981 - 82 | 436.55 | 26.05 | 52.21 |
| 2 | 1982 - 83 | 523.06 | 27.42 | 49.87 |
| 3 | 1983 - 84 | 610.74 | 28.01 | 49.02 |
| 4 | 1984 - 85 | 743.80 | 25.51 | 47.95 |
| 5 | 1985 - 86 | 855.56 | 29.09 | 46.06 |

SOURCE : Reports and Accounts of L.I.C. 1981-82 to 1985-86

It is observed from the table above that the benefits to the policy holders are increasing every year. The benefits amounted to Rs. 436.55 crores in 1981-82 which increased as much as twice to Rs. 855.56 crores in the year 1985-86. The ratio to total outgo also shows increasing trend over the same period, except in 1984-85. On

the other hand, the ratio to total income is steadily declining from 52.21 in 1981-82 to 46.06 in 1985-86, indicating thereby that the income of L.I.C. has increased substantially than the benefits to the policy holders during the said period.

The benefits to the policy holders were further analysed into following four categories namely, claims, annuities, surrenders and bonus.

a) Claims :- Claims may arise either by death or survival. In the former case the amount assured will be paid to the person entitled. There will be no submission of the proof of age and discharged policy. Whereas, in the latter case, the claims will be paid after the receipts of all the premiums and maturity of the policy duly discharged by the policy holder. The analysis of the claims settlement is made with the help of Table 8.

The table shows the yearwise distribution of number of claims intimated to L.I.C. with amount, number of claims settled with amount and number of claims outstanding with amount outstanding at the end of the respective year. It is noticed that the claims amounting to Rs. 372.63 crores were intimated to the Corporation during 1981-82 out of which Rs. 376.58 crores claims were settled and Rs. 63.10 crores claims were outstanding. Whereas, in 1988-89, Rs. 1211.08 crores claims were submitted out of which Rs. 1196.90 crores were settled and Rs. 84.71 crores claims were outstanding.

CARR. BALASAHEB KHARDEKAR LIBRARY
SHIVAJI UNIVERSITY, KOLHAPUR.



TABLE 8

PARTICULARS OF CLAIMS SETTLEMENT BY LIC

| NO. | PARTICULARS | 1981-82 | 1982-83 | 1983-84 | 1984-85 | 1985-86 | 1986-87 | 1987-88 | 1988-89 |
|-----|--|---------|---------|---------|---------|---------|---------|---------|---------|
| 1 | <u>Claims Initiated</u> | | | | | | | | |
| | Number (in lakhs) | 9.18 | 10.29 | 11.55 | 13.14 | 13.63 | 14.48 | 16.35 | 18.35 |
| | Amount (Rs in crores) | 372.63 | 437.02 | 517.28 | 638.29 | 722.02 | 827.64 | 1002.46 | 1211.06 |
| 2. | <u>Claims settled during the year</u> | | | | | | | | |
| | Number (in lakhs) | 9.39 | 10.35 | 11.46 | 13.46 | 13.83 | 14.65 | 16.34 | 18.35 |
| | Amount (Rs in crores) | 376.58 | 434.79 | 508.99 | 638.68 | 728.80 | 831.21 | 994.81 | 1196.90 |
| 3. | <u>Claims outstanding at the end of Year</u> | | | | | | | | |
| | Number (in lakhs) | 1.51 | 1.45 | 1.54 | 1.22 | 1.02 | 0.85 | 0.86 | 0.91 |
| | Amount (Rs in crores) | 63.10 | 65.33 | 73.62 | 73.23 | 66.45 | 62.88 | 70.53 | 84.71 |

SOURCE : Reports and Accounts of LIC, 1981-82 to 1988-89.

Thus, in the span of 8 years the number of claims intimated increased two fold, amount of claims increased more than three times. Whereas, the claims outstanding did not increase proportionately. However, it appears that the policy of settlement of claims changes from year to year. It essentially depends on the policy outstanding claims, claims during the year, claims in next year, etc.

b) Annuities :- As stated earlier, an annuity contract is a contract between insurer and its customer whereby in exchange for consideration, the former promises to make payment of equal periodic amounts till his death. An annuity contract serves a person who has accumulated a handsome amount of money during his earning age. He wants to make maximum use of that amount, not bothering to leave money behind him and does not want to face any financial difficulty in the remaining years of his life.

c) Surrenders :- If the person assured finds himself unable to continue the payments of premium on his policy at his own initiative can surrender it to the Corporation and acquire its cash surrender value. When such payments are made by the Life Insurance Corporation, the contract of insurance terminates and the liability of the insured person to pay the future premiums also ends.

In the early years of the policy, this reserve value of is usually nil or negligible on account of medical fee, procurement

commission, other administrative expenses and no surrender value is allowed in the first few years of a policy.

The L.I.C. permits to the surrender, the policy for cash after the premiums have been paid at least for two years or to the extent of one-tenth of the total number stipulated for in the policy, provided the total premiums paid exceed one full year's premium ⁶. The amount of the L.I.C.'s surrenders in 1984-85 was Rs. 93.08 crores and in 1985-86 it was Rs. 116.64 crores. This difference shows that the amount of surrenders has increased from the previous year (1984-85). The percentage of surrenders to the total outgo of L.I.C. reached 2.5 percent at the end of 1988-89, which was rather highest (3.9 percent) in 1985-86.

d) Bonus :- The actual profit available for distribution is ascertained from time to time and it is distributed among the participating policy holders. The distribution is usually made at intervals of years. The bonus is generally expressed as percentage of the assured sum or so much per Rs. 1,000 of the assured sum. The following table shows the policy of bonus of L.I.C.

The bonus declared on 31st March 1977 is Rs. 25 per Rs. 1000/- for whole life policy and for the endowment policy Rs. 20 per Rs. 1000/-.

TABLE 9

RATES OF BONUS REVERSIONARY (EXCLUDING U.K. & FIGI)

(Figures as on 31st March)

| NO. | YEAR | BONUS RATE / 1000 SUM ASSURED P.A. | |
|-----|------|------------------------------------|-----------|
| | | WHOLE LIFE | ENDOWMENT |
| 1 | 1977 | 25.00 | 20.00 |
| 2 | 1979 | 31.00 | 24.80 |
| 3 | 1981 | 35.00 | 28.00 |
| 4 | 1983 | 42.50 | 34.00 |
| 5 | 1985 | 55.00 | 44.00 |
| 6 | 1986 | 65.00 | 52.00 |
| 7 | 1987 | 72.00 | 58.00 |
| 8 | 1988 | 77.50 | 62.00 |

SOURCE : Reports & Accounts of LIC

The new policy for bonus is Rs. 55 per Rs. 1000/- for whole life policy and Rs. 44 for endowment policy. Hence, it can be concluded that the amount of bonus is increasing every year from 1977 onwards.

A very negligible portion of the out go has been paid in the form of cash bonus from year to year. Most of the bonus amounts have been paid along with claims.

2.6 Managerial Expenses

The second important item of the outgo of a Life Insurance Corporation is its expenses of management. Such expenses amounted to Rs. 255.44 crores in the year 1981-82 as against Rs. 456.90 crores in the year 1985-86 which reached to Rs. 875.97 crores in 1988-89. Thus, within a period of 8 years the management expenses have gone up by nearly three and half times.

Table 10 below shows the composition of the total managerial expenses of LIC.

TABLE 10

COMPOSITION OF MANAGERIAL EXPENSES

| (Rs. in crores) | | | | | |
|-----------------|---------|------------------------------|-------------------------|-------------------|-------------------|
| NO. | YEAR | SALARIES & OTHER BENEFITS | COMMISSION TO AGENTS | OTHER EXPENSES | TOTAL EXPENSES |
| 1 | 1981-82 | 139.95 | 85.37 | 30.12 | 255.44 |
| 2 | 1982-83 | 119.71 | 102.70 | 38.98 | 261.39 |
| 3 | 1983-84 | 156.32 | 102.21 | 44.58 | 303.11 |
| 4 | 1984-85 | 219.01 | 117.28 | 48.54 | 304.83 |
| 5 | 1985-86 | 246.50 | 147.28 | 63.12 | 456.90 |
| 6 | 1986-87 | 282.06 | 179.00 | 79.47 | 540.53 |
| 7 | 1987-88 | 312.62 | 237.94 | 101.35 | 651.91 |
| 8 | 1988-89 | 415.17 | 327.41 | 133.39 | 875.97 |

SOURCE : Reports & Accounts of LIC

The data in the above table shows that the expenses of management are going up in the study period. The increase in the expenses of management are somewhat increasing whereas, it is expected that the nationalised corporation's management would be rationalised and the expenses would come down⁸.

It will also be seen from Table 10 that the major item of expenses has been salaries and other benefits to the employees. More than 60 percent of the total managerial expenses have been incurred on this item.

2.7 Transfer to Special Reserves

The last but not the least item is transfer to special reserves and miscellaneous expenses. The transfers are generally made to capital reserve, general reserve, contingency reserve, reserve for loans on mortgages, reserve for investments, etc.

2.8 GROWTH OF LIFE INSURANCE FUND

Life Insurance Corporation has played a vital role for the nation. LIC has become a useful financial institution directly or indirectly⁹. It was due to this strategic importance of LIC that the Government of India decided to nationalise it in 1956. This has been an important landmark in the history of Life Insurance in India and an event of great significance for the economic life of the country.

The main purpose of nationalisation of the LIC is management, control and investment of life fund. The size of life insurance fund increased from Rs. 299.7 crores in 1955 to Rs. 12,665.95 crores in 1985-86, showing an increase of about more than 1,000 percent.

This rapid growth was the natural result of fast rate at which Indian insurance companies were expanding their activities¹⁰. Today more than 48 percent of total income of LIC is transferred to Life Insurance Fund, and this fund is available for giving loans to people. During the period under study, the fund of LIC increased from Rs. 7,562.61 crores in 1981-82 to Rs. 12,665.95 crores in 1985-86 and the fund has reached to Rs. 19,568.8 crores in 1988-89.

With the help of TABLE 11 we can understand the progress of the LIC Fund.

TABLE 11

GROWTH OF LIFE INSURANCE FUND
(SOURCE : Accounts and Reports of LIC)

| YEAR | AMOUNT |
|-----------|-----------|
| 1981 - 82 | 7,562.61 |
| 1982 - 83 | 8,631.72 |
| 1983 - 84 | 9,800.38 |
| 1984 - 85 | 11,191.09 |
| 1985 - 86 | 12,665.95 |
| 1986 - 87 | 14,502.20 |
| 1987 - 88 | 16,631.84 |
| 1988 - 89 | 19,568.79 |

(Rs. in crores)

The yearwise analysis of the fund of LIC shows clearly that the fund is growing steadily over the period under consideration. Thus in a span of 8 years (1981-82 to 1988-89) the fund has increased more than twice.

2.9 INVESTMENT OF LIC FUND

(i) STATUTORY CONTROL

Before we analyse the pattern of investment, it would be useful to have a brief idea of the legal provisions governing the investment of Life Insurance Fund in India and make a comparative study of various parts of investments of LIC in India.

Objects of Statutory Control :- Before setting up of LIC in 1956, as a result of the amalgamation of 245 insurance companies, the Life Insurance Companies were governed by Section 27 and 27-A of the Insurance Act, 1938 with regard to their investment¹¹. In India, the investment of Life Insurance Funds has been subject to Government control although nature and dimension of such control have differed from time to time according to circumstances.

The main object underlying such control is to safeguard the interests of the insured against any embezzlement or misuse of funds by unscrupulous insurers for their own benefit. The Government therefore, must maintain a strict vigilance on the

manner in which these funds are utilised. This is expected to create a sense of confidence in the minds of the people regarding the safety of their funds and thereby encourage the growth of insurance.

Another objective of the Government control sometimes is to direct the investments of funds into desirable channels. As such investment regulation by the Government may be motivated more by the self-interest of the Government than the desire to safeguard the interests of the policy holders.

In India, control over investment of funds is exercised through the Insurance Act, 1956 to the effect from 23rd August 1958 with certain modifications. With nationalisation of insurance certain changes have taken place in the nature of authority exercised by the Government. Insurance has now come more directly under the Finance Ministry and the investments decisions are made by a Special Committee.

(ii) STATUTORY CONTROL BEFORE NATIONALISATION

The pattern of investments of the funds of LIC before nationalisation can be summarised as follows.

A life insurance company was required to invest a minimum 25 percent of its control funds in Government Securities. For this purpose, the amount of any deposit made with the Reserve Bank of India for and on behalf of the Central Government by the insurer

in respect of his life insurance business was deemed to be assets invested or kept invested in the Government Securities.

Further 25 percent of the funds was required to be invested in Government Securities or other approved securities. For this purpose, the securities guaranteed principles and interest by the Government of United Kingdom were regarded as approved securities other than Government Securities.

The remaining 50 percent of the controlled funds, a minimum of 35 percent of the total controlled fund should be invested in approved investments.

These investments included besides the approved securities, the securities or guarantees by the Government of the United Kingdom, debenture issued by municipalities, etc.

(iii) STATUTORY CONTROL AFTER NATIONALISATION

At the time of nationalisation, the Government did not immediately apply Section 27-A to LIC. An investment committee to guide the corporation in making its investments was constituted under Section 19(2) of the LIC Act, 1956 12. It was stated that the corporation would be actually following the principles laid down in 1938 Act. In respect of its investments till the matter was further examined.

In 1957, the Government introduced the bill in the Lok Sabha to reform the board consisting of the Governor of the Reserve Bank of India as the Chairman, the Chairman of the Central Board of State Bank and the Chairman of the LIC as members. As a result, the board started to take away the work of investment from the corporation and entrusting that function to a separate body on which the corporation should be represented by its Chairman.

On August 25, 1958 Section 27-A of Insurance Act 1938 was made applicable to the LIC with slight modification. It is accepted because Section 27-A had proved satisfactory both to the insurer and policy holders¹³. The Government had therefore, decided to follow these principles, subject only to such changes and modifications as had become necessary owing to the fact that investments which has previously spread over 245 old insurance companies were now held by one single corporation.

TABLE 12

SCHEME OF INVESTMENT PATTERN AFTER NATIONALISATION

| NO. | PERCENT | PARTICULARS |
|-----|---------|-------------------------------------|
| 1 | 50 | Government and approved securities |
| 2 | 35 | In the form of approved investments |
| 3 | 15 | In the form of investments |

SOURCE : Indian Financial System, Theory & Practice, M. Y. Khan, Vikas Publishing House Pvt. Ltd.

Under the new scheme of investments, the investments of the LIC are divided into three broad categories as shown in Table 12 above.

The limitations are that at least 50 percent of the total funds should be held in Government and gilt-edged securities and 35 percent in approved investments, while not more than 15 percent should be held in the form of other investments. However, recent amendments made in the scheme of LIC's investments are shown in the following table.

TABLE 13

RECENT AMENDMENTS IN INVESTMENTS

| NO | PERCENT | PARTICULARS |
|-----------|----------------|--|
| 1 | 50 | In Central Govt. and State Govt. securities including Govt. guarantee marketable securities |
| 2 | 25 | In Central Govt. marketable securities |
| 3 | 25 | In the following form : 1) 8 percent required for loans against policies within the surrender values 2) 10 percent invested in private corporate sector 3) 5 percent of the Control Fund which may not be available for investment constitute fund in pipeline 2) 2 percent invested in immovable property |

Under the new scheme and with consideration Seventh Five Year Plan, a number of important policy decisions were taken during the years. This would help upgrading technology, modernising industries and enhancing for the faster industrial growth. The new export-import policy accepted by LIC would help to make good prospects in the country.

(iv) GUIDING PRINCIPLES OF INVESTMENT PLAN

A part from the requirements prescribed 1958 by the application of Section 27-A of the Insurance Act, a number of principles which would govern the policy to be followed by the LIC in making investments were stated by the Govt. in the Lok Sabha in 1956 and 1958. These principles may briefly be stated below.

a) LIC be Guided by the Advice of Investment committee :

The corporation would be guided by the advice given to it by the investment committee, which would be constituted for the purpose, and on which there may be besides the members of the corporation, others having expert knowledge of the subject. It was the Government's intention to indicate in a broad manner, what type of investments the corporation should avoid and which particular types of investments it should view with favour.

(b) Investments in Ventures Established in Pursable of

the Plan to be Preferred :- Investment in ventures established in pursuable of the plans would be given preference for others and the

investments would be governed in the main by the major considerations such as, the interests of the policy holders and the interest of the development envisaged in the plans.

(c) Private Sector to Receive its Due Share in Life Funds :

The private sector has been assured of its due share in the investments of the corporation. The Finance Minister told the Lok Sabha that it was not the Government's intention to divert the flow of funds to the public sector to a greater degree than at the time of nationalisation.

(d) The Corporation to Work on the Business Principles

But to Keep Before it the Interest of the Community as a Whole :-

It is the general duty of the corporation to carry on life insurance business so as to secure that life insurance business is developed to the best advantage of the community. Thus, whereas the LIC would bear in mind that its primary obligation is to its policy holders, whose money it holds in trust, and would work as far as possible, on business principles, it would never lose sight of the fact that, as the single largest investor in India. It has to keep before it the interest of the community as a whole. It will therefore, invest in ventures which will help in the social advancement of the country.

(e) LIC to Hold Diversification Portfolio of Investment :-

The Life Insurance Corporation will take no portfolio's view. Its funds are drawn from all over India and they will as

far as practicable considerations allow, be invested for the good of the entire country. There shall be studied diversification of its investible funds which is an essential requirement of any insurer particularly, the sole insurer of the country.

(f) The Corporation not to Indulge in Speculation :-

The LIC shall not indulge in speculation and thus, take advantage of temporary fluctuations in market prices. It must be necessarily invest on a long-term basis. But this should not preclude it from certain buying and selling operations when circumstances warrant them.

R E F E R E N C E S

- 1] Sharma, R. S., Insurance Principles and Practice, Vora & Co., Ltd., Bombay, 1960, p. 86.
- 2] Prest, A. R., Public Finance in Theory & Practice, E.L.B.S. Edition (5th Ed.), 1974, p. 206.
- 3] Reports and Accounts of LIC for the year ended 31st March, 1986.
- 4] Khan, M. Y., Indian Financial System, Vikas Publishing House Pvt. Ltd., p. 93.
- 5] Lockevell, H. A. L., Insurance, Richard Clay Ltd., Bungay, Suffolk in 1957, p. 105.
- 6] LIC Policy Contract, p. 3.
- 7] Annual Reports and Accounts of LIC, 1986.
- 8] Srivastava, R. M., Management of Indian Financial Institutions, Himalayan Publishing Co., Bombay, p. 565.
- 9] The Banker, June, 1976, p. 39.
- 10] Agarwal, A. N., Life Insurance in India, Allahabad Low Journal Press, Allahabad, 1960, p. 274.
- 11] Khan, M. Y., Indian Financial System Theory & Practice, Himalaya Publishing House, Bombay, p. 104.

- 12] Srinivasmurthy, Investment Allocation in Indian Planning, Himalaya Publishing House, Bombay, p. 312.
- 13] Mishra, M. N., Insurance Principles and Practice S. Chand and Co. Ltd., Ramnagar, New Delhi, Second Edition, p. 103.