

CHAPTER V

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The life insurance business in India was nationalised by passing the separate LIC Act 1956. Accordingly, the corporation has powers to invest its life funds subject to the rules framed by the Government. The life fund at the disposal of corporation represents the accumulated excess of income over the outgo.

INCOME OF THE LIC

Income consists of premiums, interests, dividends and rents. Out of these, income from premiums is the main source of income, which constituted about 62 percent of the total income during the period under study. Income from investment follows the next constituting about 37 percent of the total income and the remaining 1 percent income is from other source. The major components of the premium income are : renewal premiums, first year premiums, single premiums and consideration for annuities. The income from investments shows the decline trend from 1981-82 to 1988-89, hence, it is suggested that LIC should concentrate on getting income from investment by investing its investible funds carefully.

OUTGO OF LIC

The total outgo of LIC has shown an increase of about 221.5 percent between 1981-82 and 1988-89. The ratio of the outgo

to total income increased by 4.84 percent during the seven years period under consideration. Benefits to the policy holders, on the other hand, constitute more than 26 percent of the total outgo of LIC. Managerial expenses are the second item of the outgo, constituting about 34 percent.

Benefits to policy holders are mainly in the form of claims, annuities, surrenders and bonus. More than 90 percent of the benefits are paid by way of claims which arise either by death or survivance. About two-thirds of the claims arise by way of maturity. Hardly 1 percent of the benefits are paid by way of annuity. The remaining benefits to policy holders are in the form of surrender values and bonus.

Management expenses stood at 36 percent (Rs. 875.97 crores) in the year 1988-89 as against 33.8 percent (Rs. 255.44 crores) in 1981-82. The increase in the expenses of management staff is somewhat intriguing. Actually, it was hoped that nationalised corporation's management would be rationalised and expenses would come down, particularly when there is an increase in the premium income. But, unfortunately the increase in the business has not ~~led~~ ^{led} to the desired economy. Increase in salaries and other benefits to the employees has ~~led~~ ^{led} to more amount of managerial expenses. During the study period, it is examined that more than 60 percent of the total managerial expenses have been incurred on this item.

It is therefore, suggested that the LIC should make sincere efforts to minimise the management expenses particularly by use of computer system.

LIFE FUND OF LIC

The life fund has increased by more than one-half times since 1981-82 to 1988-89. The amount of additional savings entrusted by the insuring public to the LIC has been increasing steadily, year after year. The average annual increase in the life fund during the study period comes to Rs. 1500 crores. The high expense ratio of the LIC has restricted the growth of the life fund at a more rapid rate. By judicious investment of life fund, the corporation gets the resources which together with the premium income enable it to meet its management expenses, liabilities on account of claims, etc. After meeting such charges there remains a surplus to yield a satisfactory bonus to the policy holders. The LIC has recorded the steady rise in the bonus to both, whole life and endowment policy holders.

STATUTORY CONTROL ON INVESTMENT OF LIFE FUND

In India, the control over investment of life fund is exercised through the Insurance Act, 1938. The investment provisions of this Act have been amended from time to time. The recent provisions are :

- a) 50 percent of life fund in Govt. securities
- b) 25 percent in Central Govt. securities
- c) 25 percent in the following :-
 - i) 8 percent loans against policies
 - ii) 10 percent in private corporate sector
 - iii) 5 percent of control fund not available for investment
 - iv) 2 percent invested in immovable property

In addition to the above, a number of principles which would govern the policy to be followed by the LIC in making investments were stated by the Government in 1958. These principles require that (a) the LIC should be guided by the advice of the Investment Committee, (b) private sector should get its due share in its life fund, (c) the corporation should work on business principles but keep before it the interest of the policy holders as a whole, (d) the LIC should hold the diversified portfolio.

PRINCIPLES OF SOUND INVESTMENT

It is commonly agreed that the investment of life fund should be based on certain principles. The most important principles of investment are : security, profitability, liquidity, investment in the country of origin, etc.

Security is a consideration of the highest importance. Because the reserves that go to build up the life fund should be free from the risk of being deflated due to loss of capital. The second important principle is the profitability of investment. But security and profitability move in opposite direction. If security is treated as first line of defence, it would be proper to consider profitability as subordinate to the first. The principle of diversification takes into account these two principles. By diversification, we mean that concentration of investment in any one type or category of security should be well distributed over different industries, types of securities and regions. According to the liquidity principle, the insurer should hold the investments in an easily and quickly realisable form. But, liquidity in practice, is not essential. The principle of liquidity, however, would be satisfied by the proper scheduling of the maturity of investments so as to coincide with the maturity obligations.

Further, in order to strengthen the local confidence in the company, a good proportion of the fund should be kept invested in the country of its origin.

VARIOUS TYPES OF INVESTMENTS

While examining the various types of investments, such as Govt. securities, debentures, preference shares, equity shares, mortgage loans and other investments, we find that no one form of

investment satisfies all the principles of sound investment fully and simultaneously. Each investment involves a peculiar type of risk. Hence, to ensure against the risk inherent in investment, the corporation has no other alternative than to diversify its investment in fixed return securities and variable return securities. So that, the volatility of the one may be compensated by the stability of the other.

ANALYSIS OF INVESTMENTS OF LIC

The total investments of LIC have increased from Rs. 7473.01 crores in 1981-82 to Rs. 18702.30 crores in 1988-89, showing an increase of about 250 percent. These investments are made both in public and private sectors. During the study period, the share of public sector including co-operative sector has been on the increase while, that of the private sector also increased. In the private sector, it is suggested that small scale industries should also be given some place. Investments constitute more than 90 percent of the total assets of LIC during the study period. The investments of LIC are mainly in Government securities, corporate securities and other investments.

INVESTMENT IN GOVERNMENT SECURITIES

Government securities enjoyed an outstanding position in the investment portfolios of LIC. Investment in these securities stood at 51.4 percent of total assets in 1988-89 as against 48.6

percent in 1981-82. It shows that LIC has invested in Government securities, on an average 50 percent of the total assets during the study period. It is also examined that inspite of the recent decline in their importance (from 1985-86), the Government securities still dominate the investment portfolio of the LIC. This bias towards Governemnt securities has a depressing effect on the earnings of the LIC, as yield on these securities is lower than on the corporate securities. Considering the average investment in these securiies, it can be concluded that the LIC has maintained the minimum limit prescribed by the statute. The LIC' investment in Government securities has also spread over the major important countries in the world, where UK ranked the first.

The main components of the Government securities are (1) Central Government securities, (2) State Government Securities, and (3) Other Approved and Foreign Government Securities.

Investment in Central Government Securities :- The total amount invested in Central Government securities increased from Rs. 2010.95 crores in 1981-82 to Rs. 6827.19 crores in 1988-89. These securities constituted on an average 65.7 percent of the total Government securities during the period under study.

Investment in State Government Securities :- The State Government securities constitute the second important component of Government securities held by LIC. Its investment in these securities have increased by only Rs. 89 crores between 1981-82 to

1988-89. During this period, amount invested in stock exchange and State Government securities in all the zones declined every year. The inter-zonal differences may be attributed to the non-availability of the desired securities in respective zones. The distribution of these securities shows that Uttar Pradesh, Orissa, Rajasthan, Bihar and Andhra Pradesh received proportionately more share as compared to other states. The other states like, Assam, Manipur, Himachal Pradesh, Maharashtra, Pondicherry, Delhi, etc., could not get their due share in the total increase in the State Government securities. It means that, the LIC has yet to do a lot to contribute towards the economic development of the backward states.

INVESTMENT IN CORPORATE SECURITIES

Corporate securities occupy second position in the investment portfolio. The LIC's holdings in corporate securities increased from Rs. 360.36 crores in 1981-82 to Rs. 1682.57 crores in 1988-89 showing an increase of about 367 percent over the period. The ratio of those securities to total assets of the LIC has remained about 9.8 percent during the study period. The LIC has made the investment in corporate securities of nine countries of the world. Of these, the LIC could not make any investment in Burma, Fiji and Hong Kong during the study period. But, investment in U.K. steadily increased every year.

The zonewise distribution of the LIC's investments in corporate securities shows that Eastern Zone and Western Zone share the major portion of the investment in all the years under study. However, in each zone there was a steady growth in investment in each year. So, it can be concluded that the corporation has not succeeded in bringing about regional diversification of its investments. It is therefore, suggested that in the interest of balanced regional development of the country, the LIC should actually explore the possibility of diverting its funds to capital - poor regions.

The geographical (statewise) distribution of LIC's corporate securities shows that as on 31st March, 1989 Maharashtra topped the list (Rs. 34940.8 lakhs) with 20.76 percent to total corporate securities followed by Gujarat (Rs. 34145.31 lakhs) with 20.29 percent. States like Harayana, Assam, Goa, Kerala, Andhra Pradesh, could not get much by way of industrial investments. It is clear that the relatively prosperous states have accounted for the bulk of LIC's investment in the corporate securities as they offer better scope for such investments.

An analysis of the corporation's investment in industrial securities in 1988-89 shows that a major portion consists of debentures. In order to stimulate the development of new industries, the corporation has taken to the underwriting of new

issues which stood at Rs. 288.6 crores in 1988-89. This helps in the mobilisation of funds for industrial development.

LIC's investment in corporate securities of different group undertakings shows that major portion is invested in large group undertakings, as very small amount is invested in dominant undertakings in 1988-89. So it is suggested that, the LIC should allocate a part of its funds to industries which do not have the backing of big business groups.

Other Investments :- LIC invests its funds in mortgages, real estates, and some other investments also. Out of 17 items of other investments, very small amount of investment in loans on personal securities is made. Similarly, loans for housing development including mortgage properties ranked the first and loans to electricity boards ranked the second. Classification of mortgage loans shows that loans on mortgage properties increased by Rs. 157 crores during the study period.