

CHAPTER I

INTRODUCTION

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CHAPTER I

INTRODUCTION

1.1 INTRODUCTION

This chapter is mainly concerned with the development of Life Insurance Corporation of India before and after its nationalisation. Similarly, an attempt is made to discuss in detail the recent growth of LIC. The main objectives of the present study and methodology are also stated in this chapter.

1.2 HISTORY OF LIFE INSURANCE CORPORATION OF INDIA

Before discussing the history of the Life Insurance Corporation (LIC), the history of life insurance business is studied here. It is to be noted that life insurance business made its first appearance in England in 16th century¹. The first policy was taken by William Gybbons on June 18, 1653. Before life insurance business, there were mainly two types of insurance business in work. They were Marine Insurance and Fire Insurance. The Marine Insurance was the oldest form of insurance and it was made in shipping business. Subsequent to the establishment of Marine Insurance, Fire Insurance emerged in insurance business. The first registered life office in England was the hand-in-hand society established in 1696.

In India, the development of life insurance business was in an inception stage up to the nineteenth century. Usually the Indian Companies Act, 1883 was applicable to business concerns. At the time of national movement, there were two companies namely, the New India Assurance Company and Provident Societies. Various companies of insurance were in an unsound financial position. However, the Indian Company Act, 1883 failed to control them effectively.

For the above reason the two Acts were passed in 1912. Firstly, Provident Insurance Societies Act V and Life Insurance Companies Act VI. After that the new Act was passed in 1938. With the help of this Act, the effective control was made on insurance business. This Act was amended from time to time.

On April 18, 1950 the amendments were made in the Act of 1938 and according to this, the provisions were made to give all rights to the Central Government.

(a) Before Nationalisation :- Before the nationalisation of Life Insurance Corporation in 1956, 245 life insurance companies were operating independently in the private sector. Due to some reasons, there was no uniformity in their investment pattern such as they had no common liability and characteristics, and these were working under the same legal framework. Every company was controlling small amount of funds and only few investment decisions were in the favour of public at large.

b) After Nationalisation of LIC :- The Life Insurance was nationalised on January 19, 1956. Subsequent to the nationalisation, LIC developed its fund at a much faster rate. The control and management were fully handed over to the Central Government. With the Second Five Year Plan the rate of investment and development of LIC accelerated substantially, thereby widening and deepening of all possible channels of public savings.²

c) Recent Position of LIC :- Among the various forms of insurance "Life Insurance" occupies the most important place in the world of insurance. Today, the position of Life Insurance Corporation is good. The amount of funds of the corporation has developed at a faster rate. In 1956, the total fund of LIC was Rs. 380.60 crores only which has reached to Rs. 19,568.80 crores in 1988.

Today, the role of LIC had become vital because it meets the financial needs of the socially oriented sectors such as electricity, housing, water supply as well as industries in private sector. Due to massive business expansion LIC has decentralised its organisation in 5 zones. The statewise composition of the LIC offices as shown in TABLE 1 below.

The Table shows that there are five zones namely, central, eastern, western, northern, and southern zone. Such type of arrangement was made to simplify and smooth functioning in control and management of the business of the corporation.

TABLE 1

CLASSIFICATION OF ZONES & STATES OF LIC

NO	NAME	NO.	NAME
A	<u>CENTRAL ZONE</u>	C	<u>NORTHERN ZONE</u>
	1. Madhya Pradesh		1. Delhi
	2. Uttar Pradesh		2. Haryana
B	<u>EASTERN ZONE</u>		3. Himachal Pradesh
	1. Arunachal Pradesh		4. Jammu & Kashmir
	2. Assam		5. Punjab
	3. Bihar		6. Rajasthan
	4. Manipur	D	<u>SOUTHERN ZONE</u>
	5. Meghalaya		1. Andhra Pradesh
	6. Mizoram		2. Karnataka
	7. Nagaland		3. Kerala
	8. Orissa		4. Pondichery
	9. Sikkim		5. Tamil Nadu
	10. Tripura	E	<u>WESTERN ZONE</u>
	11. West Bengal		1. Goa
			2. Gujarat
			3. Maharashtra

SOURCE : Annual Reports of LIC

1.3 GROWTH OF LIC

Considering the total net work and the total business of LIC, it can be said that LIC has made fast development in its working. It is therefore, necessary to study the development of LIC with reference to specific aspects, such as plans of insurance, growth of offices in India, growth in income, outgo and investments, growth of new business, etc. These aspects are discussed at length in the following paragraphs.

a) Plans of Insurance :- The various types of plans of LIC are shown in the following table.

TABLE 2

TYPES OF PLANS

NO.	TITLE	NO.	TITLE
1	Whole Life Assurance	2	Whole Life Limited
3	Endowment Assurable	4	Joint Life
5	Multi-purpose	6	Children Deferred
7	Money Back Policy.	8	Progressive Protection. policy
9	Children Anticipated	10	Jana Raksha Policy
	Endowment	12	Seva Mitra
11	Anticipated Whole Life	13	Jeevan Saathi
14	Marriage Endowment	15	New Jana Raksha
16	New Children Deferred	17	Convertible Whole Life

TABLE 2 contd

NO.	TITLE	NO.	TITLE
18	Doble Endowment	19	Fixed Term
20	Education Annuity	21	Pure Endowment
22	Triple Benefit	23	Convertible Term
24	Two Year Temporary Assurance	25	Mortgage Redemption

SOURCE : Accounts & Reports of LIC

The above table depicts different types of plans of LIC to cater to the needs of variety of people in the society. LIC has constantly introducing innovative plans from time to time. There are at present 25 such insurance plans for mobilising savings through premiums from the people at large.

b) Growth of Offices in India :- The growth of Life Insurance Corporation is very rapid in respect of number of its offices which increased year after year. TABLE 3 shows the growth of offices in India.

The table shows a steady growth in the number of offices of LIC in India. In case of number of divisions, there was no increase in the division offices from 1981-82 to 1985-86. However, as many as 15 divisions were added in 1986-87, 3 in 1987-88 and 5 in 1988-89 with a total of 64 divisions.

TABLE 3**GROWTH OF LIC OFFICES IN INDIA DURING 1981-82 TO 1988-89**

NO.	YEAR	NO. OF DIVISIONS	BRANCHES & SUB-OFFICES	CENTRES
1	1981 - 82	43	889	601
2	1982 - 83	43	958	657
3	1983 - 84	43	1,023	709
4	1984 - 85	43	1,107	776
5	1985 - 86	43	1,197	846
6	1986 - 87	58	1,280	NA
7	1987 - 88	59	1,353	NA
8	1988 - 89	64	1,427	NA

SOURCE : Annual Reports of LIC 1981-82 to 1988-89

Branches and sub-offices of LIC in 1981-82 were 889, which increased upto 1197 in 1985-86 and subsequently to 1427 at the end of 1988-89. Thus, by increasing the branch and sub-offices network over the entire length and breadth of the country LIC has made significant progress in mobilising the savings from the people. The total number of centres of the other hand also increased significantly from 601 in 1981-82 to 846 in 1985-86. However, the data on number of centres is not available from 1986-87 onwards.

c) Growth in Income, Outgo and Investment of LIC :-

Table 4 below shows the growth in income, outgo and investment of LIC. Basically, as a matter of policy, LIC did not take much interest in investments. But during past few years, it has started taking keen interest in investing lot of its funds in private and public sectors.

TABLE 4
GROWTH IN INCOME, OUTGO & INVESTMENT

(Rs. in crores)

NO.	YEAR	INCOME	OUTGO	INVESTMENT
1	1981 - 82	1,675.64	754.47	7,473.01
2	1982 - 83	1,907.39	838.28	8,498.51
3	1983 - 84	2,173.22	1,004.56	9,613.74
4	1984 - 85	2,519.99	1,194.56	10,804.03
5	1985 - 86	2,941.31	1,466.45	12,264.15
6	1986 - 87	3,458.97	1,622.72	13,936.00
7	1987 - 88	4,247.09	2,117.45	15,962.19
8	1988 - 89	5,370.41	2,426.22	18,702.30

SOURCE : Accounts & Reports of LIC 1981-82 to 1988-89

The above table shows that during the span of 8 years, the investment has increased more than two fold, and both the income and the outgo has multiplied more than thrice.

d) Growth of New Business :- TABLE 5 shows the growth in new business of LIC during the period 1981-82 to 1988-89 in terms of number of policies and the sum assured. It is noticed from the table that the number of policies pertaining to various types of LIC plans have increased substantially from 20.01 lakhs in 1981-82 to 59.86 lakhs in 1988-89. On the other hand the sum assured has increased as much as five times i.e. from Rs. 3,492.89 crores in 1981-82 to 17,268.58 crores in 1988-89.

TABLE 5

GROWTH OF NEW BUSINESS OF LIC

NO.	YEAR	NO. OF POLICIES (Lakh)	INCREASE IN POLICIES	ASSURED SUM (Rs crores)	INCREASE IN SUM ASSURED
1	1981 - 82	20.01	-	3,492.89	-
2	1982 - 83	22.35	2.34	3,994.77	501.88
3	1983 - 84	23.71	1.36	4,415.28	420.51
4	1984 - 85	27.05	3.34	5,398.57	983.29
5	1985 - 86	32.94	5.89	7,088.45	1,689.88
6	1986 - 87	38.75	5.81	9,107.59	2,019.14
7	1987 - 88	46.99	8.24	12,467.55	3,359.96
8	1988 - 89	59.86	12.87	17,268.58	4,801.03

SOURCE : Accounts and Reports of LIC

e) Growth in Human Resources :- The employees of LIC work in various fields of its business such as management personnel, administrative personnel, development officer and agents. It is imperative that as the business grows and the organisation expands, its human resources too increase proportionately. This is obvious from the following table that the employees in all the categories have increased steadily over the span of last eight years.

TABLE 6

GROWTH OF HUMAN RESOURCES OF LIC

NO.	YEAR	MANAGEMENT PERSONNEL	ADMN. PERSONNEL	DEVELOPMENT OFFICERS	AGENTS
1	1981 - 82	4,934	45,502	6,281	1,24,589
2	1982 - 83	5,207	48,297	6,180	1,34,742
3	1983 - 84	6,180	48,001	6,649	1,46,473
4	1984 - 85	6,190	48,740	7,047	1,62,478
5	1985 - 86	6,693	51,707	8,076	1,89,233
6	1986 - 87	6,971	53,778	9,458	2,16,606
7	1987 - 88	7,351	54,586	10,682	2,57,959
8	1988 - 89	8,787	52,039	12,457	3,16,987

SOURCE : Accounts & Reports of LIC

1.4 THE PROBLEM OF THE STUDY

The business of LIC ranks at the top amongst other great institutional investments in India. The life insurance business was nationalised for the effective mobilisation of public savings and for financing the economic development. It is seen in the previous section of this chapter that the LIC's business is mainly related to two aspects viz. collecting the premium amount from various policy holders and investing such funds as capital in various sectors of economic development in our country. After meeting the administrative expenses and providing amounts for necessary funds, the LIC declares the bonus to policy holders hence, the earnings of the LIC depend on its investments. The efficient working of the LIC can be judged mainly with reference to its investments. The data in TABLE 4 clearly shows the enormous growth in the investments of LIC. Similarly, recently the LIC has increased the amount of bonus to the policy holders. With this impressive background of LIC's working, the researcher thought it proper to analyse the investments of LIC and examine its investment pattern during the specified period. So, the exact topic of the present study is " A Study of Investment Pattern of LIC of India.

1.5 OBJECTIVES OF THE STUDY

The present research study seeks to examine the following objectives.

- 1] To study the investible funds of LIC during the period from 1981-82 to 1988-89.
- 2] To know the various categories of investments of the LIC that it has maintained during the period under study.
- 3] To analyse and examine each category of the investment of the LIC.
- 4] To study the investment policy followed by LIC during the period under study.

1.6 SCOPE OF THE STUDY

The present research study covers the investment aspect of the working of the LIC. It mainly relates to its investment policy and various categories of investments. This study also covers the period from 1981-82 to 1988-89.

1.7 METHODOLOGY

This study is mainly based on the secondary data. Throughout the study an attempt has been made to arrive at the reasonable conclusions with the help of economic reasoning and experience derived from insurance industry in India.

For the purpose of intensive analysis, the researcher has taken the longer period of eight years (1981-82 to 1988-89) for research work. The research has completed the present study with the help of following published materials :

- a) For the detailed analysis of LIC's investments : annual reports and special reports of the LIC.
- b) Published material of R.B.I. concerning with LIC's investments and Government policy of insurance business.
- c) Published data about LIC in other periodicals like Capital, Commerce, Fortune, Indian Finance etc. are also taken into account.

In addition to the published data, the researcher had personal interviews with Branch Manager, Divisional Manager (Satara) and Field Officers (Laxmipuri Branch, Kolhapur), about the growth of LIC business, investment policy, etc.

1.8 LIMITATIONS OF THE STUDY

This study is limited to the investment aspects of LIC during the selected period only. Due to the nonavailability of data in time, investments of insurance companies in advanced countries are not taken into account.

1.9 CHAPTER SCHEME

The present research work is divided into five chapters. The first chapter deals with the introduction which includes

historical study of Life Insurance Corporation of India before and after nationalization. It also covers recent growth of LIC. The main objectives of the study, scope, methodology and limitations of the study are also included in this chapter.

The second chapter covers the growth of Life Insurance Fund and its investment. It also deals with the main principles of investment, total assets, sectorwise investments, etc.

In the third and fourth chapter analysis of investments of LIC is made. Investments in Government securities and Corporate securities and other minor investments are discussed in detail.

The summary of the study, conclusions and some important suggestions are given in the fifth chapter.

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