

POONAM BAKHSHI

TWO DECADES OF L. I. C.—AN APPRAISAL OF PERFORMANCES

The Life Insurance Corporation (LIC) of India occupies a pivotal place in the Indian capital market. It commands enormous amount of funds of our society, and is in a catalytic position of shaping the fate of our economy. The Life Insurance Corporation was established in 1956 through Life Insurance Act 1956, after nationalising 245 independent life insurance companies. In 1976, it has completed two decades of its performance. Its inception till to date, it has influenced our economy in different ways. It is imminent therefore, to evaluate its role during the last twenty years in the economic development of the country. The purpose of this paper, therefore, is to critically review the working of LIC. In our discussion, we shall mainly concentrate on two aspects of LIC's working : (i) saving mobilisation and (ii) investment policy.

Mobilisation of Savings :

There is hardly any need to emphasise that planned investment at an accelerated rate is essential condition for the overall economic development of the country. The rate of investment basically depends on the rate of savings. Thus, for the dynamic growth of the economy, every efforts ought to be made to mobilise domestic savings. LIC, as an institution to mobilise savings, is at an advantageous position as compared to other institutions such as Unit Trust of India. It provides double incentive to the savers. On the one hand, it plays the role of family protection and on the other, it provides the savers with a means of investing their savings.

The Life Insurance Corporation has played a significant role in mobilising the savings. On 1st September, 1956, the total life fund amounted to Rs. 380 crores. This figure shot up to Rs. 1015 crores in one decade only, showing an increase of 167%. In 1976, the total life fund amounted to Rs. 3441 crores which was an increase of 239% over the funds of 1966 and an increase of 805% over the initial funds of 1956.

Thus the total life fund has increased by about 8 times in a period of two decades. Similarly the annual volume of life fund has increased from Rs. 28 crores in 1956-57 to Rs. 407 crores in the year 1975-76. This increasing volume of funds at the disposal of LIC has also increased the importance of LIC in the Indian capital market.

The total business of LIC, which constitutes the source of life fund, has also increased substantially, by 1283%, over the period of two decades. At the end of 1955 the total business of LIC was of the order of Rs 1220 crores which increased to Rs. 4395 crores in 1956 and finally to Rs. 16870 crores in 1976.

Though this increase is substantial, yet there is lot of scope for further increase in the rate of savings mobilised by LIC, keeping in view the increase in our national income, and still untapped sources of savings.

Investment Policy :

The share of life insurance funds in the total savings of economy is substantially large and important one. Accretions in this fund of public money year after year involve the onerous responsibility of using them for long term investments, which are sound and progress oriented. The search for appropriate investments is a continuous one, and the decisions of the LIC, because of the huge funds at its disposal, exercise a decisive influence on the capital market. The long term nature of these funds makes them suitable for being invested in industrial concerns in the form of long term securities. Liquidity of these funds poses no problem. Since the policies of LIC, mature after a long term, the demand of claims and loans on policies etc. can be easily met by keeping a limited amount of liquid assets with the corporation. Further, these resources which belong to the public are kept in trust by the corporation. Their investment must always be such that the largest yield is achieved without any decline in its actual value. While investing the insurance funds, the criterion should be safety, yield liquidity and diversification. The higher their level, the better it is. The proper investment of life insurance funds adds to the strength and stability of the capital market by filling up a big gap in the field of available financial resources.

Sec. 27(A) of the Insurance Act 1938 allowed 25% of investment to be made the government securities, 25% in government or approved securities, 85% in approved investments and balance of 15% was left to the discretion of insurance companies to be invested in the manner they liked. Nationalisation of insurance companies and formation of LIC in 1956 hardly changed this situation, but for some minor modifications. However, 7th November, 1974 witnessed a new direction from the union government to the effect that the pattern of investments to be followed by the corporation in respect of annual accretions to the controlled fund should be as shown in Table 1.

TABLE 1

<i>Categories of Investment</i>	<i>Percentage of accretion to the controlled fund to be invested</i>
A. Socially Oriented Sector :	
(i) In government of India marketable securities being not less than	25%
(ii) In Govt. of India and State Govt. securities including govt. guaranteed marketable securities including (i) above being not less than	50%
(iii) In socially oriented sector, including public sector cooperative sector, house building by policy holders, OYH schemes including (ii) above being not less than	75%
B. Other Investments :	
(i) In private sector approximately	10%
(ii) Loan to policy holders approximately	8%
(iii) Construction and acquisition of immovable property by LIC	2%
(iv) Funds in pipeline not available for investments approximately	5%
TOTAL	100%

After 1974 there has been a change in the basic nature of this allocation pattern. Now the basis of allocation is no more "Net liability" but "Controlled fund". In addition to the amount of net liability, controlled fund also includes the amount of policy loan which is around 7-8% of the total assets. The net outcome is an increase in the investment that is required to be in government securities in spite of the rate of 50% for this purpose remaining unchanged.

The overall investment pattern of life insurance funds has undergone drastic changes in recent past, which is evident from Table 2.

TABLE 2

GENERAL PATTERN OF INVESTMENT OF LIFE INSURANCE FUNDS

(Amount in Rs. Crores)

Class of Assets	1st Sept., 1956		31st Mar., 1966		31st Mar., 1976	
	Amount	%	Amount	%	Amount	%
(1) Government, Semi-government and other approved securities including municipal securities	220.5	63.2	573.6	52.4	1625.8	44.8
(2) Loans for housing and other schemes to state governments, statutory authorities co-operatives and electricity boards	—	—	110.7	10.1	998.2	27.5
(3) Shares and Debentures of companies	71.3	20.4	183.2	16.7	249.7	6.9
(4) Loans on mortgage of Property	15.0	4.4	38.7	3.5	149.8	4.1
(5) Loans on House Property	19.3	5.5	32.8	3.0	55.0	1.5
(6) Loans on insurers policies within their surrender values including ANF Advances	N.A.	N.A.	74.3	6.8	25.7	7.1
(7) Investment in foreign Countries	14.9	4.3	15.9	1.5	28.1	0.8
(8) Other Assets	7.7	2.2	65.6	6.0	265.1	7.3
TOTAL	348.7	100	1094.8	100	3628.7	100

Table 2 reflects a larger provision of LIC's total investment outlets towards govt. securities and socio-benefit schemes. A quick glance at the above data tells the story of an increased flow on funds, proportionately as well as quantitatively, towards schemes which are socially oriented the present level being 27.5% i.e. about 1000 crores of rupees as compared to 10% or Rs. 110 crores in 1966.

The real motive behind these socially oriented investments is larger direct or indirect benefit to the public at large. The main fields of these investments are—electricity, housing, water supply and sewerage, land development bank debentures, loans to industrial estates and financial corporations etc. The highest priority is being

given to state electricity boards alone who enjoy loans to the tune of Rs. 550 crores out of total Rs. 1000 crores.

On the other hand, the proportion of funds going into corporate securities has sharply declined in the latter decade from 16.5% in 1966 to 6.9% in 1976, though the absolute quantum of resources has increased from Rs. 183 crores to Rs. 250 crores during the same period. To some extent, the decline could be attributed to the nationalization of major banks, general insurance companies and coal mines. But still the truth remains that at time of nationalization, corporate securities formed 20.4% of the total assets of LIC which have now reduced to one third of the share in 1956 i.e. only to 6.9% in 1976.

In terms of net purchases the following picture emerges, which is in consonance with the above detail :

TABLE 3
NET PURCHASE OF CORPORATE SECURITIES BY LIC

(Rs. in Crores)

<i>Year</i>	<i>Debentures</i>	<i>Pref. Shares</i>	<i>Equities</i>	<i>Total</i>
1956-66	24	15.4	84.1	123.5
1966-76	20.5	13.2	38.1	72.1

This further reveals that the net annual purchases of corporate securities by LIC has sharply declined after 1966. The annual average of such purchases during 1956-61 has been Rs. 8.4 crores. It jumped to an average of Rs. 18.4 crores during 1962-63 to 1965-66, the corresponding figure for the later decade being around Rs. 7 crores, which is less than half of the level in the preceding period. The decline has been mainly in respect of the purchases of equity shares. The net annual addition to equity holdings of LIC averaged Rs. 8.8 crores per annum for the first decade and Rs. 3.8 crores for the later decade. This explains the decline in the share of corporate securities in the total life fund. The annual average of debentures and preference shares shows a slight decline during this period.

Though in terms of purchases, the trend is downwards, the total holdings of industrial securities have increased quantitatively over

the years. The increasing flow of life insurance savings is placing a steadily increasing amount of funds at the command of LIC. It is a contractual form of saving and its growth is particularly steady thereby transmitting a certain degree of steadiness to the security market too.

A distinguished feature of the LIC's holdings of industrial securities is that the bulk of these securities consist of equities. The following table gives the distribution of the investment of LIC in industrial securities (in Indian Companies only) by the type of security.

TABLE 4

<i>Type of Security</i>	1957		1966		1976	
	<i>Amount</i>	<i>%</i>	<i>Amount</i>	<i>%</i>	<i>Amount</i>	<i>%</i>
Equity Shares	22.4	40.9	108.2	60.2	144.5	57.9
Preference Shares	12.9	23.5	28.2	15.7	41.4	16.6
Debentures	19.5	35.6	43.3	24.1	63.8	25.5
TOTAL	54.8	100	179.7	100	249.7	100

The table also reflects that during the first decade the share of equities has increased from 41% to 60% of the total industrial securities held by LIC whereas for the latter decade the share of equities has declined slightly.

LIC and the Security Market

The bulk purchases of industrial securities are made in the second hand securities market. The contribution of such purchases to the financing of new real investment in the industry is indirect only.

These days LIC is recognised to be a leading underwriter of new industrial securities in India, because a sizeable part of its purchases consists of new issues. But it was not so in the immediate past. The difficulty in the way of acquiring large blocks of suitable securities from the market has motivated LIC to underwrite new issues. The purpose of its underwriting is to purchase the securities for its own portfolio rather than for commission. That is why its

underwriting has been mostly "firm" i.e., it applies for the full amount of issues underwritten by it. However, such underwriting is restricted to the extent permitted by the legal framework governing its investments.

Since its inception LIC has agreed to underwrite 1401 issues of the amount of Rs. 470 crores. Of these the actual allotment upto 31st March, 1976 has been of the order of Rs. 436 crores in respect of 1288 issues.

Comparing the performance of LIC with other financing institutions, we find that LIC has emerged as the biggest underwriter in the Indian capital market. Out of the total amount underwritten by all the term financing institutions since their inception LIC's share is the largest i.e., 35% of the total. In 1974-75, LIC has underwritten 37% and in 1975-76, 44% of the total amount agreed to be underwritten by all the financing institutions.

The purchases of industrial securities by LIC do not represent the entire contribution of this institution to the financing of the industry. A part of its contribution takes the form of purchases of *shares and bonds of special industrial financial institutions* like UTI, IFC, SFCs etc. However, this contribution is minor in that only Rs. 65.8 crores were invested by LIC upto 31st March, 1976. Another limited contribution of LIC to the industry is in the form of *direct lending* to the industry—around 90 crores till date.

Inter-Sector Investments :

The following is the sector wise distribution of LIC's investment :

TABLE 5
SECTOR WISE DISTRIBUTION OF INVESTMENTS

Sector	(Rs. in Crores)					
	1957		1966		1976	
	Amount	%	Amount	%	Amount	%
(a) Public Sector	255.1	77.3	659.4	73.5	2328.0	76.3
(b) Cooperative Sector	5.5	1.7	53.1	6.0	359.8	11.8
(c) Private Sector :						
(i) Joint Sector Companies	—	—	7.1	0.8	27.9	0.9
(ii) Others	69.1	21.0	176.8	19.7	336.6	11.0
TOTAL	329.7	100	896.4	100	3052.3	100

In all the twenty years of its existence LIC has been consistently investing almost 75% of its funds into the public sector. The share of cooperative sector has shot up from 6 crores to 860 crores in all these years—a 7 times increase in terms of percentage. This table re-iterates the fact that there was a fall in share of private sector and rise in that of cooperative sector—with share of joint sector remaining constant.

Yield on LIC's Investments :

In order to motivate people to save and invest in LIC, it is imperative that maximum yield consistent with the security of capital is earned on investments of life funds. The average yield on corporations investments for the first decade has been 4.5% which increased to 6.2% in the latter decade. Though the rate of interest realised on LIC's investments shows a consistently upward trend but when compared with the Bank rate, SBI's advance rate and UTI's dividend rate we find that the rates realised by LIC on its investment are not high enough. Bulk of LIC's purchases are in so-called sound industrial securities but surprisingly LIC earns even less than the average annual yield on industrial securities.

In spite the significant role played by LIC in the economic development of the country, its investment policy is far from satisfactory. It continues to follow a cautious and conservative investment policy. This attitude is not in consonance with the requirements of the Indian Capital market. LIC's investment in the public and cooperative sector is 89% of the total, which is much higher than the statutory requirement even. Factors like the nature of its liability, legal requirements and lack of good investments in private sector tend to justify this shyness of LIC. Further, the concept of trusteeship is another factor which matters in LIC's investment policy. This body happens to be a trustee of funds of immoveable policy holders and is a public institution. Profit motive can not be the sole criteria for it. It, being the custodian of national funds, has to so invest them as to obtain maximum and safe yield possible in the circumstances and broadly guided to attain higher economic and social upliftment. The latter assignment is being executed in a satisfactory manner with increasing share of LIC's investment portfolio in public and cooperative sector securities.

However to have a sound investment policy, it is suggested that the share of public sector of LIC's funds should be reduced. In 1954 *Shroff Committee*, recommended that the limit of 50% should be reduced to 45% so that more funds are available for corporate securities. At that time LIC had not yet come into existence. After the formation of LIC, it became far more desirable to reduce the limit. But the govt. instead of reducing it, has increased it by adding up socially oriented projects. OEEC report also says. "The govt's concern with the safety of life insurance funds and pension funds is justified but in some cases the restrictions on the use of these funds appear to be aimed at keeping this source of capital as a preserve for public authority borrowings. It is hard to re-concile this policy with eagerness of the same govt. to promote the supply of capital to industry through institutional channels, even through direct financial help.

LIC has been overlooking the return aspect by investing more and more in govt. securities, always being over enthusiastic while crossing the limits imposed by the statute. In order to take care of the policy holders' interest to get good returns, the LIC must strive for higher returns to govt. investments also.

Life Insurance companies in UK and USA have shown a trend of constant reshuffle and realienment in their investment portfolio to achieve comparatively safe and highest possible returns and they have been sufficiently successful in their attempt. The performance of LIC, does not show the requisite flexibility to persue an active investment policy and it does not reach any where near the achievements in foreign companies. If only higher yield could be obtained, it could be passed on to the policy holders in the shape of lower premium and bonus. Which in turn would have broadened the base of insurance in the interests of the country.

Conclusion

At the time of nationalisation, the main objectives mentioned were "effective mobilization of people's savings" and "efficient financing for economic development" and the corporation's achievements towards these objectives have not been upto the work. Unless LIC is run like a well run insurance company "These goals can't be achieved. This defensive investment policy ought to be replaced

by a dynamic and active one. Of course, too much faith in govt. security makes the management carefree and is also said to serve a useful socio-economic purpose by doing planned economic investment, but no solution is provided to the problem of life fund and with lower yielding capacity the policy holders' interest suffers ultimately.

Even if the level of investment in govt. securities is maintained, the pattern should drastically change. It should be development oriented with special emphasis on regional development. This can be made effective if a special cell is created for this purpose, the function of which is to do intensive research in this field. The expenses for this cell would be born by the enhanced return from the investments. Such a cell can continue to be accepted so long as it can maintain a certain level of self-sufficiency.

To conclude finally, a more liberal investment policy of LIC in favour of the corporate securities is not only desirable but is also the persistent need of the Indian capital market.