

# Pre- Nationalisation & Post Nationalisation Investment Pattern of LIC

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## Abstract

*Insurance is a tool by which fatalities of a small number are compensated out of funds collected from plenteous. Insurance companies pay back for financial losses arising out of occurrence of insured events. Insurance sector plays a vital role in the process of economic development of the country. The process of capital formation is encouraged by insurance services. The sector acts as a mobiliser of savings, as financial intermediary, as promoter of investment activities, as stabiliser of financial market, and as a risk manager. Insurance services lead to efficient and productive allocation of capital resources, prevent the losses to the firms by encouraging loss preventive measures, facilitate growth of trade and commerce, complement government's social security programs and assist the individuals and firms in efficient management of risks. The paper explores the pre and post nationalisation investment pattern of LIC in India.*

## Introduction

Insurance may be described as a social device to reduce or eliminate risks of loss to life and property. It is a provision which a prudent man makes against inevitable contingencies, loss or misfortune. Under the plan of insurance large number of people associate themselves by sharing risks attached to individuals as in private life; in business also there are dangers and risk of different kinds. The aim of all types of insurance is to make provision against such dangers. Moreover, through a number of Acts of Parliament, specific types of insurances are legally enforced in India like third party insurance under Motor Vehicle Act, public liability insurance for handlers of hazardous substances under Environment Protection Act etc.

Life insurance is long duration contract, which generates investable surplus which is

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invested keeping in view the safety and security of the funds spread over different categories, industries and region so as to serve larger economic and social interest while optimising yield. With the formation of life insurance corporation of India, it can be said that utilisation of people's money invested in life insurance for planned economic development of country took roots. One of the objectives of nationalisation of life insurance industry was channalising of its funds for the benefit of community at large. The investment of corporation's fund is governed by section 27(a) of Insurance Act,1938 and subsequent guidelines/instructions issued by the government of India from time to time. These investments are regulates by the government to benegfit the people at large by providing basic amenities like water, drainage, sanitation, power, housing, transportation etc. The modified section 27(a)of insurance act 1938,prescribes percentage-wise ceiling of maximum limit in different categories of investment. These have been modified from time to time with a view to pre-empting an increasing proportion of its fund in government/government guaranteed/approved/socially oriented investment. The LIC has been directed to concentrate more on the financing as socially-oriented investment. LIC is one of the largest investors in the government securities, infrastructure and social sector. The corporation helps to boost up the industrial growth in the country. It helps the small scale and medium scale industries by granting loans for setting up cooperative industrial estates. The financial like IDBI, IFCI, ICICI etc. by the way of subscription to bonds/debentures issued by such institutions.

It also makes investment in the corporate sector in the form of long, medium and short term loans to comapanies / corportions.

### Pre-Nationalisation Investment Pattern

Before the setting up of LIC in 1956,through the nationalisation amalgamation of 245 comapanies, life insurance companies governed by sec.27 and sec.27(a) of Indian Insurance Act,1938. According to the act every insurance company was required to invest as follows:

**Table 1 Pre-Nationalisation Investment Pattern**

S.No.	Type of Investement	Percentage
1.	Government securities	25%
2.	Government securities or approved securities	Not Less Than 25%
3.	Other investment	Not More Than15%
4.	Approved investment	35%

Source: M.Y. Khan,Indian Financial System,Tata McGraw Hill Publishing Company Ltd. New Delhi,2000,P.102

### Post-Nationalisation Investment Pattern

Based on recommendation of the Jagganath Committee to review the investment policies of the LIC, section 27(a) was further amended in 1975. The amended section 27(a) stipulated that accretions to the controlled fund of LIC could be invested as under:

**Table 2 Post-Nationalisation Investment Pattern**

S.No	Type of Investment	Percentage
1.	In central Government Marketable Securities	25%
2.	In Central Government, state Government securities including the government guaranteed marketable securities including (a)	
3.	above In social oriented sector including public sector, Cooperative sector, own your home (OYH) scheme including second above.	

Source: M.Y. Khan, *Indian Financial System*, Tata McGraw Hill Publishing Company Ltd. New Delhi, 2000, P.102

#### Notes:

- 8 % was required for loans against policies with in the surrender values.
- About 2% could be invested in immovable properties.
- 10 % be invested was invested in private sector.
- Remaining 5 % was not available for investment as it constituted funds in the pipeline.

#### Investment Pattern After Insurance Sector Reform:

The Malhotra Committee recommends a modification in the existing pattern of LIC's investment in 1994 as follows:

**Table No 3.**

S.No.	Type of Investment	Percentage
1	In the government securities not less than 25	
2	The State government securities and government guaranteed securities, inclusive of (1)	Not less than 20%
3	In social oriented sectors as may be prescribed by the government from time to time.	Not less than 50 %

#### Investment Pattern Revised by IRDA

The control over the investment pattern of Insurance funds has been revised by the IRDA where by it has been made mandatory for a life insurance company to invest at least 15 %

of its controlled fund in infrastructure and social sector of the country. Every insurer carrying on the business of life insurance shall invest and at all times keep invested his controlled fund in the following manner:

**Table 4**

S. No.	Type of Investment	Percentage
1	Government Securities	25 %
2	Government Securities or other securities (including(i) above)	Not less than 50 %
3	Approved investment as specified in Schedule 1 a. Infrastructure and social sector Explanation: for the purpose of this requirement, infrastructure and social sector shall have the meaning as given in regulation 2 (h) of insurance regulatory and development authority ( registration of Indian insurance Companies) regulations 2000 and has defined in the insurance regulatory ( obligations of insurance to rural and social sector) regulations, 2000., respectively. b. Other to be governed by Exposure/ Prudential Norms specified in Regulations	Not less than 15 %  Not exceeding 20%
4	Other than in approved investment to be governed by Exposure/Prudential Norms specified in Regulations 5.	Not exceeding 15 %

**Pension and General Annuity Business:** Every insurer shall invest and at all times keep invested assets of pension business, General Annuity Business and Group business in the following manner:

**Table 5**

S. No.	Type of Investment	Percentage
1	Government Securities, being not less than	20 %
2	Government Securities or other approved securities (inclusive(i) above being not less than)	40%
3	Balance to be invested in approved investment as specified in Schedule 1 and to be governed by Exposure/Prudential Norms specified in Regulation 5.	Not exceeding 60%

The path of insurance has been evolved to look after the interests of people from uncertainty by providing certainty of compensation at a given contingency. The insurance principle comes to be more useful in modern affairs. It is not only serves the ends of individuals, or of special groups of individuals, but also tends to spread through and renovate modern social order.

### **Bibliography**

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