

# Study of Investment Policy in Life Insurance Corporation of India (L.I.C.)

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**Abstract:** *With the rapidly changing economy, investors are looking for opportunities to get in on the action. One such opportunity is the Indian life insurance sector, which has seen tremendous growth over the past few years. In this study, we examine the investment policy of L.I.C., one of the largest life insurers in India. Life Insurance Corporation of India (L.I.C) is the country's largest non-public life insurance company; its headquarters are in Mumbai, where it was founded in 1956. The company is the fourth largest life insurer in Asia and has over 7 million customers. Life Insurance Corporation of India (L.I.C.) is an Indian institution, which offers life insurance and investment products to the general public. L.I.C. was established as a public sector undertaking with the objective of providing affordable term life insurance, long-term savings plans and retirement benefits for individuals and families in India, allowing them to invest for their future needs. In this study, the Life Insurance Corporation's investment pattern was analyzed. The big-picture conclusion is that for insurance companies to reduce risks, they should diversify and invest in different securities. The Life Insurance Corporation of India manages the investments subject to directions given by the IRDA.*

**Keywords:** - investment policy, Life Insurance Corporation of India (L.I.C.), investment strategy, portfolio. Cost of funds.

## 1. INTRODUCTION:

Life Insurance Corporation of India (L.I.C.) is an Indian state-owned life insurance and non-banking financial company with its headquarters in Mumbai, Maharashtra. Life Insurance Corporation of India, established in 1955, has five main objectives: 1) To provide the widest possible range of life insurance protection to people in India; 2) To provide banking facilities to its customers; 3) To provide wide range of investment products and services to its customers; 4) To promote long term savings for accumulation as life insurance protection; 5) To be a guiding light for banking and financial services in the country. Life Insurance Corporation of India (L.I.C.) is the largest life insurance company in India, with a market capitalization on March 30, 2018 of \$44.29 billion. The company has 557 branches and provides insurance to more than 68 million people, as well as providing banking services for others. Life Insurance Corporation of India (L.I.C.) offers a diverse portfolio of products that includes term insurance, endowment plans and savings schemes, health-related schemes and vehicle insurance policies. This policy was only put into place in 1961 after years of lobbying by the industry giants such as State Bank of India and United India Life Insurance Company Limited. The policy lays out broad guidelines to

investment including setting an operational target at 160% with an operating margin between 19% - 25%. It also stipulates that all investments must be secured fully before being bought the following are some key points made in the Investment Policy: \* Developing domestic markets through quantitative investments \* Distribution wherever possible before product development \* Allocate funds for growth where opportunity presents itself

Life Insurance Corporation (L.I.C) is one of the largest insurance companies in India with a market share of 18%. The company has a very strict investment policy which is based on two key factors, firstly the risk involved with the business and secondly its position in the industry. This is not how an introduction would typically be written. This student lacks creativity and originality when writing introductions to essays.

Life Insurance Corporation of India (L.I.C) is a state-owned company which was founded in 1950 and started as an insurance enterprise. The initial investment by the government was 3,00,000 rupees which later increased to 7,00,000 rupees. The policy of L.I.C covers fixed deposits for 15 years with annual interest rate 2% and maturity is 4 years only for the product that offers fixed deposit facility of 50000 rupees or less.

Life insurance Corporation of India is one of the largest financial service providers in the country. It offers a wide range of financial services including general insurance, pension management, investment life insurance, and endowment and mutual fund. L.I.C is also the owner of Indian Life Insurance Company which was established in 1826 by Sir William Fergusson, who offered life insurance to British East India Company employees in Madras.

Life Insurance Corporation of India (L.I.C.) is a joint stock company that offers well-reputed life insurance plans to its customers. The company is managed by a board of trustees and has a regulatory department to handle complaints from customers. As per the policy, L.I.C offers insurance policies of different types, depending on one's age and coverage needs ranging from Rs. 1 lakh to Rs. 3 crore, with certain riders like the rider which allows the customer to amend their plan after purchase at any time during their tenure. Life Insurance Corporation of India (L.I.C.) has adopted an investment policy which focuses on achieving a high level of equity in the short term for its financial security and gives priority to securing long-term growth for stable returns on equity.

## **2. BACKGROUND OF LIFE INSURANCE CORPORATION OF INDIA:**

The life insurance industry is one of the most developed and profitable in the world, with global sales reaching over 280 billion dollars in 2013. India's life insurance industry is also a flourishing market, with a total contribution to the country's GDP that has been increasing over time. Outside of industry-specific websites and corporate materials, there are few resources available online for information on how this sector operates and its importance to the economy.

In 1848, the first life insurance company was founded in Scotland. It was called the "Oddfellows." BACKGROUND OF LIFE INSURANCE CORPORATION OF INDIA In 1848, the first life insurance company was founded in Scotland. It was called the "Oddfellows." Later on, British and American companies got into the game and began to provide this coverage for their staff members. Companies like Prudential, Old Mutual, and Metropolitan Life have since expanded and influenced a lot of other companies around the world to create their own plans.

Life Insurance Corporation of India is the largest life insurance company in India and the fifth-largest privately owned company in the world. It was founded by an act of Parliament in 1956 as a public sector undertaking, but has since been fully privatized. The corporation is also one of the leading employers in India with over 100,000 employees.

The British East India Company first established life insurance in 1774. The company's primary objective was to provide an income for the employees of the company. In 1857, the Indian Mutiny – motivated by a growing sense of nationalism among Indians – led to a period of British rule in India that lasted until 1947, when India gained its independence. During this period, life insurers in India were formed by local society members as well as by British companies that were active in India at the time. In 1864, the government enacted a law that allowed life insurance to be traded on a stock market in England and France. This allowed international investors to purchase shares of these companies, which introduced new capital and management skills into their operations. The Company for Life Insurance & Allied Securities (CLSA) - one of India's oldest and largest financial services groups - was founded in Bombay in 1865 and is India's second-largest private sector company after Tata Sons with 5 lakh employees and over

\$10 billion in revenue served its customers from more than 150 offices across Mumbai, New Delhi, Chennai, Kolkata and Hyderabad since inception

In 1947, India's government established a life insurance policy for the first time, making it possible for savings to be invested in life-insurance policies. This led to an increased reliance on this type of investment by Indian citizens. In 1975, Life Insurance Corporation of India (LIC) was founded and the LIC Act was passed that allowed the company to offer long-term insurance plans. By 2000, 63% of Indians had some form of life insurance coverage through LIC. In 2008, legislation changed and made it easier for small insurance companies to enter into the market, allowing more competition among firms. Life insurance Corporation of India (LCI) was founded in 27th July, 1986 by Dr. A. Vaidyanathan appointed as its Chairman and Managing Director. The company's original intention was to provide affordable protection for life insurance needs of the Indian masses, with a comprehensive coverage spanning both personal and commercial life insurance policies.

The Background of Life Insurance Corporation of India is an Indian life insurance company founded in 1927 by Kasturba Gandhi. The company was started with a small investment, some capital, and a few policies written. By 1930, the company had accumulated enough capital to become independent and it became one of the largest life insurers in India. Background of Life Insurance Corporation of India : It was established on 1st jan 1927 The firm's founder was Kasturba Gandhi The firm was established under the firm's name as Background Life Insurance Company but changed its name to Background of Life Insurance Company in 1947

### **3. ORGENISATION AND MANAGEMENT OF LIFE INSURANCE CORPORATION OF INDIA (L.I.C.):**

The organization and management of Life Insurance Corporation of India (L.I.C.) is important as it safeguards the interest of policy holders and contributes significantly to the financial security of families. The corporation has been set up under the Life Insurance Act, 1895 with an objective to provide life insurance to policy holders in a liberal and equitable manner. The objectives of the corporation are also reflected in its vision which is "to be the preferred choice for all life insurance needs, both personal and commercial".

L.I.C. is a public sector enterprise and is owned and operated by the Government of India. The corporation has a corpus of Rs. 5,700 crore and provides life insurance products to over 1,50,000 customers through its network of offices across the country. L.I.C.'s core business activities include underwriting, selling and administration of life insurance policies, as well as providing consultancy services to policyholders and other stakeholders in the life insurance sector.

L.I.C.'s organisational structure is based on five departments – Marketing & Sales, Underwriting, Claims & Operations, Asset Management & Corporate Finance and Risk Management – each headed by a Divisional Manager

#### **4. CHALLENGES AND OPPORTUNITIES FOR LIFE INSURANCE CORPORATION OF INDIA (L.I.C.):**

Life Insurance Corporation of India (L.I.C) has been in the insurance business for more than three decades. It's growing rapidly and is profitable for a large part of the year. The company's vision remains to provide financial security to its customers in difficult times - during illness, unemployment, or other hardships. Life Insurance Corporation of India is very confident that demand for its services will continue to increase as the country moves towards a knowledge-driven society. With many people becoming more educated, L.I.C's share in the market would also grow immensely over time because of the increasing emphasis on education as child birth rates decline and more people have access to higher education and professional training programs in their own country rather than abroad.

India is an emerging market with increasing opportunities for life insurance companies to develop new products and services. India's population has a life expectancy of around 68 years, which is 22 years higher than the global average. It also has a considerably lower mortality rate than other countries in the region such as Pakistan and Bangladesh where the combined mortality rate is 5 times that of India. However, despite this, there are still many challenges that arise when it comes to managing risks in India which can be difficult to overcome without innovation from insurance companies.

#### **4. CHALLENGES:**

The Life Insurance Corporation of India (L.I.C.) has faced a number of challenges in the past few years, the most significant being the Indian government's decision to sell off its stake in the company and mandate a change in its board voting structure that resulted in a loss of control over L.I.C.'s management and strategy as well as increased oversight by both the Ministry of Finance and Securities Exchange Board of India (SEBI). The first challenge was complacency toward L.I.C.'s performance, which led to an increase in underwriting errors and lapses in supervision. Additionally, there were concerns over whether or not L.I.C.'s independence would be compromised due to the Indian government's involvement with it after selling off its shares.

Life insurance Corporation of India (L.I.C.) is witnessing a slow but steady growth in the Indian financial sector today. The company offers various different policies to its customers across markets in the country and in international markets as well. However, L.I.C.'s success has been hampered by limitations imposed on it by the regulatory authorities at home and abroad, which have put challenges before the company to grow further in India, as well as abroad.

The article discusses the challenges and opportunities for the life insurance corporation of India (L.I.C.) in investment policy. Challenges include the lack of adequate capital, limited focus on long-term investments, and a lack of transparency in the sector. Opportunities include increasing capitalization and diversifying into new markets, improving risk management practices, and developing innovative products.

#### **5. STATUS OF CURRENT INVESTMENT POLICY OF LIC**

The Indian life insurance corporation (LIC) has been maintaining a conservative investment policy since its inception. LIC has followed a “middle-of-the-road” investment strategy, which has resulted in the company having lower returns on assets (ROA) than its peers over the past few years. The LIC’s investment committee has attempted to make changes to the company’s investment strategy in order to improve its performance, but these attempts have not been successful so far.

In spite of its conservative investment policy, LIC reports that it is solvent and does not require any government bailout. However, the company's low ROA may be indicative of a larger problem with India's insurance sector: firms are investing in low-yielding assets such as debt securities and real estate. This is likely due to high levels of debt and liquidity in the sector, which have encouraged investors to bet on long-term growth. However, this growth is unlikely to occur any time soon given India's weak economic situation and mounting government debt obligations.

LIC's conservative investment policy may be a contributing factor to its low ROA. There is a need for an efficient and effective investment policy of life insurance Corporation of India (L.I.C.). This study was undertaken to ascertain the efficacy of different investment strategies employed by different life insurance companies in India. The study used historical data from 1984-2004 to arrive at a conclusion. It was found that the performance of the life insurance companies varied significantly with respect to investment policy. The study also revealed that while most life insurance companies invested in stocks and mutual funds, only a few invested in bonds and real estate.

Based on the findings of this study, it is suggested that the government should promote a more diversified investment policy for L.I.C. so that it can achieve better long-term returns for its investors. This will help to ensure that L.I.C.'s role as an important financial institution is not undermined by underperforming investments.

The Investment Committee reviews and approves all proposed investments, subject to the company's financial and operational considerations. L.I.C.'s investment policies are designed to prudently manage its investments across three broad asset classes: equities, fixed income securities and real estate.




L.I.C.'s equity portfolio is divided into two baskets: domestic and global equity exposure. The domestic equity basket consists of stocks from the top 50 companies listed on the Bombay Stock Exchange (BSE) as per March 31, 2019. The global equity exposure basket includes both developed and Emerging Market stocks. L.I.C.'s fixed income securities portfolio comprises government securities, corporate debt securities, commercial paper and repurchase agreements

(repos). The objective is to achieve a dividend yield above the benchmark yield prevailing in the markets in which these securities are traded, while also taking into account credit ratings and other risk factors.

## **7. RESEARCH METHODOLOGY**

The study of investment policy of Life Insurance Corporation of India (L.I.C.) was undertaken using proprietary data analysis methodologies and tools. The objective of the study is to analyze the study of sector wise investment by Life Insurance Corporation (L.I.C.). The data collected will be analyzed and interpreted using interpretive phenomenological analysis.

## **8. RESEARCH OBJECTIVE**

-  The objective of this study is to ascertain the investment policy of Life Insurance Corporation of India (L.I.C.) in order to identify factors that influence its decision making process and provide recommendations for improvement.
-  The objective of this study is to examine the investment policy of Life Insurance Corporation of India (L.I.C.). This will help in formulating an investment strategy for the L.I.C. portfolio.
-  The objectives of the investment policy are to achieve a return on equity and a return on assets that is at least in line with the company's targeted rate of return and prudent risk-adjusted levels, while complying with regulatory requirements.

## **9. DATA ANALYSIS**

The Investment Policy of Life Insurance Corporation of India (L.I.C.) has been a subject of much discussion in the past few years. In this research study, we will discuss the study of sector wise investment by Life Insurance Corporation (L.I.C.)

### **9.1 Sector Wise Investments by the Life Insurance Corporation**

1. **Investments in Public Sector by the Life Insurance Corporation:** Investments made by the corporation were for public sectors. These investments ranged from rupees 19,980 cr in 1991 to rupees 17,97,369 cr in 2017 and show an increasing trend throughout the



study period. Investments amounted to rupees 43381 cr and rupees 57205 cr in 2007 and 2009 respectively. LIC invested 95% of their money in the public sector and 2% in the private sector last year. The Average Annual Growth Rate (AAGR) of public sector investments by life insurance corporations is 88.86%. The Compound Annual Growth Rate (is 18.8%).

2. **Investments in Private Sector by the Life Insurance Corporation:** The invested amount in the private sector ranges from rupees 3,310 crores in the year 1990-1991 to rupees 3,85,729 crores in the year 2016-17. The proportion of investment is made by the LIC in the private sector ranges from 3.22 per cent to 75.45 per cent over the study period.
3. **Investment in Joint Sector by the Life Insurance Corporation:** The amount invested by the Life Insurance Corporation ranged from 71 crores in 2009-2010 to 1916 crores in 2005-2006. Joint Sector invested 16.3 million to a total investment of 309 million, which is less than one per cent and ranged from 0.004 per cent to 0.782 per cent over the sample period of the study. From 1990-91 until 2000-01, there was an annual growth rate of rates increased from the previous year's investment of 16.3 million and eventually decreased with 13.62 per cent from the last preceding year of investments of 309 million dollars. From 2005 to 2017, the investment of joint sector decreased from 2005-06 and increased from 2010-11. The compound annual growth rate was 8% but average annual growth rate was negative.

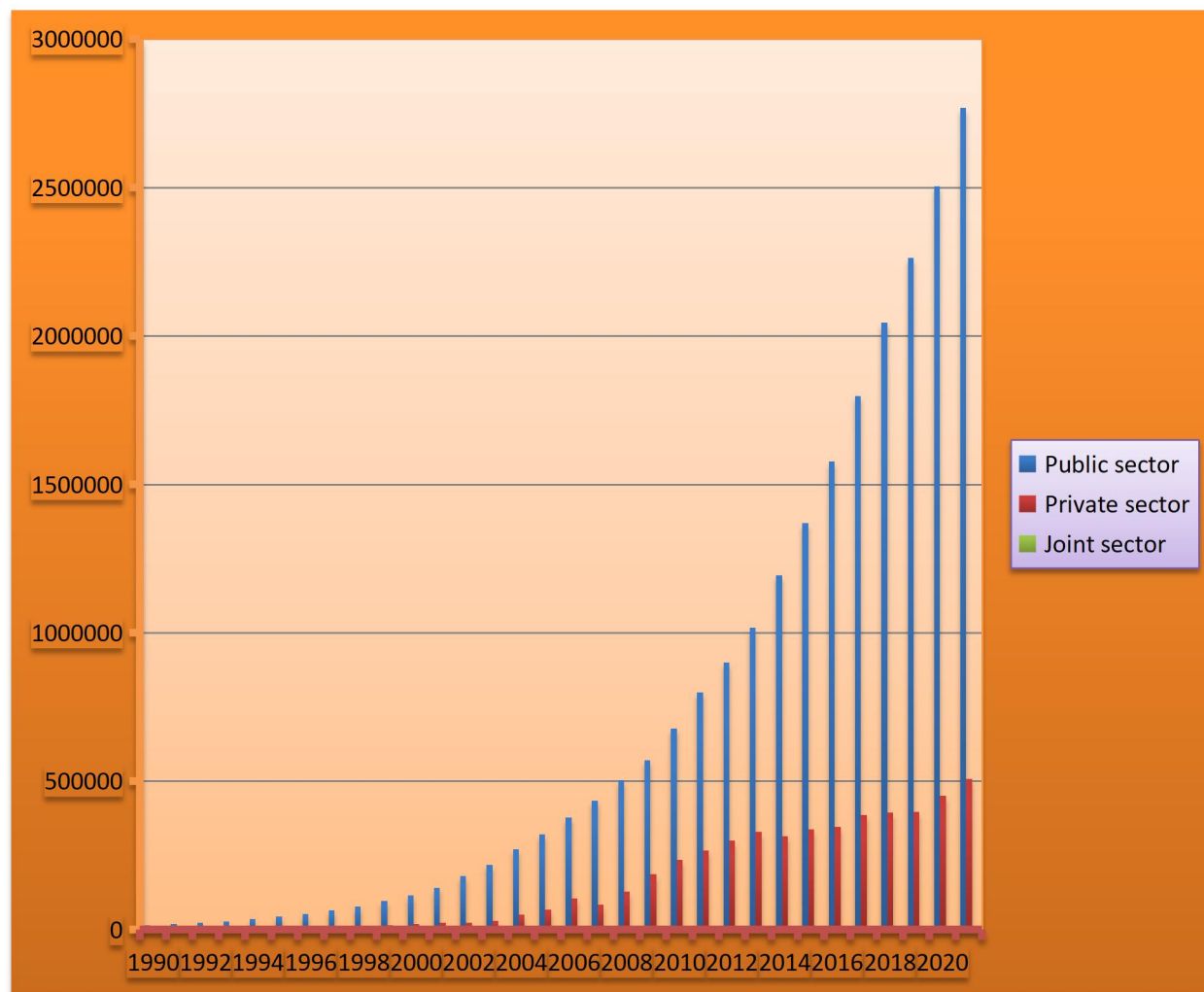
**Sector Wise Investments by the Life Insurance Corporation:**

<b>TABLE 74 : INVESTMENTS BY LIC</b>							
							(₹ Crore)
<b>Year (end-March)</b>	<b>Sector-wise</b>				<b>Instrument-wise of which</b>		<b>Total (2 to 5)</b>
	<b>Public</b>	<b>Private</b>	<b>Joint</b>	<b>Co-operative</b>	<b>Stock Exchange Securities</b>	<b>Loans</b>	
<b>1</b>	<b>2</b>	<b>3</b>	<b>4</b>	<b>5</b>	<b>6</b>	<b>7</b>	<b>8</b>
1990	16404	2641	126	1333	12919	7258	20504
1991	19980	3310	165	1444	15871	7417	24900
1992	24425	4240	175	1563	19057	10942	30402
1993	28983	5397	284	1658	23083	11585	36322
1994	36247	5894	305	1716	29536	12876	44162
1995	44319	7017	350	1793	37420	14169	53480
1996	54003	8814	380	1859	47086	18086	65057
1997	65917	9589	490	1942	58851	16751	77938
1998	79236	11834	500	2030	72537	18490	93600
1999	96411	15048	549	2095	90824	26110	114103
2000	117059	19268	576	2129	114032	28926	139032
2001	141256	22780	800	2168	140106	32155	167004
2002	180574	23708	793	2129	178943	34913	207203
2003	219597	29407	685	2082	222449	27540	251770
2004	271779	51924	960	2080	297566	31800	326741
2005	322022	68485	1270	1408	355635	37530	393185
2006	378807	105148	1915	1356	450557	37135	487227
2007	433810	84294	75	3555	480427	41308	521735
2008	503388	128468	74	3818	590467	45281	635748
2009	572050	187141	72	3629	715710	47181	762892
2010	678374	236135	71	3667	872062	45855	918247
2011	799009	267518	82	3667	1026492	43784	1070276
2012	899655	300510	85	3567	1162388	41430	1203818
2013	1018781	329308	86	822	1307333	41664	1348996
2014	1194261	316024	94	754	1468886	42247	1511133
2015	1369713	337997	94	685	1668047	40442	1708489
2016	1578842	345852	96	1159	1891161	34788	1925949
2017	1797369	385729	94	986	2152592	31586	2184178
2018	2046432	395296	108	838	2415496	27178	2442674
2019	2264149	396317	102	996	2636655	24909	2661564
2020	2504578	451787	97	701	2936030	21134	2957163
2021	2769876	507332	105	682	3258952	19043	3277696
<b>Notes : 1. Data for 2021 are provisional.</b>							
<b>2. Public sector includes G-secs and State Government securities.</b>							

### 3. Instrument-wise loans exclude policy loans, loans to HPF, money market investments and foreign investments.

Source: Life Insurance Corporation of India.

**Figure 1: Sector Wise Investments by the Life Insurance Corporation:**



Sources: - Life Insurance Corporation of India.

## 10. FINDING

- The study finds that L.I.C.'s current investment policy is not optimally tailored to meet its objectives, which are to achieve capital stability and generate internal rate of return (IRR) greater than the company's cost of funds. The current policy does not take into account

the company's short-term and long-term prospects, makes excessive use of debt instruments, and overweight equities relative to other asset classes:

- ✚ The objective of this study is to find out the investment policy of Life Insurance Corporation of India (L.I.C.) in order to improve its performance. This will help the corporation to make better and more informed investment decisions that will lead to improved profitability.
- ✚ Overall, the study found that L.I.C.'s investment philosophy is based on conservatism and risk aversion, which has resulted in low returns on assets over the past few years. The corporation has also been unsuccessful in making successful investments beyond its core business activities.

## CONCLUSION

The study of investment policy of life insurance Corporation of India (L.I.C.) has shown that the corporation has a diversified and well-diversified investment portfolio with a low level of risk. The analysis has also revealed that the corporation invests in debt instruments and government securities with a high credit rating. Overall, the study found that the L.I.C.'s investment policy is prudent and conservative. Life Insurance Companies, to satisfy their shareholders and claimants, need to make investments in assets that are profitable and not just for safety. They should also take into consideration the interests of the investors in managing how their funds are invested.

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