"Investment Pattern of LIC: An Empirical Study of Lucknow Division"

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Abstract

An investment, in its general and traditional definition, refers to the purchase or ownership of assets or property rights "with the purpose of acquiring wealth or generating income. Investment, from the perspective of investors or capital providers," refers to the allocation of current cash and resources to get future income "in the form of interest, dividends, rent, retirement benefits, or an increase in the principal's value." Investment interconnects the financial and economic aspects, as it channels a portion of people's savings into the capital market, either directly or through institutions. Investors who provide long-term funds and investors who employ these funds come together in the market. Therefore, investment is contingent upon people's ability to save. Savings and investments are crucial components of socioeconomic progress. Investment is crucial and beneficial in the current circumstances. Several variables contribute to the growing significance of investment decisions, including extended life expectancy, higher inflation rates, rising taxation rates, high interest rates, increased income, and a wide range of investment options. Following the discussion on the notion of investment, it is crucial to highlight the variables that contribute to the favorable expansion of investments.

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Introduction

The Insurance sector in India is governed by an extensive framework of laws and regulations. The laws provide precise guidelines about the permissible types of security in which insurers are allowed to engage, as well as setting limits on their maximum investment share in the overall amount. Govt. securities must receive at least a certain proportion of insurance companies' invested assets. A comprehensive list of approved investments, which includes specific equities, corporate bonds, and bank deposits, also specifies the maximum amount that can be invested in these and other types of investments. Only businesses with a strong and consistent history of dividend payments over many years are eligible to make investments that are approved. Investments that do not meet these specific requirements are referred to as Other Investments. The primary goals of these extensive laws are to maintain the

purchasing power of funds in an unpredictable investing environment and to assist insurers in fulfilling their obligations to policyholders at all times.

In addition to this, insurance investment experts must possess knowledge of economic, accounting, and regulatory frameworks in order to effectively manage a company's investment portfolio. Occasionally, the presence of disagreement between these criteria results in less-than-ideal economic investment choices. As a result, the investment strategy ought to provide the fund with rational investment objectives that are in line with the fund's overall objectives. The fund's strategic asset allocation plan, performance goals, and screening and, if necessary, adjusting allocations in response to shifting obligations and market conditions should all be outlined in the investment policy. It ought to also include comprehensive judgments regarding the selection of securities, trade execution, and strategic asset allocation. The procedures for regularly evaluating the investment policy and determining whether modifications are required should be established by the governing authority. The policy itself, its procedures for implementation, the structure of decision-making, and the duties associated with its design, implementation, and review should all be included in this evaluation. A fund management is required to invest only in assets for which it can accurately identify, quantify, track, oversee, control, and disclose the associated risks. An investment portfolio must achieve a balance between the goals of safety, high quality, easy access to funds, and profitability, in line with the set policy objectives.

Insurance businesses often operate within two-dimensional frameworks that include

(a) Underwriting activity primarily focuses on the collection of premiums and the settlement of claims.
(b) Investment activity refers to the allocation of assets into different investments with the goal of generating additional income through interests, dividends, and capital gains. During the process of underwriting, "insurance firms gather premiums from individuals and establish an insurance fund. The insurance fund should not be kept in a state of inactivity while claims are being submitted". The investment should be made by arranging a public offering of shares.

Insurance investment operations help to diversify a firm's financial base and improve its capacity to pay claims promptly. The accumulation of insurance capital and reserves is a crucial focal point of financial resources in the economy. The insurance business, especially in developing nations such as India, is significantly contributing to the progress of capital markets. It is facilitating the provision of financial resources to enterprises and Govt.s, while also establishing procedures for corporate governance and risk mitigation. Insurance businesses also serve to reduce reliance on

the banking system and function as a shock absorber during times of financial difficulty (OECD, 2011). During a business sector slump, insurers benefit from a steady flow of high-quality premiums, which allows them to become a source of liquidity. This enables them to acquire inexpensive assets that are being sold by many market participants. Insurers have a stabilizing effect on the economy, since they are counter-cyclical and help to settle financial fluctuations.

Insurers have the ability to invest in long-term and illiquid assets due to their extensive protection systems and predictable long-term obligations. In order to maximize shareholder value and protect policyholder value, insurers must devise a robust, methodical, and impartial procedure for selecting their investment strategy, "Swiss reinsurance Company Ltd, 2010."

Literature Review:

Globally, "the life insurance industry is in an advanced stage of development in developed economies as against the initial stages in developing economies. Keeping with this trend, quite a few research studies and analyses have been done in respect of the life insurance industry globally. In India, after the liberalization of life insurance industry in 2000, we are witnessing significant changes in products offered, services delivered and methods of distribution. Due to monopoly status of the life insurance industry between the years 1950 and 2000 coupled with the lack of product differentiation, there have been few elaborate studies in India on this subject. This review is aimed at capturing the essence of recent investigations undertaken in the life insurance industry both in India and globally".

Sherin I., "has concluded in the doctoral thesis titled Investment by LIC in Industries in India, that apartfrom formulating and organizing industrial investment, LIC has made an entrepreneurial role and it has enumerated the extent to which they have appropriately and prudently taken the initiative and the leadership in conceiving proposals for new enterprises, organizing the finance for them, and carrying them out. They have also worked out the economics of corresponding costs and risks associated with it".

DwivediR.K. (1977), "in his study on Investment of Life Insurance Funds and Industrial Growth in India remarked that L.I.C. of India has made a sizeable contribution to the development of capital markets when the country was in the developing stage. When the widespread use of consumer financing was very popular in a tight money situation, it resulted in high yields to finance company papers, out-stripping all other available yields and thereby channeling a sizable production of investable funds into consumer finance at the expense of investments in industry".

Panda (2013) revealed that"the investment pattern of LIC of India and its risk taking ability while investing in different segments. The paper has used autocorrelation through linear trend analysis for keeping present and past years in the analysis of segment wise investment with Box L Jung statistics. The result of study indicated a significant increase in trends in case of G-securities segment, S-securities plus housing/infrastructure, corporate sector & project loan while investment in housing

and infrastructure alone does not reveal any significant increase".

Parekh (2013) concluded that "investment function of insurance industry in India is not so vibrant when compared with global counterparts. Therefore, he has suggested Govt. to recognize the importance of insurance sector in financial landscape and introduce more fiscal stimulus and tax incentive to strengthen its role in saving mobilization".

THE IMPORTANCE OF THE RESEARCH:

- The Life Insurance Industry takes in a lot of money from the public and puts it into long-term infrastructure projects and other businesses that will bring in a steady income in the future.

- The insurance business requires extensive financial planning and a deep understanding of various financial products and their current market conditions. This expertise enables us to effectively compare insurance products with other financial offerings and persuade clients.
  Insurance is a very successful industry, especially in emerging countries like India. India now has a total of 53 insurance firms.

- There are a "total of 29 general insurance firms and 24 life insurance companies. Out of the 29 general insurance businesses, 5 are private sector insurers registered to offer underwriting services".

Objectives:

- To comprehend the concept of Indian LIC investment.
- Examine allocation of investments by LIC of India across different sectors.
- To analyze the investment made by LIC of India in different development initiatives.
- The objective is to identify the issues and provide appropriate strategies to enhance and advance the investment activities of LIC.

Collection Of Data:

The data used in this study come from "secondary sources. Insurance companies, BeemaSamiti, the Lucknow Stock Exchange, Govt. organizations and bodies, published and unpublished publications, journals, newspapers, reports, magazines, and websites can all be used to gather information about LIC of India's investment pattern. The data used in this thesis come from secondary sources".

The Progress and Advancements in the Insurance Industry in India

Although India allows for direct foreign investment in certain sectors of the economy, the insurance industry has encountered significant challenges from its inception. The provision of insurance has always been and is under the exclusive control of the Govt..The L.I.C. of India is granted sole authority to conduct life insurance operations in Section 30 of the L.I.C. Act 1956.The concept of monopoly also applies to general insurance, but risk management and reinsurance are different. The Malhotra Committee was established by the Indian National Congress during its previous administration. In 1994, the Malhotra Committee released its Report, which made suggestions for liberalizing the insurance industry. The private sector

should be involved in securing a share of the rural and non-traditional insurance market, among other suggestions. Additionally, it is recommended that private international corporations form joint ventures, with the promoter owning 40% and the public owning the remaining portion. Upon assuming power, the United Front, the current coalition administration, implemented its pledged Common Minimum Programme as the governing policy of the Central administration. One of the main reasons for this program was the intention to implement comprehensive reforms that would impact the insurance industry, taking a similar approach to the banking sector as outlined in this manifesto. As a result, the following advancements occurred:

- A proposal for a bill regarding the Insurance Regulatory Authority was made. At the moment, it is unclear whether the Authority will be able to encourage both domestic and international insurance industry investment. Without a doubt, the LIC Act of 1956 and the General Insurance Business Act of 1972 must be substantially amended before the insurance industry can be liberalized. It was anticipated that the bill's discussion would take place in December 1996. It is likely that it will take at least 18 months before any changes are implemented due to the substantial opposition to the Bill and the time it takes to establish new standards and issue licenses. This has already been incorporated into the plans of foreign insurers.
- The Reserve Bank of India (RBI), India's national regulatory bank, recently granted permission to four foreign insurance companies to open liaison offices within the country. These channels are not permitted to carry out insurance-related activities within India and will only be used for communication between parties in India and their overseas head offices. The current insurance companies, including their management and employees, have, as anticipated, vigorously opposed and denounced any attempt to privatize the insurance industry. Allies of the coalition have also voiced harsh criticism of the United Front administration. The decision to privatize appears to have little support.

- The L.I.C. of India (LIC) and the General Insurance Corporation of India (GIC) ought to have a lot of autonomy, including the authority to make investments that aren't planned to be made by the consortium.
- LIC ought to be given permission to promote joint ventures in the pensions fund sector.
- It is recommended to allow GIC to engage in the promotion of joint ventures in the health insurance industry.
- Indian enterprises that have "majority Indian ownership should be permitted to operate in the health insurance industry".
- It is recommended that LIC maintains its exclusive control over the life

insurance sector, while GIC maintains its exclusive control over the "non-life, non-health insurance sector".

As a result, it was decided to restrict competition by requiring a minimum capital requirement of Rs. 100 crores. In order to boost insurance companies' performance and allow them to function as independent entities motivated by financial incentives, the committee acknowledged the need to grant insurance companies more autonomy. It has suggested creating a separate regulatory body to accomplish this goal.

Lic's Investment Pattern

The L.I.C. of India is a development and investment organization at the same time. The main purpose is to promote the importance of life insurance. The organization does this by collecting premiums from policyholders. These premiums are treated as trust funds and are managed in accordance with regulations set by the Govt. for the benefit of policyholders. Section 27A of the Insurance Act of 1938 and periodic guidelines and directives issued by the Indian Govt. govern how the Corporation's funds are distributed. These investments are Govt.-regulated to ensure the provision of essential services like as water, drainage, sanitation, electricity, housing, transportation, and more, for the benefit of the general public. The revised section 27A of the Indian Insurance Act of 1938 sets a percentage-based maximum for various investment types. These investments have been periodically adjusted in order to allocate a larger share of money towards "Govt., Govt.-guaranteed, sanctioned, or socially-oriented ventures". The LIC has been instructed to accord funding priority to socially conscious initiatives. LIC is a significant investor in social sector, infrastructure, and Govt. securities. The company contributes to the nation's rapid industrial development. It lends money to cooperative industrial estates to support small and medium-sized businesses. The corporation offers assistance to all India's financial institutions, including IDBI, IFCI, ICICI, and others. by investing in these organizations' bonds and debentures. In addition, it lends money to businesses and corporations on a short-, medium-, and long-term basis.

INVESTMENT PATTERN PRIOR TO NATIONALIZATION

Prior to the establishment of LIC in 1956, the regulation of life insurance firms was carried out under "section 27 and 27A of the Indian Insurance Act, 1938", which included the nationalization and merging of 245 organizations. As per the Act, each insurance company was obligated to invest in the following manner.

Tabl-1.1

Sl. No.	Type of Investment	%
1	Govt."securities"	25.00
2	Govt."securities or approved securities"	Not <25.00
3	"Other investment"	Not >15.00
4	"Approved investment"	35.00

PATTERN OF INVESTMENT AFTER NATIONALIZATION

Section 27A was updated in 1975 in accordance with the "advice of the Jagannathan Committee," which sought to evaluate the LIC's investment strategies. Section 27A was updated to say that any new money added to the LIC's controlled fund could be invested separately:

Table-1.2

Sl.No.	Investment Type	%
1	Marketable securities issued by the federal Govt.	25.00
2	State Govt. securities in the central Govt., such as the Govt.-guaranteed marketable securities mentioned in (a) above	50.00
3	In the socially conscious sector, which includes the public sector, the cooperative sector, and the own your home (OYH) scheme, which includes the second above.	75.00

Notes:

- A minimum of 8.00% was necessary for loan against "insurance that had surrender values".
- Approximately 2.00% of the total investment might be allocated to immovable assets.
- 10% of the funds were allocated to the private sector.
- The remaining 5% was not investable since it consisted of monies in the pipeline.

TRENDS IN INVESTMENT FOLLOWING THE INSURANCE SECTOR'S REFORM

The "Insurance Regulatory and Development Authority (IRDA) has enforced a certain investment framework that insurance firms must adhere to. The Insurance Act, 1938 mandates investments in Govt. securities, authorized securities, approved investments, and in infrastructure and social sectors. The Authority has mandated that every insurer engaged in the life insurance industry must invest and maintain their controlled fund (excluding funds related to pension and general annuity business and unit-linked life insurance business) in the following manner":

Table-1.3

The IRDA-specified investment pattern for life insurance

Sl. No	Investment Type	%
1	Govt."Securities"	
2	Govt."Securities or other approved securities (including (i) above)"	
3	Investments approved in accordance with Schedule I	
	a) Social Sector and Infrastructure	Not <15.00
	b) Others to be subject to Exposure Standards	No <15.00% of the fund can be invested in "Other than in Not

		exceeding 35.00% Approved Investments."

No more than 15% of the fund can be invested in "Other than in Not exceeding 35% Approved Investments."

Table-1.4

Irda-Specified Investment Pattern: Pension and General Annuity

Sl. No	InvestmentType	%
1	Govt.assetas	20.00
2	Govt."Securitiesorotherapproved securities"	40.00
3	The balance must be invested in approved investments and not exceed exposure or prudential standards.	60.00

In addition, in the case of unit-linked life insurance companies, each insurer is obligated to invest and manage his or her own separate fund in accordance with the investment pattern that is presented to policyholders and is approved by them. Unit linked policies can only be offered when the units are linked to categories of easily attainable and marketable assets. However, no portion of the fund can ever be invested in anything other than the approved category of investments.

ANALYSIS OF INDIA'S SECTOR-WIDE INVESTMENT DISTRIBUTION

By investing in the public, private, and cooperative sectors, LIC has contributed to our nation's economic development over time. In point of fact, the substantial amount of money that LIC has at its disposal has proven to be a useful drop of oil, lubricating and smoothing the wheels of our nation's economic development. The analysis's objective was to ascertain investment growth over the study period and the sector-by-sector distribution of investment in each sector. Table 1.4 depicts the extensive distribution of LIC's sector-specific investments in India. The book value of investments in India is taken into account every year on March 31.

Table-1.5

Analyses of India's investment distribution by sector

	SECTOR						Total Investment (InCr.)	% growth over previous year
	Private		Public		Co-operative			
Year	Amt.InCr.)	% Share	Amt.InCr.)	% Share	Amt.InCr.)	% Share		
2001-02	10079.0	12.92	65917.5	84.7	1941.9	2.6	77939.0	
2002-03	12334.4	13.19	79235.8	84.8	2030.4	2.3	93601.3	20.1
2003-04	15597.6	13.68	96410.6	84.6	2094.6	1.9	114103	21.9
2004-05	19843.9	14.27	117059	84.2	2129.3	1.5	139032	21.85
2005-06	23579.2	14.12	141256	84.6	2168.4	1.3	167004	20.12
2006-07	24500.6	11.82	180574	87.1	2128.6	1	207203	24.07
2007-08	30091.3	11.95	219597	87.2	2082.3	0.8	251770	21.51
2008-09	52883.2	16.19	271779	83.2	2079.5	0.6	326741	29.78
2009-10	69754.6	17.74	322022	81.9	1408.2	0.4	393185	20.34
2010-11	107064	21.97	378807	77.7	1356.5	0.3	487227	23.92
2011-12	84369.2	16.17	433810	83.1	3555.1	0.7	521735	7.08
2012-13	128542	20.22	503388	79.2	3817.6	0.6	635748	21.85
2013-14	187213	24.54	572050	75	3628.9	0.5	762892	20
2014-15	236206	25.73	678375	73.9	3336.5	0.4	917917	20.32
2015-16	265880	25.43	775993	74.2	3666.6	0.4	1045539	13.9
CAGR	24.33%		17.90%		4.54%			18.94%

Source: "RBI Handbook of statistics on the Indian economy for the year 2015-16"

Therefore, throughout the period from 2009-10 to 2015-16, about 50% of the available money were typically loaned to the Central and State Govt.s. The Government's Insurance Regulatory and Development Authority (IRDA) of India, following the liberalization of the insurance market in 2011 and 2012, established a regulatory framework that broadened the Corporation's investment options. Consequently, the borrower's desire experienced a shift. The proportion of loans allocated to the Central and State Govt. decreased significantly from 68 percent in 2009-10 to a meager 5.9 percent in 2013-14, followed by 6.4 percent in 2014-15 and 9.6 percent in 2015-16. In the years 2009-10 to 2012-13, banks and financial institutions received loans amounting to 3 to 5 percent of the total loans given by the Corporation. However, their percentage decreased to 0.3% in 2013–2014, 1.1% in 2014–2015, and 0.2% in 2015–2016. Between 2009-10 and 2015-16, loans to businesses were distributed in a manner that was both variable and consistent, ranging from 8% to 17%. The second largest group of borrowers are policyholders who borrow against assurance policies issued by the Corporation. Between 13 and 27% of the Corporation's total loans to various types of borrowers are made through loans to them. Since the fiscal year 2013-14, loans to individuals categorized as 'others' have surpassed all other borrowers and now constitute the highest portion of overall loans, ranging from 3 to 6 percent. 'Other' borrowers received 63.1% of the total loans in 2013-14, 53.1% in 2014-15, and 44.5% in 2015-16.

SUGGESTIONS:

- While I was in school, LIC mostly allocated its investments to public sector stocks. Consequently, I suggest that LIC prioritize private sector and cooperative sector assets when allocating their money for investment.
- LIC prioritizes investments in the housing and electrical sectors when allocating its funding. Hence, I suggest that LIC should also give priority to investing in securities from other sectors, such as transportation and water and sewerage.
- The Lucknow section of the LIC primarily focused on the federal and state Govt.s. Investment opportunities for lending capital. Nevertheless, I suggest that LIC increase its investments in bank and financial institution securities and subsidiaries in these specific regions.
- The LIC, Lucknow division allocates a little amount of funds towards various social welfare activities. Consequently, I suggest that the division should allocate more resources towards social welfare initiatives in the rural districts of Lucknow. This will enhance the division's reputation and public perception.

Concluding Remarks:

The preceding analysis reveals that the liability characteristics and the regulatory framework, which determine the direction and amount of investment, have a significant impact on the LIC's investment strategy. Simultaneously, LIC functions as a financial intermediary, connecting savers and investors. It is also responsible for utilizing the accumulated funds to promote social welfare and develop different sectors of the economy, with a specific focus on infrastructure and the emerging private sector following economic reforms. The Corporation must create a structure that fulfills its responsibility to policyholders, who have entrusted their premium money to the Corporation. This structure should prioritize safety, liquidity, and return on investment. The company is also responsible for fulfilling its promise to society by providing funding for social welfare activities and infrastructure programs, as well as subsidizing industrial growth that is currently the responsibility of the "private sector". The Corporation's investment structure aims to create a balanced mix of securities with various characteristics. This approach ensures both investment security and high returns, while also maintaining sufficient liquidity. It is important to note that all investments are made within the legal boundaries. The Corporation's investment pattern is primarily characterized by the preponderance of government funds. security, government Treasury bills and guaranteed bonds. These securities make up the majority of the Corporation's portfolio structure on the stock market.

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