

## INVESTMENT POLICY OF THE LIFE INSURANCE CORPORATION OF INDIA

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Life insurance funds play a significant role in the capital market of every country. When all these funds come to be in the hands of a single state-owned institution in a country, the question of their investment is bound to arouse more than ordinary interest. In the context of mobilization of resources for economic development, it should even more be so. The Life Insurance Corporation (L.I.C.) came into being on September 1, 1956. The investment policy to be followed by it was announced by the Finance Minister in the Lok Sabha, on August 25, 1958. This paper is an attempt to examine some of the major aspects of this policy. (The implications of nationalization of life insurance were studied in an earlier paper.<sup>1</sup>)

### Investment of Life Funds in India before Nationalization

It might be useful to begin with an examination of the pattern of investment of life funds in India before the companies were nationalized. Table 1, at the end, gives the relevant data from the year 1928 right upto 1955. The Table is presented in three segments relating to the periods: (i) 1928-39 (the inter-war period); (ii) 1940-45 (the period of the Second World War); and (iii) 1946-55 (the post-war period).

It may be observed from the Table that government securities had been the dominant form of investment not only in the first period but also in the subsequent periods. The bulk of these were Central and State government securities, the securities of foreign governments forming a negligible part of the total. Including the Municipal, Port Trust and Improvement Trust securities, which were declared as 'approved securities', the total of gilt-edged investments, so to say, accounted for as high as 65 per cent of total investments in the inter-war period. Three factors appeared to have been mainly responsible for the preponderance of government securities in the investment portfolio in this period. (It may be borne in mind that there was no statutory regulation of the investment of insurance funds prior to 1939). Firstly, the Articles of Association of some of the older established companies required investment of the bulk of their funds in government securities. Secondly, in the early stages of growth, it was perhaps natural on the part of the companies to have given over-riding con-

<sup>1</sup> 'Nationalization of Life Insurance' *Indian Economic Journal*, Vol. V, No. 2, Oct. 1957.