CHAPTER VIII

LIC'S INVESTMENT IN CORPORATE SECTOR

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Genesis

The LIC finances the private corporate enterprises by contributing to their shares and debentures as well as providing financial assistance in the form of long-term and short-term loans. The proportion of industrial securities in the portfolios of life insurance companies in industrially advanced countries of the West is much more higher than what we see in our country. Main reason of such portfolio behaviour is the higher rate of return provided under these securities in comparison to government and other approved securities. Lower return on government and other approved securities is compensated by the higher yield on corporate securities which in turn makes the life insurance cheaper.

In India, however, the investment policy of the life insurance companies has been somewhat different from the life insurers in the Western countries. This variance in the investment policy might have been due to reasons like difference in industrial growth, standard of education, socio-economic conditions etc. prevalent in the societies. Prior to nationalisation of life insurance business in mid fifties all the insurance companies were under the private sector like their counterparts in the western countries. However, the statutory control by the government on the investment policy of erstwhile insurers was very high. This is evident from the Insurance Act, 1938. Under various provisions of the above Act, the insurance companies carrying life insurance business were directed not to invest more than a certain percentage of their Life Funds in the securities of the corporate sector. This, perhaps had been done to create confidence in the minds of policy-holders.

This is an established convention and tradition that the life insures invest a certain percentage of their life funds in the government securities irrespective of statutory requirements. This tradition is in vogue since the inception of modern life insurance business throughout the world. Such preference for govt. securities has its own advantages. Government securities are treated as gilt-edged securities and proned to easy convertibility into cash. The nature of business of life insurance deserves such preference for meeting their unforseen liabilities which may occur at any time.

Right from the beginning of insurance business in this country even before passing Insurance Act, 1938, Indian insurers used to invest major portion of their investible funds in the government securities. The success of an insurer in those days was to a great extent depended on the degree of their investment in the government securities. This tendency was partly due to indirect government pressure and partly for fear of losing people's confidence. But one thing should be remembered that those were days when all the insurance companies were run by big business enterprises in the private sector. The situation has completely changed since India gaining her independence and specially since nationalisation of life insurance business in 1956. There is an overall change in almost every sector of Indian economy. Industrial production has increased many times, appreciable improvement in standard of education, higher growth in national and per capita income, mammoth growth in the number of factories and industries; capital market becoming more organised and so on. In light of the above development and changes, there is almost no change in the investment policy of the LIC in respect of corporate sector. There is no dearth of corporate x securities which may be regarded as inferior to government securities both from the points of view of profitability as well as safety. Return on such corporate securities is much more higher than that of government securities. Such investment policy of the corporation does not stand on the criteria of 'business principles' as provided in the Life Insurance of India Act, 1956.

The present investment policy of the LIC has nothing to do with so called 'business principles'. Actually the f funds of millions of small savers are being placed at the disposal of the government year after year to be utilised by the latter as they wish. Taking into consideration this lope-sided investment policy which less x serves the interest of the savers and the more the Government's, interest, some of the leading economists have expressed their opinions that the vast funds at the disposal of the LIC is "an additional source of financing the Five Year Plans by the Govt. of India"[1].

1. Estimate Committee Report (134) 1960,61.,p.56.

Some of the advocates of so-called socialistic pattern of society has gone to further extent that the entire funds of the LIC should be brought under direct control of the govt. so as to facilitate even larger investment in government securities.

If any single incident is responsible for the present investment policy then it is "Mundhra Episode" which compelled the government to make the statutory control much more harder instead of liberlising it. Mundhra Episode raised the suspicion in the minds of the people that how far their investments was safe. The government came to realise that how investment of LIC's funds in corporate sector securities could be successfully utilised towards distributing favour.

Investments in Corporate Securities

LIC's investment in private sector corporate securities includes investment in equity shares, preference shares and debentures. These securities do not include the amount advanced by the Corporation as long, medium and short term loans. During the first decade of operation (1957-66), the Corporations "Accent" was on buying equity shares. This is indicated by the fact that such shares aggregating Rs. 84.1 crores, accounted for almost two-thirds of its total securities purchases. The net annual addition to equity holdings averaged Rs. 9.3 crores per annum for this period. A related purchases served to limit the 'destabilising' effect of sudden falls in stock prices"[1].

1. Gupta, L.C., Changing Structure of Industrial Finance, London, Oxford University Press, 1969, Quoted by M.Y.Khan, Industrial Finance, Tata McGraw Hill Publishing Company Ltd., 1982, p. 5.

However, after 1965-66 the net annual addition to its equity portfolio is characterised by sharp fall so that it represented as low as 1/3rd. of the level of preceeding period. Thus, the decline in LIC's portfolio of corporate securities has been mainly in respect of purchases of equity shares. Its operations in this sphere in the post 1966 period, therefore, do not seem to be oriented to lending stability to the share market warding off violet fluctuations particularly during downward phases[1].

One would have thought that the rise of powerful investment institution of the size of LIC would have disciplined the share market and make it more investment oriented. The experience, however, indicates that the present investment structure is in_effective from this view point. It seems that monolithic institution with highly centralized investment management is too bureaucratic to engage in active management of investment portfolio[2].

The aggregate amount outstanding in corporate securities as on 31st.March,1976 was Rs. 255.60 crores which went upto Rs. 738.60 crores as on 31st.March,1986. The average annual in terms of absolute amount during the same period amounted to about Rs. 31 crores. The investment in corporate securities during the decade ending 31st.March,1976

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1. Khan, M.Y., Op.cit, quoting Singh, P.(Mrs.), "Life Insurance Corpn. and the Capital Market in India", Unpublished Ph.D. thesis, University of Delhi, 1979, p.117.
2. Gupta, L.C., Rates of Return on Equities - The Indian Experience, Oxford University Press, Bombay,1981,p.140.

remained at the lowest level in comparison to preceeding and succeeding decades. Although the average annual investment during the period under review has increased more than four times in comparison to the second decade (from Rs. 7.20 crores to Rs. 31 crores), the percentage of total investment in the corporate securities to total Life Fund, total assets and total investment has shown a very sharp decline since the inception of the Corporation.

This reverse trend in the investment of corporate securities may be illustrated as : - average annual investment in the corporate securities during the first decade formed 17.0 percent of the Life Funds, 15.3 percent of total assets and 17.2 percent of the total investments, the corresponding figures for the second decade (1966-76) are - 10.8 percent, 10.9 percent, and 12.7 percent (appx.). The percentage of total investment in corporate securities to Life Funds, total assets and total investments of the Corporation remained 5.7%, 5.4% and 5.9% respectively for the third decade.

Thus, the percentage of investment in corporate securities has drastically gone down year after year. The increase in absolute amount every years seems to be the result of massive enhancement in the Corporation's income. Share of corporate securities in the portfolio of the LIC investment registered a decline of about 37.0 percent during the decade under review. The trend of decline which has been unchecked, especially since 1966 onwards continued upto 1975-76. The percentage of corporate securities formed about 19 percent of the total Life Fund as on 31st.March,1966 which came down to 7.6 percent as on 31st.March,1976. The portfolio behaviour of the LIC indicates that investment in corporate securities have been below the already low statutory provisions of 10% of the total investible funds. * On the other hand, investments in government and other approved securities have always exceeded the statutory limits. LIC's investments in corporate securities for the years 1976-86 has been shown in Table VIII.1.

Analysis of Investments in Corporate Sector

After examining the volume and trend of overall investments in the corporate sector, we may now analyse the composition, net annual increase, purchases in India and abroad etc.

Net Increase in Corporate Securities

First of all let us compare the net increase in total investment and net increase in the investment of corporate securities during the decade under review. It is observed that there has been massive growth in the total investments of the Corporation, the volume of investments went on increasing year after year except in 1978-79 when the increase was not at par with other years. The annual average of net increase in the total investments stood at about Rs. 750 crores. On the other hand, the annual rate of net increase in the corporate securities was only Rs. 31 crores. The trend in percentage of net increase in the corporate securities to net

TABLE VIII.1

LIC's INVESTMENTS IN CORPORATE SECURITIES

Year as on 31st.March	Amount (Rs. crores)	Percentage to Life Fund	% to total Assets	% to total Invest-ments
(1)	(2)	(3)	(4)	(5)
1976	255.60	7.4	7.0	8.4
1977	274.70	8.0	6.6	7.7
1978	288.80	6.4	6.1	6.2
1979	296.70	5.8	5.5	6.3
1980	313.80	5.4	5.0	5.0
1981	328.10	4.9	4.6	5.0
1982	360.10	4.8	4.7	5.2
1983	396.60	4.6	4.6	5.1
1984	466.80	4.8	4.7	5.3
1985	566.50	5.1	5.0	5.7
1986	738.60	5.6	5.8	6.0

Source: Compiled and computed from LIC's Annual Reports and Accounts.

increase in the total investments showed a downward trend during the first six years of the study period, coming down from 6.0 percent in the year 1976-77 to as low as to 2.0 percent in the year 1980-81. Thereafter, however, in the remaining years the percentage was increased to 11.8. The comparative net change in the total investments as well as in the corporate securities has been exhibited in Table VIII.2.

Investment in Corporate Securities in India And Outside of India

The major investments in the corporate securities is done within India. Although, the corporation had been investing its funds in the securities of the corporate sector outside India, the volume of such investment had been very negligible and insignificant. The trend indicates that LIC is not interested in investing its funds in the corporate securities outside of India. On the contrary, the LIC is disposing off its holding of such corporate securities. The percentage of corporate securities invested outside of India was as low as 0.7 percent of the total corporate securities in the year 1975-76. It came down almost to zero percent as at 31st.March,1986. LIC's investment in corporate securities in India and abroad has been shown in Table VIII.3.

Composition of Corporate Securities

As already stated the LIC's investment in corporate securities include preference and equity shares and debentures of the joint stock companies. It is observed that investment in preference shares showed a continuous downward

TABLE VIII.2

Statement Showing Net Changes in Investments of Corporate Securities.

Year	Net increase in Investments (Rs. crores)	Net Increase in Corporate Securities (Rs.crores)	Percentage of column 3 to 2 (%)
(1)	(2)	(3)	(4)
1975-76	314.18	25.1	8.0
1976-77	330.63	19.8	6.0
1977-78	614.28	14.1	2.2
1978-79	481.09	7.9	1.6
1979-80	700.00	17.1	2.4
1980-81	732.84	15.0	2.0
1981-82	873.85	32.0	3.7
1982-83	940.60	36.2	3.9
1983-84	1,022.60	70.2	6.9
1984-85	1,096.62	99.7	9.1
1985-86	1,460.12	172.1	11.8

Source:

Compiled and computed from LIC's Annual Reports and Accounts 1975-76 through 1985-86.

TABLE VIII.3

Statement Showing Corporate Securities of LIC

Invested in India and Outside of India.

Year	Invested in India (Rs. crores)	Invested outside of India (Rs. crores)	Total (Rs. crores)	Percentage of column 3 to 4.
(1)	(2)	(3)	(4)	(5)
1975-76	253.84	1.82	255.66	0.72
1976-77	274.33	0.43	274.76	0.16
1977-78	287.60	0.46	288.06	0.16
1978-79	295.54	0.43	295.97	0.15
1979-80	314.33	0.43	314.76	0.14
1980-81	328.72	0.40	329.12	0.12
1981-82	359.25	0.37	359.62	0.10
1982-83	395.21	0.22	395.43	0.06
1983-84	465.28	0.15	465.43	0.03
1984-85	564.42	0.05	564.47	0.01
1985-86	738.58	0.51	739.39	0.07

Source: Compiled and Computed from LIC's Annual Reports 1975-76 to 1985-86.

trend during the entire study period. It camedown from Rs. 40.70 crores in the year 1975-76 to Rs. 29.41 crores in the year 1984-85. The investment in equity shares rose but at a very low pace in comparison to increase in the total investment in corporate securities. However, investment in debentures increased from Rs. 63.94 crores in the year 1975-76 to Rs. 448.77 crores in the year 1985-86. The break-up of corporate securities held by the corporation has been shown in Table VIII.4.

An analysis of composition of LIC's investments in the corporate securities, in terms of percentages, indicates, some interesting trends. The LIC's investments in equities have shown a sharp decline during our period; ratio of equity shares to total investment in corporate m securities declinedd from 57.0 percent in 1975-76 to 35.0 percent in the year 1984-85.

The percentage of investments in preference shares to total corporate investment also fell down drastically from 16.6 percent in the year 1975-76 to a mere 3.9 percent in the year 1985-86. This indicates unsuitability of preference shares in the investment portfolio of the LIC.

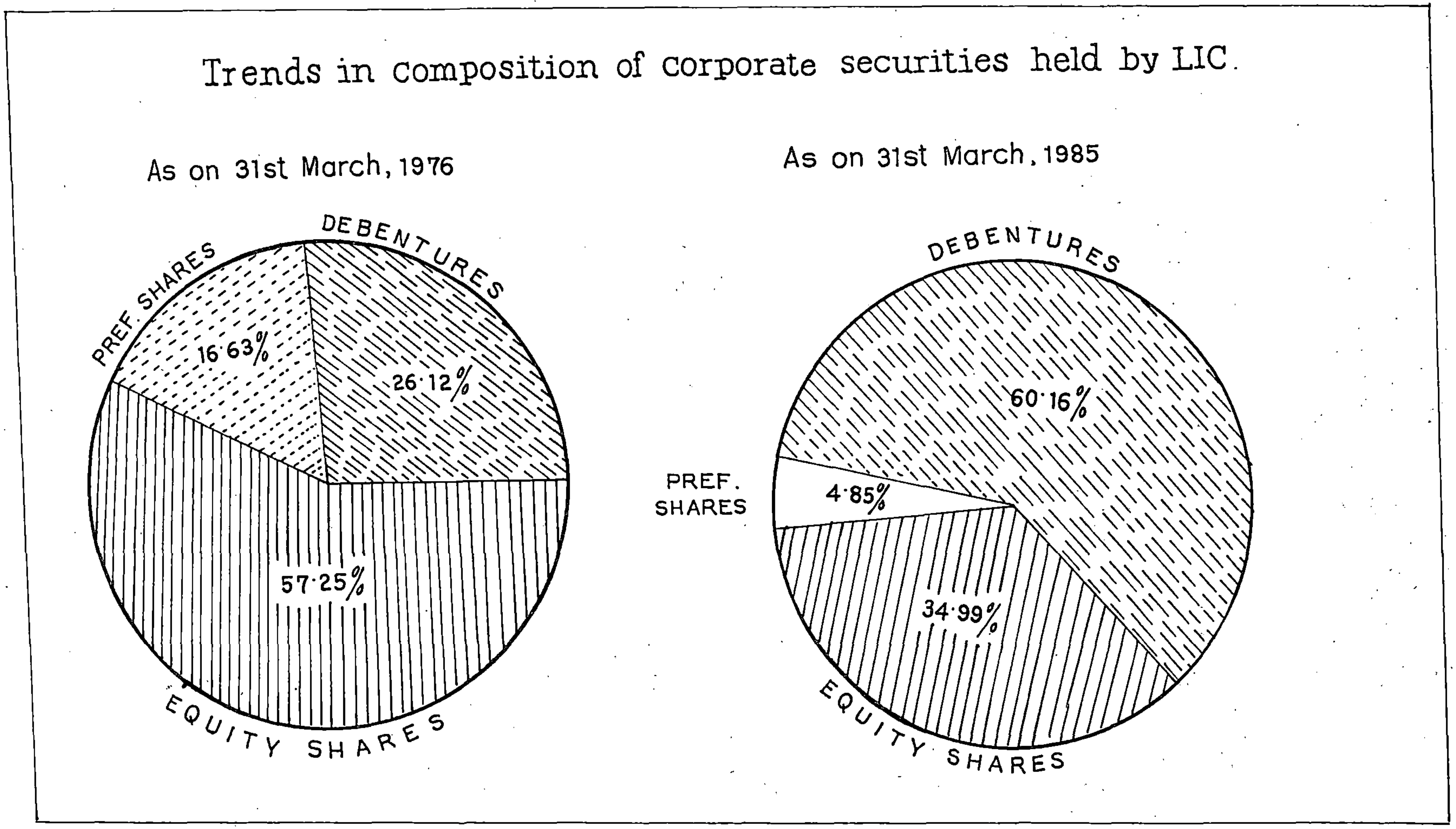
On the other hand, investment in debentures of the companies exhibited a tremendous upward tendency during the entire period. This component of industrial securities increased by about 6 times during this period. The ratio of investment in debentures to total investment in corporate securities was 26.2 percent in the year 1975-76 which jumped upto 64.1 percent in the year 1985-86. Investment in debentures showed an appreciation of about 130 percent whereas ratio of investment in equity and preference shares together,

TABLE VIII.4

Statement Showing The Composition of Corporate Securities Held by LIC.

Year as on 31st. March.	Equity share (Rs.crores)	Preference shares (Rs.crores)	Debentures (Rs.crores)	Total (Rs.crores)
(1)	(2)	(3)	(4)	(5)
1976	140.11	40.70	63.94	244.75
1977	144.90	41.49	63.90	250.29
1978	150.43	39.80	77.51	267.74
1979	157.45	40.58	90.90	288.93
1980	171.22	43.40	98.78	313.40
1981	179.61	43.30	104.85	327.76
1982	181.27	39.36	151.75	372.38
1983	193.27	37.39	185.04	415.70
1984	202.17	32.10	254.10	488.37
1985	212.27	29.41	365-05	606.73
1986	223.21	27.56	448.77	699.54

Source: Compiled and computed from (i) LIC's Annual Reports 1975-76 through 1985-86.
(ii) Insurance year Book, 1974-81, Govt. of India, New Delhi, 1983.



Trends in composition of corporate securities held by LIC.
As on 31st March, 1976
DEBENTURES
PREF. SHARES
16.63%
26.12%
57.25%
EQUITY SHARES
As on 31st March, 1985
DEBENTURES
60.16%
PREF. SHARES
4.85%
34.99%
EQUITY SHARES

(Fig. VIII·1.)

declined by 46 percent during this period. The trend of investment in preference shares indicates that the LIC has stopped its fresh investment in such securities and is disposing off existing securities in its portfolio either being redeemed by the companies concerned or otherwise. Making an observation on the investment policy of the LIC, the Industrial Licensing Policy Inquiry Committee (1967) said "We do not see any special merit in the investment institutions such as the LIC in getting involved in the grant of term loans to industries. It is appropriate that these institutions should confine themselves in this field to the function of underwriting and investing in shares and debentures of private sector and joint sector industry"[1].

It is observed that over emphasis on debentures of joint stock companies by the LIC might be due to two reasons. First, imposition of statutory restrictions on the rate of dividend reduced the rate of dividend and the companies could not declare dividend over a certain percentage. Secondly, to avoid the complications of direct control in the investee companies, the LIC has decided to invest less amount in equity and preference shares and more in debentures and term loans of the companies. This changing trend has been summed up by a learned author as follows:-

"LIC's investments as reflected in the fresh security purchase as well as corporate shareholdings are characterised by a decline in recent years signifying a marked shift in its

1. As quoted in committees and commissions in India, Vol. VIII, p. 124.

capital market activities. With a notable fall in its fresh purchases of securities of corporate enterprises, particularly equities, its operation also no longer ~~xxxx~~ seems to be geard to lending stability to the securities market"[1].

The different components of corporate securities, as percentages of total investment is in corporate securities have been shown in Table VIII.5.

Zonal Distribution of Corporate Securities

The Zone-wise distribution of corporate securities indicates that the share of Western zone has been always the highest (ranging between 36.2% and 61.5%), throughout our review period. The highest percentage was in the year 1985-86, (61.5%). The second largest investment has been in the Eastern zone which ranged between 42% and 30% of the total corporate securities during the same period. Thus, the two zones taken together account for a major ~~xx~~ chunk of the investment; it varied between 72.2% and 79% of the total investments. The remaining three zones shared less than 30% of the investment.

It is ironical that the Northern zone representing the highest population of all the zones, could attract the least proportion of investment. For instance, its share in the total investments was only around 4.5% throughout the review period. The other neglected zone has been the Central, where the percentage of investment varied between 5.4% and 8.2% of the total investments in shares and debentures of public limited companies.

1. Khan, M.Y., Industrial Finance, Tata McGraw Hill Publishing Co. Ltd., Bombay, 1982, p. 30.

TABLE VIII.5

Statement Showing The Components of Corporate Securities as Ratios of Total Corporate Securities.

Year	Equity shares (%)	Preference shares (%)	Debentures (%)	Total (%)
(1)	(2)	(3)	(4)	(5)
1975-76	57.2	16.6	26.2	100.0
1976-77	56.3	15.7	28.0	100.0
1977-78	56.2	14.9	28.9	100.0
1978-79	54.5	14.0	31.5	100.0
1979-80	54.6	13.8	31.6	100.0
1980-81	54.8	13.2	32.0	100.0
1981-82	48.7	10.6	40.7	100.0
1982-83	46.5	9.0	44.5	100.0
1983-84	41.4	6.6	52.0	100.0
1984-85	35.0	4.8	60.2	100.0
1985-86	31.9	3.9	64.1	100.0

Source: Computed from (i) LIC'S Annual Reports 1975-76 through 1985-86
(ii) Insurance year book, 1974-81, Govt. of India, New Delhi, 1983.

The Southern zone credited with the highest life business contribution accounts for only 15% of corporate investments. The zone-wise distribution of corporate securities for the year 1975-76 to 1985-86 has been shown in Table VIII.6.

Though the LIC has often been charged of regional discrimination, the charge is not thoroughly baseless; bias for the region locating the headquarters is natural, though not always justifiable. Another ~~xx~~ equally true reason for regional disparity lies in lack of investible opportunities in the under-developed regions.

State-wise Distribution of Corporate Securities

The state-wise distribution of corporate securities shows that on 31.3.76 about 77 percent of the total investments in the corporate securities is cornered by the four states viz., Maharastra (28.4%), West Bengal (28.5%), Bihar (12.4%) and Tamil Nadu (7.3%) and the rest 23 percent of investments were shared by the remaining 22 states and union territories. A decade later, the share of Maharastra increased from 28.4 percent to 32.4 percent whereas the share of West Bengal decreased from 28.5 percent to 18.0 percent during the same period.

In terms of absolute amount the shares of Maharastra and West Bengal, two industrialised states, were almost equal (Rs. 72.52 crores, and Rs. 72.96 crores respectively) as on 31st.December,1976. Whereas the corresponding figure for the states of Maharastra and West Bengal stood at Rs. 195.24 crores and 113.93 crores respectively as on 31st.March,1986.

TABLE VIII.6

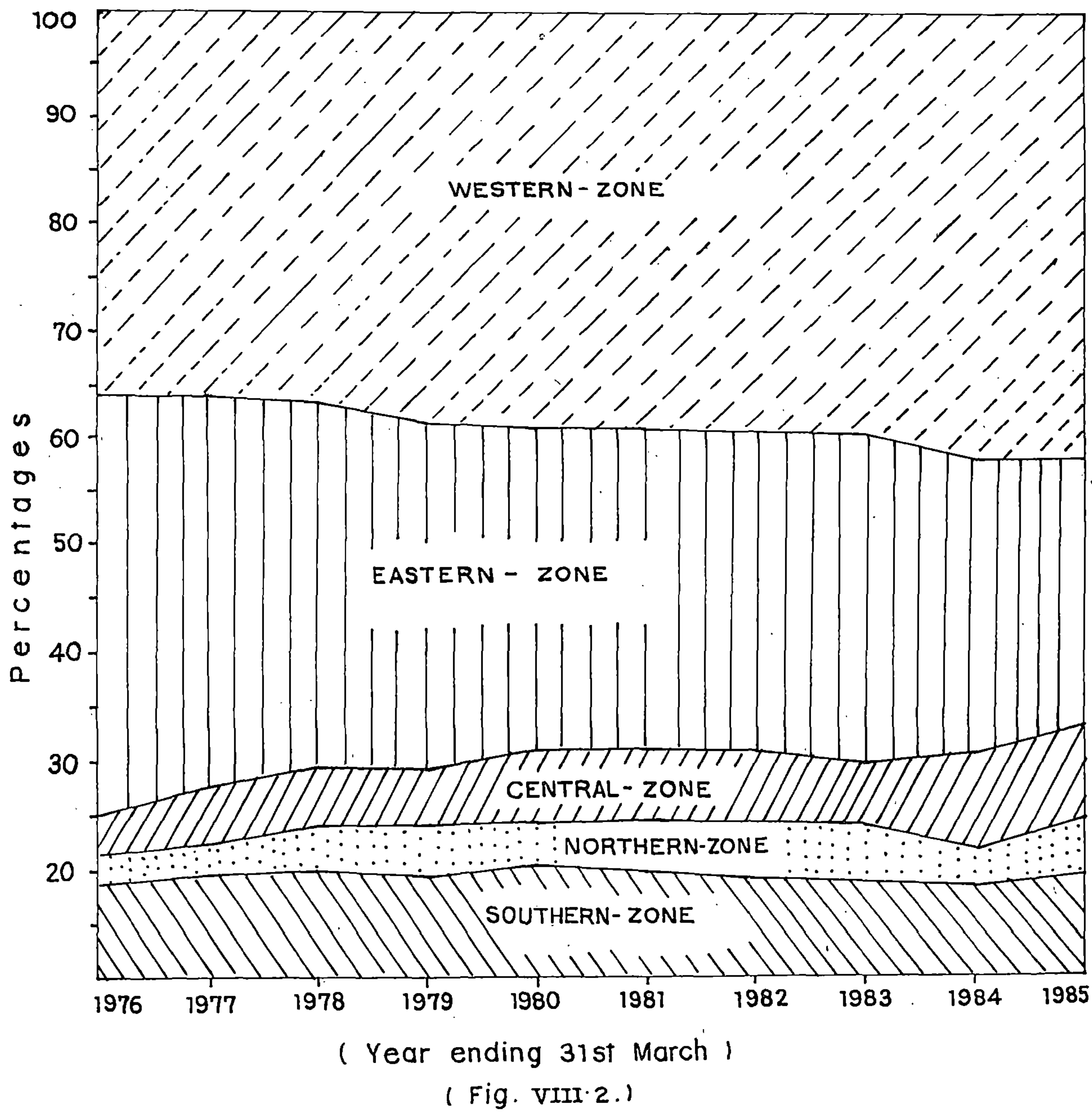
Statement Showing Zone-wise Distribution of Corporate Securities (Rs.incrores)

Year as on March 31st.	Central zone	Eastern zone	Northern zone	Southern zone	Western zone	Total
(1)	(2)	(3)	(4)	(5)	(6)	(7)
1975-76	12.92 (5.1)	109.38 (42.8)	6.97 (2.7)	33.76 (13.2)	92.58(36.2)	255.61
1976-77	13.83 (5.0)	112.46 (40.9)	8.64 (3.2)	39.07(14.2)	100.72(36.7)	274.72
1977-78	15.63 (5.4)	112.36 (38.9)	11.39(3.9)	42.91 (14.9)	106.52(36.9)	288.81
1978-79	17.49 (5.9)	109.56 (36.9)	11.49 (3.9)	42.23 (14.2)	112.91 (38.1)	296.68
1979-80	21.12 (6.7)	111.35 (35.4)	11.98 (3.8)	48.28 (15.39)	122.01 (38.8)	314.74
1980-81	21.87 (6.6)	116.58 (35.4)	13.13 (4.0)	49.75 (15.1)	127.77(38.9)	329.10
1981-82	23.52 (6.5)	124.62 (34.6)	17.33 (4.8)	51.41 (14.3)	143.47 (39.8)	360.35
1982-83	22.82 (5.8)	137.93 (34.8)	17.94 (4.5)	57.34 (14.5)	160.29(40.4)	396.32
1983-84	36.95 (7.9)	149.70 (32.1)	19.92 (4.3)	52.58 (13.3)	197.10(42.4)	466.25
1984-85	46.49 (8.2)	168.83 (29.8)	27.06 (4.8)	83.53 (14.8)	240.10(42.4)	566.01
1985-86	58.14 (4.8)	182.09(15.2)	75.49 (6.3)	146.27 (12.2)	738.06(61.5)	1200.05

Source: Compiled and Computed from LIC's Annual Reports and Accounts for the years 1975-76 to 1985-86.

Note: Figures in brackets indicate percentage to total.

LIC: Zone-wise investments incorporate sector



(Fig. VIII·2.)

Corporate investment in Gujrat and Tamil Nadu registered an appreciation during the period whereas Bihar's share slumped from 12.4 percent in 1976 to 7.5 percent in the year 1986. Notwithstanding, that the LIC is trying to maintain regional balance in its investment policy in comparison to other National Financial Institutions, yet the present investment pattern is not free from the bias in favour of industrially developed states. Among the industrialised states again, some are more favourites than the others. Such policies give rise to regional imbalance in the industrial development of the country as a whole. Of course, the investment policy of the LIC, in respect of corporate securities is partly influenced by availability of better securities and partly due to premium income from the states and regions. In the latter case, the share of Tamil Nadu and Southern zone is less incomparison to the business offered by this region. Even after 30 years of nationalisation regional disparities prevail in glaring form. A radical regional diversification in the investment policy of the LIC is urgently called for. The state-wise distribution in corporate securities for the period under review has been shown in Table VIII.7.

Industry-wise Investment

The industry-wise investments of the LIC have not shown any basic change since its inception except that in the beginning securities of cotton textiles industries occupied the first position whereas in mid-sixties securities of engineering industry showed its predominant position. The second and third positions were occupied by the securities of

TABLE VIII.7

Statement Showing The State-wise Distribution of Corporate (Stock Exchange) Securities. As on 31st. March. (Percentage)

States/UTs	1975-1976	1976-1977	1977-1978	1978-1979	1979-1980	1980-1981	1981-1982	1982-1983	1983-1984	1984-1985	1985-1986
(1)	(2)	(3)	(4)	(5)	(6)	(7)	(8)	(9)	(10)	(11)	(12)
1. Andhra Pr.	1.5	2.07	2.5	2.8	2.8	3.4	3.1	3.0	3.0	2.6	2.0
2. Assam	0.6	0.43	0.3	0.3	0.3	0.3	0.2	0.2	0.2	0.2	0.1
3. Bihar	12.4	11.69	11.1	12.6	11.9	11.8	10.8	10.6	10.0	9.9	7.5
4. Delhi	1.5	1.31	2.0	1.9	1.8	1.8	2.0	1.7	1.4	1.6	7.7
5. Goa	0.3	0.27	0.3	0.8	0.7	0.7	0.7	0.6	0.8	0.8	0.6
6. Gujrat	7.6	8.30	8.3	8.4	8.5	8.8	9.1	9.4	9.6	9.2	10.4
7. Haryana	0.2	0.22	0.2	0.3	0.2	0.3	0.3	0.4	0.3	0.3	0.2
8. Hima.Pradesh	0.1	0.07	0.1	0.1	0.1	0.1	0.1	0.1	0.1	0.1	0.1
9. J & Kashmir	-	-	-	-	-	-	-	-	-	-	0.0
10. Karnataka	2.7	2.72	3.2	3.4	3.6	3.1	2.8	2.6	2.3	2.2	7.7
11. Kerala	1.7	2.17	2.1	2.2	2.2	2.1	2.0	2.0	1.7	1.5	1.3
12. M.Pradesh	1.7	1.56	2.1	2.1	2.0	1.9	1.7	1.4	4.3	4.0	4.6
13. Manipur	-	-	-	-	-	-	-	-	-	-	0.0
14. Maharashtra	28.4	28.10	28.3	28.9	29.5	29.3	30.1	31.0	31.8	32.4	26.4
15. Meghalaya	-	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
16. Orissa	1.2	1.45	1.4	1.3	1.5	1.4	1.7	1.8	1.6	1.7	1.6
17. Pondichery	-	0.01	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
18. Punjab	0.2	0.23	0.4	0.4	0.4	0.5	0.7	0.8	0.8	0.8	0.7
19. Rajasthan	0.7	1.29	1.3	1.3	1.3	1.3	1.7	1.6	1.7	2.0	1.5
20. Tamil Nadu	7.3	7.24	7.1	6.9	6.7	6.4	6.4	7.1	6.4	8.4	8.9
21. Uttar Pr.	3.5	3.48	3.3	3.8	4.7	4.8	4.8	4.4	3.6	4.3	3.3
22. West Bengal	28.5	27.32	26.2	22.6	21.7	21.9	21.9	22.5	20.4	18.0	15.4
Total = (Rs.Crores)	255.58	274.59	288.83	296.70	315.02	329.12	360.35	396.62	466.75	566.54	738.58

Source : Annual Reports of the LIC from 1976 through 1986 cotton textiles and iron-steel industries respectively. There has been no change in their relative position during the review period. Even the position of other industries financed by the LIC remained more or less the same during study period. Industry-wise break-up of investments for the year 1975-76 to 1985-86 has been shown in Table VIII.8.

Investments in Large Groups of Industrial Undertakings

The investment pattern of the LIC in companies registered under Section 26 of the Monopolies and Restrictive Trade Practices Act indicates that major portion of the Corporation's investments are shared by these groups and single dominent undertakings. Out of total investments (including loans) of Rs. 311.70 crores outstanding as on 31st.March, 1976, the share ~~xx~~ of these industrial giants was Rs.191.58 crores, 61.5 percent of the total investments in the private sector. The trend of LIC's investments in these big industrial houses ~~x~~ has shown a gradual increase-both in terms of amount as well as percentage. For instance, the investment in absolute term in these business houses has increased about 3.4 times during the years under review and, in terms of percentage to total investments in the private sector, it has increased from 61.5 percent in 1975-76 to 80.16 percent in the year 1985-86. The average annual increase in the ~~year~~ quantum of investment during the decade was about Rs.46 crores. The share of M.R.T.P. industrial undertakings has declined from 38.5 percent of the total investment in the private sector in 1975-76 to 19.84 percent in the year 1985-86.

TABLE VIII.8

Statement Showing The Industry-wise Distribution of Corporate Securities (in percentage). As on 31st. March.

Industry	1975-1976	1976-1977	1977-1978	1978-1979	1979-1980	1980-1981	1981-1982	1982-1983	1983-1984	1984-1985	1985-1986
(1)	(2)	(3)	(4)	(5)	(6)	(7)	(8)	(9)	(10)	(11)	(12)
1. Aluminium	3.70	3.74	3.6	3.50	3.35	3.13	3.96	3.44	2.62	2.48	2.06
2. Banks	0.52	0.39	0.37	0.36	0.35	0.33	0.11	0.08	0.03	0.02	0.02
3. Cement	4.28	4.02	3.68	3.32	3.04	3.30	2.85	2.52	3.36	2.98	2.83
4. Coal	1.38	1.28	1.22	1.19	1.12	1.07	0.98	0.89	0.69	0.53	0.40
5. Cotton Textiles	9.31	9.28	9.75	9.47	9.33	9.30	9.83	9.55	9.06	9.03	8.07
6. Dyes, Chemicals, & Pharmaceuticals.	4.85	5.35	5.65	6.37	8.43	8.75	8.48	8.71	9.00	9.03	9.85
7. Electricity	8.57	8.91	8.53	8.34	7.89	7.58	7.33	6.93	6.38	5.12	5.28
8. Electrical Goods	5.27	5.07	6.08	6.22	6.45	7.07	7.03	6.86	10.16	8.42	15.20
9. Engineering	23.88	23.32	23.13	25.79	25.46	25.16	24.78	25.51	25.59	28.25	25.30
10. Food, Tobacco and Drinks	1.28	1.30	1.37	1.46	1.23	1.22	1.66	1.30	1.23	1.27	1.07
11. Investment Trust	2.92	2.76	3.08	3.50	3.31	3.18	3.55	3.70	3.14	2.74	2.36
12. Iron & Steel	9.10	8.72	8.32	5.25	4.94	4.76	4.88	5.22	4.33	5.29	3.95
13. Jute	2.16	2.02	1.59	1.62	1.28	1.27	1.14	1.25	1.21	1.54	1.14
14. Matches	0.36	0.34	0.34	0.34	0.32	0.31	0.70	0.64	0.62	0.51	0.39
15. Mining	0.30	0.26	0.25	0.25	0.23	0.22	0.20	0.18	0.15	0.18	0.09
16. Mineral Oil	0.63	0.45	0.27	0.26	0.30	0.29	0.26	0.24	0.20	0.17	0.13
17. Paper & Boards	3.81	4.20	4.15	4.28	4.12	4.22	3.90	4.00	4.01	4.04	3.45
18. Plantations	1.04	0.95	0.81	0.73	0.97	0.94	0.94	0.88	0.86	0.88	0.94
19. Railways	0.24	0.19	0.19	0.17	0.16	0.15	0.14	0.13	0.11	0.09	0.07
20. Rubber Productrs	3.05	4.17	4.11	4.00	3.79	3.83	3.56	3.86	3.75	3.88	2.76
21. Shipping & Transport	0.51	0.78	1.04	1.05	0.99	0.95	1.02	0.93	0.79	0.77	0.55
22. Sugar & Breweries	2.98	2.79	2.66	2.61	2.52	2.34	2.14	1.86	1.48	1.34	1.03
23. Textiles (other than cotton)	2.78	2.92	3.08	3.07	3.56	3.94	4.51	4.64	4.73	5.69	6.36
24. Vegetable oil	1.11	1.30	1.26	1.38	1.54	1.58	1.47	1.37	1.35	1.11	0.81
25. Miscellaneous	5.90	5.51	5.46	5.47	5.26	5.08	5.08	5.40	5.19	4.69	5.59
TOTAL (Rs. Crores)	255.66	274.58	288.83	296.70	314.77	329.12	360.75	396.62	466.75	566.54	738.58

Source: Annual Reports of the LIC for the years 1975-76 through 1985-86.

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On the basis of the above analysis we can conclude that the LIC's investments are heavily concentrated in large and well established companies. The LIC's Investments in 'Large groups' Large single undertakings and Dominant undertakings z for the year 1975-76 to 1985-86 have been shown in Table VIII.9.

Investments in Big Business Houses

The pattern of LIC's investments in the Big Business Houses indicates that Tata and Birla groups occupied dominant position in the investment portfolio of the LIC since its inception and the same pattern is continuing. The share of Tata group of undertakings, occupying first position as on 31st.March,1976, was 13.65 percent of the total investments in the private sector. The Birla group of undertakings occupied the second position with 7.8 percent of the total investments. The investments in Tata group indicated ~~as~~ an upward tendency (Went upto 14.85%) during the first three years of our period and thereafter began to decline and came down to 11. 27 percent as on 31st.March,1986. The percentage of investment in Birla group usually moved between 7.18 and 4.99. During 1985-86 it registered an unusual rise and shot upto 10.47% an almost 50% rise in a single year.

Some groups, notably Ashok Leyland, Singhania, Larsen & Toubro, Mahindra and Mahindra and Modi, offered better investment opportunities and LIC's share showed a rise in them. Conversely, Sri Ram, Soorajmull Nagarmull and X Walchand were not considered so good for the investment and registered a fall in their respective shares. The

TABLE VIII.9

Statement Showing The Distribution of LIC's Investments Among 'Large Groups' Large Single Undertakings And Dominant Undertakings.

Year	Total Investments in Pvt. sectors	Large groups (Rs. crores)	Other 'single large undertakings (Rs.Crs.)	Dominant undertakings Rs.crores	Others	Percentages to Total (Column 2)			
						Large groups	Single large under-takings	Dominant under-takings	Others
(1)	(2)	(3)	(4)	(5)	(6)	(7)	(8)	(9)	(10)
1975-76	311.70	166.07	18.94	6.57	120.12	53.28	6.08	2.11	38.5
1976-77	324.48	184.94	28.94	4.06	107.29	57.00	8.92	1.25	33.07
1977-78	348.98	201.47	32.89	4.45	110.17	57.73	9.43	1.27	31.47
1978-79	373.90	206.80	34.82	5.48	126.80	55.31	9.31	1.47	33.91
1979-80	434.78	229.82	41.48	4.50	158.98	52.86	9.54	1.04	36.57
1980-81	526.77	273.01	45.45	6.42	201.89	51.83	8.63	1.22	38.33
1981-82	667.65	320.58	80.48	6.03	260.56	49.81	12.06	0.90	37.23
1982-83	728.44	373.63	78.83	7.14	268.84	51.35	10.73	0.98	36.94
1983-84	737.57	431.12	100.85	4.78	200.82	58.45	12.67	0.65	27.11
1984-85	875.18	534.40	109.80	6.18	224.80	61.07	12.54	0.81	25.58
1985-86	968.72	673.16	97.11	6.29	192.16	69.49	10.02	0.65	19.84

Source: Compiled from LIC's Annual Reports for the years 1975-76 to 1985-86.

Notes - (i) 'Large Groups' of Industries represent the group Industries shown as 'Part A' in the LIC's Report. These Business Houses have a number of undertakings scattered throughout the country.

(ii) 'Other single undertakings represent the business houses whose assets having Rs. 20 crores or more.

(iii) 'Dominant undertakings' represent the business house which do not fall under the purview of groups.

(iv) Others represent the undertakings which do not figure in (i) to (iii) above.

(v) Items (i) to (iii) above are the groups or undertakings registered under section 26 of the M.R.T.P. Act, 1969.

remaining ten groups did not mark any appreciable variation in their slice of investment. The percentages of investment in Big Business Houses to Total Investments in the private sector (including joint sector) for the years 1975-76 to 1985-86 are given in Table VIII.10.

Composition of Investments in Large Undertakings

The Industrial undertakings registered under sections 26 of the Monopolies and Restricted Trade practices (M.R.T.P.) Act, 1969 receive financial assistance from the LIC through contribution to their equity and preference shares, debentures and extension of long and short-term loans. Composition of investments in large industrial undertakings registered under M.R.T.P. Act, 1969 indicates that debentures and long-term loans are receiving increasing importance in comparison to equity and preference shares in recent years. The total investments of the LIC in debentures and loans of large industrial undertakings as on 31st.March,1976 were Rs. 48.89 crores and Rs. 36.31 crores which rose to Rs.333.32 crores and Rs. 240.40 crores respectively as on 31st.March'86. Their corresponding percentages rose from 25.5 and 18.9 in the year 1975-76 to 42.9 and 31.0 in the year 1985-86.

However, investments in equity shares and preference shares suffered a remarkable setback during the same period. For instance, the total investment in equity shares of these undertakings as on 31st.March,1976 was Rs. 84.79 crores which rose to Rs. 192.02 crores x as on 31st.March,1986; but investment in equity shares to total investment in these undertakings slumped from 44.3 percent to 25.4 percent as

TABLE VIII.10

Statement Showing the Percentages of LIC's Investments in Some Big Business Houses As on 31st. March (In percentages).

Name of the Industrial houses	1975-76 1976	1976-1977	1977-1978	1978-1979	1979-1980	1980-1981	1981-1982	1982-1983	1983-1984	1984-1985	1985-1986
(1)	(2)	(3)	(4)	(5)	(6)	(7)	(8)	(9)	(10)	(11)	(12)
1. A.C.C.	2.96	2.84	2.41	2.01	1.60	1.35	2.24	1.96	2.64	2.86	2.29
2. Ashok Layland	0.73	0.77	0.72	0.67	0.62	0.53	0.49	0.99	0.97	2.25	2.44
3. Birla	7.08	7.00	6.30	5.66	5.03	5.43	4.99	5.16	6.10	7.18	10.47
4. Bangur	1.29	2.10	1.90	0.52	1.71	1.31	0.90	0.84	0.84	0.90	0.98
5. Bird Heilgers	0.09	0.70	0.84	0.78	0.56	0.44	0.33	0.37	0.36	0.30	0.24
6. Dunlop	1.38	1.42	1.39	1.26	1.09	0.99	0.83	1.10	1.01	1.26	1.02
7. Bajaj	0.59	0.52	1.49	0.67	0.48	0.42	0.47	0.38	0.44	0.78	0.69
8. I.C.I.	1.49	1.40	1.44	1.46	1.83	1.52	1.34	1.52	1.38	1.31	1.05
9. J.K.Singhania	1.39	1.80	1.91	1.78	2.03	2.14	2.38	2.13	2.38	2.20	1.93
10. Kirloskar	0.78	0.97	0.95	1.08	1.11	0.89	0.76	0.92	0.91	0.76	0.70
11. Larsen & Toubro	1.03	1.02	1.11	1.10	1.25	1.31	1.73	1.81	1.95	2.88	2.74
12. Mafatlal	1.74	1.66	1.43	1.21	1.30	1.40	1.42	1.36	1.67	2.33	2.05
13. Mahindra & Mahindra	1.10	0.97	1.75	1.51	1.64	1.57	1.22	1.56	1.90	2.21	1.99
14. Modi	0.46	1.24	1.27	1.12	1.05	0.96	0.78	0.68	0.79	1.37	2.87
15. Sahu Jam	-	0.10	0.97	0.08	0.37	0.06	0.12	0.11	0.11	0.04	0.44
16. Sri Ram	1.75	2.02	2.15	1.94	1.76	1.50	1.27	1.09	1.12	1.15	1.17
17. Surajmal Nagurmall	0.38	0.36	0.34	0.31	0.27	0.27	0.24	0.27	0.27	0.02	0.06
18. Tata	13.65	14.77	14.85	14.06	12.06	12.00	10.48	10.11	12.02	11.81	11.27
19. Thapar	0.77	0.83	0.83	0.74	1.42	1.85	1.49	1.41	1.43	1.37	1.31
20. Walchad	1.07	1.04	1.15	1.08	0.90	0.70	0.40	0.08	0.82	0.90	0.51
Total =	39.73	43.73	44.16	39.04	38.14	36.60	33.88	33.85	39.11	43.88	46.22

Source: Compiled from LIC's Annual Reports.

Notes: (i) All the Business Houses are registered under section 26 of the M.R.T.P.Act.,1966.
(ii) They have been selected on the basis of the volume of investment by L.I.C.

on 31st.March,1986. Investments in preference shares declined from 11.3 percent in 1975-76 to more 2.7 percent in the year 1985-86. The composition of total investments in Undertakings registered under section 26 of the M.R.T.P.Act, 1969, for the years under review is given in Table VIII.11.

LIC AND CORPORATE FINANCE:

The purpose of life insurance business is not to finance industry but essentially to invest the savings of policyholders acquired in exchange for promise to pay the policyholders and/or beneficieries a contracted sum either in later's life or upon death or happening of a certain event. The life insurance companies as financial institutions, differ from investment companies and unit trusts in respect of investment of their funds. Investment in case of life insurance companies is incidental to its nature of business to provide protection against risk covered by them whereas investment is the primary objective of investment companies and unit trusts[1]. The operational implication of this feature of insurance companies, is that they are guide d by the consideration for protecting the interest of the enormous policyholders x whose money they hold in trust for which reason their investment policy is closely regulated with reference to eligible investment for their portfolios.

The LIC is basically an investment institution and not a development bank, primarily x constituted to provide financial assistance to industries. The primary objective of the

1. Robins, S.M., Managing Securities, Oxford University Press, 1954, p. 426.

TABLE VIII.11

Statement Showing The Composition of Total Investments in Undertakings Registered under M.R.T.P. Act, 1969. (Rs. in crores).

Years as on 31st.March	Loans	Debentures	Pref. shares	Equity shares	Total
(1)	(2)	(3)	(4)	(5)	(6)
1976	36.31 (18.9)	48.89 (25.5)	21.60 (11.3)	84.79 (44.3)	191.59 (100.0)
1977	46.38 (21.3)	53.28 (24.5)	23.30 (10.7)	94.97 (43.5)	217.93(100.0)
1978	50.73 (21.2)	58.20 (24.4)	24.32 (10.2)	105.56 (44.2)	238.81(100.0)
1979	44.35 (18.0)	64.16 (26.0)	25.22 (10.2)	113.26 (45.8)	246.99(100.0)
1980	57.31 (20.8)	72.71 (26.4)	28.52 (10.3)	117.25 (42.5)	275.79(100.0)
1981	96.66 (29.7)	75.69 (23.3)	26.50 (8.2)	126.02 (38.8)	324.87(100.0)
1982	152.24 (36.3)	102.86(24.6)	27.64(6.6)	136.35(32.5)	419.09(100.0)
1983	161.23 (35.1)	124.02 (27.0)	26.34 (5.7)	148.02 (32.2)	459.61(100.0)
1984	180.46 (33.6)	173.28 (32.2)	27.82 (5.2)	156.09(29.0)	537.65(100.0)
1985	198.37 (30.5)	263.69 (40.5)	21.05 (3.2)	168.08 (25.8)	651.19(100.0)
1986	240.40 (31.0)	333.32 (42.9)	20.82 (2.7)	182.02 (23.4)	776.56 (100.0)

Source: Compiled and computed from LIC's Annual Reports for the years 1975-76 to 1985-86.

Notes; (i) Figures in the brackets represent percentage of Total Investment.

(ii) Loans include - both terms loans and short loans.

LIC is to spread the message of life insurance and in pursuance of attaining this goal, the LIC has to invest the amount received from policyholders in the form of premiums in the best interest of the latter according to guiding principles provided by the government. The general pattern of the investment of life insurance funds in India has undergone a marked change, particularly in recent years. The investment in corporate securities which presented a consistent improvement from 1.8 per cent in 1914 to 6.7 percent in 1939 and further, to 13.9 percent in 1949. The changes in the general pattern of the LIC investment can be shown in two ways. In the first place, the sector- wise investment of the LIC reveals that the share of the private sector(including the joint-sector)has steeply declined from 22.6 percent in 1956-57 to 18.3 percent in 1968-69 and as low as 11.6 percent in 1976-77. By the end of March,1986 it was 9.3 percent

"The LIC has reported to have been unable to make even the permissible 10 percent of its total investments in the private sector because of the lack of reasonably attractive investment opportunities and not due to statutory restrictions"[1].

The second aspect of the LIC investment pattern relates to its investments in various types of assets. The available data eloquently bear out the statement that the pattern has markedly changed in recent years. The sharp rise in proportion of resources flowing into housing and another welfare schemes of state governments and in electricity boards are

1. The Statesman, Calcutta, September 5, 1979.

noteworthy. Loans given by the LIC for these purposes formed about a quarter of its total assets in 1973 against only 10 percent in 1966. Loans to state electricity Boards alone amounted to as much as 10.5 percent of its total assets as on 31st.March, 1973. The share of such investments have tremendously increased specially during the period under our review by amendments in section 27-A of Insurance Act on the recommendations of Jagannathan Committee (1970), which inserted a new category of socially oriented sector in the portfolio investment of the LIC.

With higher percentage of resources going into the welfare schemes of the state governments, the proportion of resources going into corporate securities has sharply fallen from 16.5 percent in 1966 to 9.3 percent in 1985-86. The main reason, however, for this decline is modifications in the provisions of the investment policy introduced in 1975.

Capital Market Activity

The LIC extends financial assistance to corporate enterprises in the public and private sectors in the following manner:

(a) Subscribing to the shares and debentures/bonds of specialised financial institutions formed for providing financial assistance to the industries in the private sector.

(b) Providing direct financial assistance to industry through loans, and subscriptions to shares and debentures of such industry or by underwriting operations, &

(c) By purchasing shares and debentures of existing joint stock companies through industrial securities markets.

Before commencing our discussion for individual items of industrial finance by the LIC it is worthwhile to have an overall view of its capital market activity in financing the corporate sector. The outstanding investment in financing the industries as on 31st.March,1977 was Rs. 445 crores as compared to Rs. 75.30 crores and Rs. 219.60 crores in 1956-57 and 1966-67 respectively. At the end of March, 1986, the LIC's investment portfolios stood at Rs. 738.58 crores. The relative shares of holdings in the financial institutions was one-fifth of the total in 1976-77, which represented a more than three-fold increase over 1956-57. Similarly, direct loans to companies have recorded, massive increase from less than one percent in the year 1965-66 to 13.46 percent in the year 1985-86.

The corporate securities have declined in its relative importance consistently ever since the inception of the LIC. In 1956-57 as high as 94 percent of the LIC's investment in private sector (including joint-sector) was in the form of stock exchange securities. It came down to about 70 percent in 1975-76 and to 62 percent in 1985-86. It is evident that marked changes occured in modus operandi of the LIC as regards financing of private industry. The portfolios comprised mainly of corporate securities in 1956-57 but since then,upto 1965-66, the holdings in form of lending and subscriptions to the securities issued by the financial institutions have gained significant proportion which brought down the proportion of corporate securities of the private sector to a very low level.

Even within the present statutory control there is scope for the LIC to play a vital role in the Indian capital market. This can be done by establishing a well-knit institutional link between the LIC and other financial institutions engaged in providing financial assistance to industrial enterprises. Since LIC is not primarily an investment institution, it is not supposed to have enough facilities for evaluating and judging the industrial investment. If more funds are provided to the special financial institutions by the LIC, these institutions can perform the work of industrial financing in a better way. At present 4.2 percent (as on 31st.March, 1986) of Life Fund is envested in the securities of financial institutions. If it is increased to 10 to 15 percent the financial institutions will be provided with both more funds and a readier and fexible access to source of finance and this will solve the lack of link between them and ultimate source of savings of the community. This can be done by reducing the percentage of investment in the government securities from 50 percent to 40 percent as recommended by the Era Sezhiyan Committee (1980). Another advantage of such change is that since the securities of term-lending institutions are guaranteed by the government and they carry higher rate of interest they can be proved as alternative of straight govt. securities purchases.

Secondly, the LIC can expand its direct financing of industry through the financing of social overheads capital requirements - especially housing through mortgage debt.

Regardless of firms' profitability, the rents from the employees would make it possible to assume the mortgage debt and pay it off safely and rapidly over a period of time.

Finally, a broadening of definition of "approved securities" to include loans against policies for industrial purposes might have a stimulating effect on the development of small-scale industries in the country.

Financial Assistance to Special Financial Institutions

Besides direct financing to industry in private sector, the LIC also finances industry indirectly by investing into shares and bonds of special financial institutions - both state level as well as All India. This indirect industrial finance to the private sector was introduced by the LIC from its very inception and State Financial Corporations and Industrial Finance Corporation of India were the main beneficiaries. In 1956-57 the LIC had Rs. 0.76 crore as outstanding investment in the ICICI but from 1958 onwards it had no such holdings. Only after 1977-78, that is, after a gap of complete two decades, the LIC has again started subscribing to debentures issued by ICICI. The initial capital of the Unit Trust of India was subscribed by the LIC in the year 1964-65 when the former came into existence under a special Act passed by the Indian Parliament. LIC's indirect financing of industries broadened since 1974-75 when for the first time it started to subscribe to the bonds issued by the Industrial Development Bank of India. Thus, the LIC, provides funds indirectly for financing private sector industry through three

National Financial Institutions, viz., the Industrial Finance Corporation of India, the Unit Trust of India and the Industrial Development Bank of India and one state-level institutions, that is, the State Financial Corporations.

The aggregate amount invested by the LIC in this category was Rs. 528.24 crores (on 31.3.86) as compared to Rs. 4.6 crores in the year 1956-57. In terms of percentage, whereas in 1956-57, it was about 1.4 percent of the LIC's total investments, it went up gradually and in 1976-77 it almost doubled and reached to 2.6 percent. However, the percentage of investment in securities of financial institutions accounted for 4.3 percent of the total investment during 1985-86. A similar trend may be observed when the amount under this head is compared with the total assets and total Life fund of the Corporation.

A notable feature of the institution-wise break-up of investments is that upto mid-seventies of the total amount invested in the securities of financial institutions about 51.3 percent was in the State Financial Corporation followed by the Industrial Development Bank (40 percent). However, this trend was completely reversed in the first five years of eighties. The position in terms of percentage on 31st.March 1986, was as follows:- Industrial Development Bank of India 73.06% State Financial Corporations 17.7% and Industrial Finance Corporation 9.24%.

Direct Lending to Industry

Term-loan is the most important source of finance through which the LIC extends direct financial assistance to the private sector industry. Such loan-giving operations was introduced by the LIC for the first time in the year 1963-64. The cost escalation, especially in the recent years has put the industrial enterpreneurs into a very tight position. It has, really become a formidable task on the part of the promoters/management to raise such huge amount through private source. They, therefore, have been compelled to approach financial institutions including the LIC to raise their pressing needs of huge finance.

The most amount of loans given by the LIC to industry in the private sector is increasing year after year. During the first decade of its involvement in the loan-giving activities, it did not show any appreciable performance. But this gathered immense popularity, in course of time. The percentage of loans to total assets of the LIC was merely 0.2 (percent) in the year 1965-66. It, however, increased to 2.6 percent in 1979-80, an increase of 13 times.

This tremendous rise also seems due to LIC's endeavour to increase its yield on investment since the rate of interest on such loans and long term debenture was higher in comparison to equity dividend due to the then restrictions on equity dividend.

The total amount of outstanding loans and debentures, as on 31st.March,1976, was Rs. 85.20 crores (44.6 percent of the total investments in the private sector including equity and preference shares) whereas the same amounted to Rs. 376. 19 crores as on March 31, 1986, i.e. an increase of over 4.4 times during the study period. Investments in loans and debentures of companies to total investment in private sector increased from 44.5 percent in the year 1975-76 to 71.6 percent in the year 1984-85. This indicates that the term loans and debentures of public limited companies fit well in the LIC's investment portfolio.

LIC and Underwriting of New Capital Issues

The investments in the new issues, particularly in initial issues of new companies, carry on inherent risk of not yielding any return for a number of years and, in fact, such investments have a tendency to depreciate in value. The approach of the LIC in underwriting is that of an investor and not that of a catalytic agent to generate public subscriptions. It is said that the new issues market is the pasture for the stags who apply for shares in new issues in the expectation that they will be able to obtain a profit on the transactions as soon as the shares are quoted on the stock exchange. This is, however, not the attitude of the LIC, which is a genuine investor. It does not indulge in speculation nor does it take the advantage of temporary fluctuations in the market prices. It invests in long-term basis.

The LIC has become a dominant factor in the underwriting activities of new issues in the Indian Capital Market. The extent of its share in the underwriting of new issues during the period 1956-57 was about one-sixth of the total. It was certainly the single most important underwriter of corporate issues. During the period 1956-60 LIC's share in the total underwriting declined very sharply and it came down to 5.3%[1]. However, thereafter a marked improvement occured in the role of LIC and during 1961-66 its proportionate share sharply rose to 21.4 percent. This increasing rate of share was maintained during the subsequent period i.e. 1967-71, the actual share being 22.3 percent. However, since 1972 a major shift has come about in the LIC's underwriting operations, and its share in total underwriting came down to a mere 8.9%.

This is obviously the result of a decline in the relative importance of securities in the LIC's investment portfolio[2]. Increasing importance has been given to investment in the socially oriented schemes right from the early seventies. The LIC's underwriting operation is an adjunct to and is largely influence by its investment policy in joint-stock enterprises[3].

The concentration as well as the increasing pressure of continuously massive funds, combined with difficulty of acquiring sound securities in adequately large amount at reasonable prices from the second-hand market has led the LIC to go to new issue market in big way. The purchases of

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1. Khan, M.Y., 'Industrial Underwriting in India', Poona, March, 1977, p.56.
2. Khan, M.Y., Indian Financial System, op.cit.p. 97.
3. Khan, M.Y., New Market and Finance for Industries in India, 1978, p. 78.

new issues by LIC invariably takes the form of underwriting. The LIC, as already stated, always applies for the purchase of securities underwritten by it. From operational view point it implies that LIC would agree to underwrite only such issue which would fit in its portfolio investments. LIC is very selective in the field of underwriting of new issues. The restrictive nature of LIC behaviour also reflected in the small support to issues of new and small companies. The state-wise and industry-wise records are similarly indicative of similar conclusions. With regard to its underwriting operations in "group" issue, LIC's support has been more marked in "group" issues rather than "non-group" issues. In the recent years, however, there has been a change and the LIC is supporting "non-group" issues to a greater extent.

The underwriting operations of the LIC is no doubt, playing an important role in stimulating the industrial development of the country but most of the underwriting performed by it belongs to the financial institutions in the public sector. If we look into the pattern of underwriting operations, it is found that the debentures and bonds of SFCs Central Co-operative Land Development Banks, State Electricity Board/Corporations and bonds of All India Financial institutions dominate the underwriting operations of the LIC. The debentures and bonds of such financial institutions ranged between 43.6% to 65.9% of the total amount underwritten by the LIC during 1977-78.

The proportion of shares and debentures underwritten by the LIC in respect of public limited companies in the private sector was very insignificant; their shares in terms of percentage were 2 and 6 percent respectively, except in the year 1982 when the shares and debentures of public limited companies claimed as high as 22 percent of the total amount underwriting during that year. The share of the limited companies in the underwriting operations of the LIC during 1984-85 and 1985-86 was nil. Moreover, in most of the cases only debentures of the public limited companies were underwritten. The shares, either preference or equity were underwritten in rare cases. This is done to avoid the risk in the stability of earnings. The composition of underwriting operations of the LIC for the period under review have been shown in Table VIII.12.

Whatever, might be the quantum and areas of underwriting, the LIC has filled up a big vacuum in the field of underwriting. By underwriting the debentures and bonds of state level financial and other institutions, the LIC is playing a vital role in building up the infrastructure of the backward regions for industrial development.

Notwithstanding the above, the LIC is not playing its role in the promotion of corporate private sector directly. But by subscribing to debentures floated by All India Financial Institutions it is indirectly assisting the public limited companies because these in turn promote corporate sector of the Indian economy. The total amount underwritten along with the number of issues underwritten by the LIC during the period 1975-76 and 1985-86 have been shown in Table VIII.13.

TABLE VIII.12

Statement Showing the Composition of Underwriting Operations of The LIC
(Rs. in crores)

Year	Debentures and Bonds of State level institutions @	Bonds of All India Financial Institutions @@	Shares and Debentures of public Ltd.companies	Total
(1)	(2)	(3)	(4)	(5)
1975-76	43.68 (81.6)	5.08 (9.5)	4.77 (8.9)	53.52 (100.0)
1976-77	65.01 (86.0)	8.22 (10.9)	2.37 (3.1)	75.60 (100.0)
1977-78	61.17 (84.2)	8.25 (11.4)	3.22 (4.4)	72.64 (100.0)
1978-79	72.69 (77.0)	16.16 (17.1)	5.51 (5.9)	94.36 (100.0)
1979-80	52.06 (64.8)	26.08 (32.4)	2.30 (2.68)	80.44 (100.0)
1980-81	61.02 (69.5)	33.37 (34.7)	1.68 (1.8)	96.07 (100.0)
1981-82	10.96 (12.0)	60.17 (65.9)	20.20 (22.1)	91.33 (100.0)
1982-83	83.87 (53.5)	68.30 (43.6)	4.55 (2.9)	156.72 (100.0)
1983-84	63.48 (40.1)	89.00 (57.2)	2.90 (2.0)	155.38 (100.0)
1984-85	100.85 (47.5)	111.65 (52.5)	nil	212.50 (100.0)
1985-86	100.03 (44.35)	125.50 (55.65)	nil	225.53 (100.0)

Sources :- LIC's Annual Reports and Accounts for the years 1975-76 to 1985-86.

Notes:- Figures in the brackets against each amount in columns 2 to 4 indicate percentages of the total amount underwritten by the Corporation for that year.

(2) @ indicate debentures and Bonds of Central Co-Operative Land Devpt.Banks, State Financial Corporations, State Electricity Board/Corpn. and other Approved securities.

(3) @@ include Bonds of All India Financial Institutions, like - IDBI, IFICI,ICICI,etc.

TABLE VIII.13

Underwriting Operations of the LIC

Year	Total Amount underwritten (Rs. crores)	No. of issues written during the year	Placed in the market: Written during the year	Placed in the market: Written in the previous year
1975-76	54.02	107	88	19
1976-77	75.60	111	89	22
1977-78	74.33	102	75	27
1978-79	89.80	75	67	8
1979-80	80.44	60	53	7
1980-81	96.07	57	49	8
1981-82	92.46	78	70	8
1982-83	156.72	73	71	2
1983-84	155.38		63	nil
1984-85	212.50	80	80	nil
1985-86	225.53	78	78	nil
Total =	1,313.85	821	783	10

Source: LIC's Annual Reports and Accounts.

LIC'S ROLE IN INVESTEE COMPANIES - A CRITICAL REVIEW

The role of financial institutions providing finance to corporate sector has drawn the attention of the public to a great extent in recent years. This has come to create a lot of confusions and misunderstandings between the management of companies financed on the one hand, and the financial institutions providing such funds on the other. Although this issue does not fall directly within the scope of our present work, yet, the topic has gained an immense importance in the Indian press, it seems pertinent to include the same within the purview of our study. Moreover, this issue is directly connected with the investment policies of the LIC - especially in the corporate sector, the same deserves a mention in any work relating to investment policy.

Traditional Role

Notwithstanding, limitations on the investment of life insurance fund into particular company, the life insurers throughout the world hold a substantial holdings in a particular companies, of course such cases are very limited. In spite of substantial financial stake in the investee companies, the investing life insurance companies do not take same degree of interest in the management of the company as the ordinary shareholders do. According to traditional convention, the insurance companies try to keep themselves aloof from the management of the investee companies. However, in doing so, they indirectly keep close vigilance on the overall performance of the concerned companies. According to Brimmer

"Life insurance Companies have generally preferred to sell their holdings when the corporate performances fall short of expectations rather than engage in extensive efforts to reform or replace the existing management. While this behaviour might have left the less informed investors to bear the consequencies of managerial shortcomings, it has freed the insurance companies of possible investment in struggle for corporate control"[1].

However, at times, such behaviour becomes extremely difficult, if not impossible. "The unloading of any large stock of shares raises practical difficulties. Hence, the option to sell away the holdings may not be always available to institutional holders which will have to exercise willy-nilly effective control over the performance of the companies in order to safeguard its investments. In the new situation, resulting from the changes, the old institutional attitudes of keeping aloof from m management becomes illegical"[2]. Commenting on the passive role of the LIC in the management of the investee companies, the Industrial Licensing Policy Inquiry Committee observed "We do not understand why the government has agreed that inspite of the LIC having a substantial shareholders in the ICICI, it should not participate in the management. All state sponsored institutions should actively participate in the management of the investee ~~me~~ companies"[3].

1. Brimmer: Life Insurance Companies in Capital Market, Michigan State University, 1962, p. 363.
2. Gupta, L.C., LIC's Ind.Finance and Cort.Cont.Com.Bombay, Annual Number, 1974, p. 190.
3. Committees and Comm. in India, Vol.VIII,p.125,Quoting Indst. Lic.Policy Inquiry Comm.(1967) under the Chairmanship of Prof. Subimal Dutta.

According to M.Y. Khan, "the mere presence of such large institutional shareholder as LIC is bound to have the effect of promoting greater financial discipline among corporate management. Moreover, LIC has been using its voting power in various forms against the 'erring' management of some corporate enterprises, such intervention in corporate management is an integral part of the overall policy of the government of employing equity holdings of all public financial institutions for enlarging the role of state in management and control of corporate industry"[1].

Corporate control by LIC and other financial institutions depends mainly on the quantum of investments in the equity shares of a particular industrial enterprise. Dr.L.C.Gupta had conducted a survey on the pattern of equity holdings in the private sector. According to him, shareholding of companies in India is not widely diffused but is largely concentrated amongst a small group of individuals. Therefore, LIC's equity holdings below the top ten equity holders will be of insignificant size from the point of view of control. On analysis of returns by companies listed on Delhi stock exchange, we have found that more than 70% of the shares are held by the top ten share-holders in the years 1970 and 1974. This is further corroborated by another study covering the companies listed on Madras Stock Exchange"[2]. Though equity holding pattern has changed in recent years, the basic feature remains unchanged.

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1. Khan, M.Y., Industrial Finance, Tata Mcgraw Hill Publishing Company Ltd., 1982, p. 40.

2. Gupta, L.C., Corporate Management and Accountability, Macmillan, Madras, 1974, p. 32.

Role Under Changed Conditions

The role played by the LIC in the investee companies has gained importance in recent years. A tremendous change in the socio-economic conditions, increase in the volume of investments of financial institutions, introduction of converting loans and debentures into equities have necessiated a change in the role of LIC as a shareholder in investee companies. Making an observation on the present role of LIC in the Corporate Control, Dr. Gupta observed, "It is unfortunate that the considerations which have led to creation of such monolith were unrelated to considerations of economic efficiency. The institution itself has come to be viewed as levers of power over private sector firms, making the rate of return earned on investments as irrelevance"[1].

The following main reasons can be attributed to the change in the behaviour of corporate control by the financial institutions.

A substantial increase in the volume of investible funds at the command of LIC has compelled it to invest more and more funds in the public limited companies. Earlier a passive role with indirect control of the management of investee companies was sufficient to safeguard its interest.

Secondly, most of the shareholders of a company are quite unaware and uninterested in its performance[2]. Hence, taking in view the public ownership and size of its holdings,

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1. Gupta, L.C., Rates of Return ~~of~~ on Equities - The Indian Experience, Oxford University Press, 1981, p. 141.

2. Bhide, M.R., LIC as Shareholder, Commerce, Bombay, Annual Number, 1969, p. 102.

the LIC has to accept wider responsibility not only towards its own interest but also towards the interest of numerous unaware and scattered shareholders of x such companies. Hence it has to act as a watchdog of the joint-stock enterprise in the country.

Thirdly, when investment turns out to be bad or subsequent discovery of unsound health of the company throws responsibility on the LIC for remedial measures. This can be checked to a great extent by active participation in management.

Fourthly, through instructions the Central Government has directed financial institutions including LIC to take an active part in the management of the financed companies to safeguard its own interest as well as of passive shareholders in general. A radical change took place in the early x seventies in the attitude of public financial institutions in this respect which requires the public financial institutions to take an active part in management.

Fifthly, an active participation in management by the financial institutions like LIC is bound to make the management of the company concerned vigilent and alert. The cases where the management is found lacking in its performance will not be able to survive the heavy pressure exerted by the LIC on such management for safety of the former's capital invested in such companies[1].

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1. Parekh, Future of Joint Stock Enterprise in India, Bombay, 1958, p. 190.

Sixthly, the Industrial Licencing Policy Inquiry Committee (ILPIC) has been very critical of the laissess-faire role of the LIC pursuant to the policy directive of the government that the LIC should not acquire control or participate in the management of any concern in which it has interest unless exceptional circumstances warrant such participation. The Committee stated that the policy of not intereforing with the management of the concern in which it holds equity and usually not even appointing directors on the Board, has made the LIC a sleeping partner for the management of the concerns[1].

Emphasising on the effective control by the financial institutions, the Industrial Licensing Policy Inquiry Committee, further pointed out that the idea of non-participation in the management of financed companies by the State and the Financial institutions should be 'firmly' set aside and direct participation should be made by the LIC and the UTI. According to the Committee, "This would ensure that the management of industry is conducted according to the policies laid down by the government and that public interest and not merely private profit would guide the operations of the large industrial undertakings in the private sector[2].

Problems and Complications

The reasons given for active participation in the management are, no doubt, reasonable, logical and impressive. (However, certain practical difficulties and complications

1. G.O.I. Report of the Industrial Licensing Policy Inquiry Committee (Main Report), p. 180.

2. Ibid, p. 187.

arise in the implementation of such high sounding principles and policies due to division of Indian economy into two distinct sectors - public and private). The overall idea behind active participation in management by the institutional investors is no doubt, to create the healthy atmosphere in the joint stock enterprises in India and, to make the management more efficient on the lines of prudent business and commercial policies which in turn will serve the interest of the nation as whole. However, certain difficulties and problems crop-up in implementing of these policies. Some of the practical difficulties faced by the investors may briefly be enumerated as follows:-

1) <u>Lack of Directors:-</u> The LIC has its holdings in several hundred private sector companies. It is, therefore, a formidable task before the LIC to find professionals in such a large number to act on the Boards of the companies concerned. There is almost near-complete dearth of such managerial talents to manage the affairs of large number of existing as well as the forthcoming industrial enterprises under different developmental programmes.

2) <u>Low Remuneration:-</u> The remuneration and other perquisites offered to nominated directors by the LIC (as well as other financial institutions) is comparatively so low that no management specialists is willing to accept such f offers.

3) <u>Quality and Integrety of Directors:-</u> Inducting somebody or anybody into directorship of a company will not serve the purpose for which he is appointed. Before appointing a person as director it has to be seen that he is well

conversant and equipped for the job. If this is not done, x the person so appointed, instead of serving the interest of the investor may hold-up important decision and even misutiliese his power for his own vested interests[1]. Apart from the personal qualities of the director there is a question of quality of interest of such director which may breed various questions relating to legality and morality especially of trading by 'insiders'[2].

3) Legal Bindings on Directors:- The finduciary position of such directors raises a basic question that whose interest these directors are supposed to safeguard? Obviously, these directors are supposed to serve the interest of the appointing authority, LIC. However, the companies Act does not make any distinction between one director and the other. Thus, they have to work in the best interest of the company as a whole.

4) Conflict of Interests:- The very formation of two-tier Boards of Directors one group of them elected by the general shareholders of the company and the other nominated by the LIC is bound to bring conflicts between two groups on one issue or the other. The former group will be interested in the overall interest of the company whereas the later group will mainly be interested to protect the interest of their - nominator. This in term will adversely affect the performance of the company. The ESCORTS Ltd.'s

1. Paranjape, Analysis of Dutt Committee Report, Economic Times, March 4, 1970.

2. LOUIS LOSS, "The Fiduciary concept as Applied to Trading by the Corporate Insiders in the U.S.A. The Modern Law Review, January, 1970.

case is one of the most striking example in recent history where the LIC and the management of the ESCORTS had to fight a legal battle for their own rights in High Court and Supreme Court for about three years jeopardising the interest of the company a s a whole.

5) <u>Fear Psychosis of Investee Company:-</u> The management of the companies, in the private sector does not relishe even the idea of sharing policy making process with the LIC nominees. They always apprehend intervention and such direct interference, a ccording to them it is a backdoor nationalisation. They are always afraid of leakage of certain important information by nominee directors which may adversely affect the future programmes of the investee companies. Following the Bombay High court judgement in Escorts VS Union of India (LIC) case, the Escorts and D.C.M. suffered a sharp set-back on the Delhi Stock Market on March 16, 1984[1].

Another notworthy instance of LIC's active intervention in managerial affairs is in the Punjab National Bank Ltd. In this case the LIC forced the management of the company, whose banking business was taken over by the govt. to revise upwards distribution to the shareholders out of the compensation moneys received on nationalisation of the banking business. The LIC's own equity holdings in this particular case was only about 6% of the company's total equity[2].

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1. Data India, March 19-25, 1984, p. 135.
2. Gupta, L.C., LIC's Industrial Finance and Corporate Control Commerce, Bombay, Annual Number, 1974, p. 193.

After going through the prospects and difficulties of direct and active participation some ways and means have to be found out which are acceptable to both - investors and the investee companies. Framing law on the paper is one thing and its implementation in practice is another. Everything enforced by the statute cannot be practicable. Hence, the framers of such laws must have a forehand knowledge about the difficulties which will crop-up in the implementation of such rules. T his short sightedness is the main root of all conflicts going around in almost all affairs of the economy. It is a direct confrontation between the ideologies, the public sector, famous for its inefficiency and private sector known for its profit motive.

A sharp decline in the investment to private sector by the LIC in recent years is mainly due to the conflict of interests on the issue of direct participation. The number of companies financed by the LIC in the private sector did not show any appreciative increase during the period under review. For instance, the total number of companies financed by the Corporation was 249 as on 31st.March,1976 which remained at 315 at the decade ending March, 1985. This indicates that x either the LIC is not willing to invest in larger number of companies to avoid the complications or the industrial interprises are not approaching the Corporation for fear of direct control over their management. Some recent incidents confirm this view. Such attitudes of both the parties are not appreciable at all, in view of the progress of the nation.

Hence, some measures for future action to solve this complication may be suggested. They are: (a) A slow beginning to start with in the companies where the interest of the LIC is not substantial. In such cases instead of direct intervention, the LIC should keep a continued observation and ~~zz~~ vigilance on the companie's managerial performance through different reports, returns, frequent ~~supervisnnstzz~~ etc.
(b) The LIC should maintain a liason with other financial institutions engaged in industrial finance and possibly by forming a consortium with them since these institutions have better appraisal machinery and close contact with companies. (c) the LIC should maintain a continuous contact with the Indian Company Law Board which can according to powers vested in it under section 408 of the Companies Act, 1956, indirectly appoint directors on such erring companies. (d) Instead of taking direct control of the Board, the LIC should take increasing interest in the election of the members of the Board of Directors - especially chairman and Managing Directors. This would help the LIC to have an indirect control over the affairs of the company. (e) In cases, where the LIC's investments is subtantial and the performances of the companies are not according to expection inspite of its indirect ~~zz~~ endeavour, the LIC should exercise its power of nominating directors on the Boards of such erring companies. (f) Finally, the LIC should pay special attention on the professionalism in the management of companies concerned.

Does the Present Investment Policy of LIC Best Serve The Interests of Policy Holders?

The massive funds under the command of the LIC belong to the policyholders. Therefore, the Corporation, must deal with these accumulated funds in the capacity of a trustee on behalf of its policyholders. This implies that the fundamental objective which should govern the investment policy of such funds be framed in such a manner that it should earn maximum return along with safety of capital. The government and the LIC agree on it by committing that "its primary obligation is x to its policyholders whose maney it holds in trust"[1].

The LIC, as a trustee of funds of the policyholders, is supposed not only to guarantee the safety of funds but also to earn maximum return on its investment to reduce the cost of insurance. The effort to increase rate of return becomes all the more important when it is known that an increase in the rate of interest yield by 1 to 1.5 percent on its investment would reduce premium rates by 16 to 20 percent on Endowment Assurance and by 20 to 30 percent on Whole Life Policy. However, the LIC "does not seem to be actually concious of its responsibility to act in the spirit of a trustee for the policyholders and has failed to show the same degree of concern and solicitude for the interest of the policyholders in the management of their funds as a trustee

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1. Finance Minister Statement in Parliament on 25 August, 1958, in the post Mundhra - episode clarifying Govt.'s stand on Invesment policy of the LIC.

should normally do"[1]. Unfortunately, the above stricture made by the A.R.C. about 18 years ago still holds good. Our sad observation can be proved by comparing the net rate of yield earned by the LIC and other media fx of savings. The net yield on LIC investments increased from 7.13 percent in the year 1976-77 to 9.87 percent in the year 1985-86. These figures are considerably lower as compared to yield on other savings media like U.T.I. postal savings deposits etc.

The importance of adequate yield to policyholders cannot be over-emphasised. With such woefully low return LIC cannot expect to become the most attractive xxx savings medium of the country. This goal can be achieved only by its judicious investment policy which would guarantee maximum yield on its investments.

The LIC is a 'captive investor'. It is, its seems subjected to pressure by the government which takes away a big slice of its assets in addition to that portfolio which it is statutorily required to invest with it. An instance is investment of Rs. 262.56 crores in loans and deposits to/or guaranteed by the government for which there is no statutory obligation at rates of return which are 2 to 3% less than the rates obtainable on other available investments e.g. loans on mortgages and corporate securities. No body would oppose this investment but the loss of interest on it is certainly a matter of concern. Why should the

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1. Administratial Reforms Commission: Working Group on Life Insurance Administration, Report, 1968, p. 83.

Corporation not charge market rate on such loans and deposits when it is expected to function on commercial lines is not quite understandable.

Financing of developmental plans of the country is one of the important objectives of nationalisation. Government would normally require Corporation's finance for various plan schemes but as a consequence it must not allow commercial interests of the organisation to suffer. The Administrative Reforms Commission Working Group was constrained to observe as follows[1].

"We feel that the Corporation should not have been treated by the Government as a milch-cow. . . . . to the determent of the interests of policyholders".

"To expect the Corporation to secure the best interest of the policyholders primarily and promote life insurance in India and at the same time deprive it of higher income, which it could have otherwise earned had it not been for statutory limitations and/or indirect compulsions is tantamount to starving the hen that is expected to lay golden eggs".

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1. A.R.C. Working Group Report, op. cit., p. 157.