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INVESTMENTS PATTERN OF INSURANCE COMPANIES IN SOCIAL AND INFRASTRUCTURAL SECTOR OF THE INDIAN ECONOMY

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ABSTRACT:
Life Insurance Corporation of India (LIC) was formed in September, 1956 by an Act of Parliament, viz., Life Insurance Corporation Act, 1956, with capital contribution from the Government of India. The then Finance Minister, Shri C.O. Oeshmukh, while piloting the bill, outlined the objectives of LIC thus: to conduct the business with the utmost economy, in a spirit of trusteeship; to charge premium no higher than warranted by strict actuarial considerations; to invest the funds for obtaining maximum yield for the policy holders consistent with safety of the capital; to render prompt and efficient service to policy holders, thereby making Insurance widely popular.
Key words*:* LIC, insurance business

INTRODUCTION

The insurance sector has a vast potential not only because incomes are increasing and assets are expanding but also because the volatility in the system is increasing. In a sense, we are living in a more risky world. Trade is becoming increasingly global. Technologies are changing and getting replaced at a faster rate. In this more uncertain world, for which enough evidence is available in the recent period, insurance will have an important role to play in reducing the risk burden individuals and businesses have to bear. In the emerging scenario, the insurance industry must pay attention to (a) product innovation, (b) appropriate pricing, and (c) speedy settlement of claims. The approach to insurance must be in tune with the changing times. The mission of the insurance sector in India should be to extend the insurance coverage over a larger section of the population and a wider segment of activities. The three guiding principles of the industry must be to charge premium no higher than what is warranted by strict actuarial considerations, to invest the funds for obtaining maximum yield for the policy holders consistent with the safety of capital and to render efficient and prompt service to policy holders. With imaginative corporate planning and an abiding commitment to improved service, the mission of widening the spread of insurance can be achieved.

Different studies suggests that insurance policies are not merely contracts but also are designed to perform particular risk management, deterrence, and compensation functions important to economic and social ordering. Recognizing this fact has significant implications regarding the manner in which insurance policies are construed in coverage disputes. From this insight flow interpretative consequences suggesting that policy construction can be improved by not only performing traditional contract analysis of disputed policies but also appreciating the particular function of the insurance policy in question as part of the insurance product's larger role as a social and economic instrument or institution. Applying this broader analysis, the Article examines in some detail the longstanding and frequently litigated issue of how many "occurrences" have taken place within the meaning of liability insurance, as well as examining issues of "business risk," "accidental" events, liquor liability exclusions, claims for inherent diminished value of vehicles involved in automobile collisions, trigger of coverage, and the workers' compensation implications of post-injury suicide. Appreciating the social instrument status of insurance vindicates some judicial decisions while exposing the shortcomings of others.

Long gone is the day when contracts were individualized agreements, negotiated separately through personal interaction between the principals. Almost forty years have passed since Professor Slawson famously observed that 99 percent of the contracts in use were in fact standard form contracts rather than customized agreements reached after significant bargaining. This fact is widely recognized, but legal scholars still debate the empirical or normative consequences of this development. Recognition of the absence of particularized bargaining over contract terms should logically impact judicial approaches to standardized contracts used en masse.

One scholar posits that insurance coverage decisions have, if anything, become more classical in their contractarian approach, observing that “Insurance case law is increasingly marked by judicial reliance on the principle of freedom of contract. In recent years, courts have been inclined to enforce insurance policies as written ... and the result [is] that the insurance company typically prevails.”

In the aftermath of Robert Keeton’s famous reasonable expectations articles and cases adopting the doctrine, insurance scholars noted the product-like aspects of insurance policies but did not develop the concept of insurance policies as products at length. Interpretative approach to the construction and application of insurance policies. In addition to functioning as contracts, products, and statutes, insurance policies exist as social institutions or social instruments that serve important, particularized functions in modern society—often acting as adjunct arms of governance and reflecting social and commercial norms. Appreciating this aspect of insurance policies can better inform courts in assessing the meaning of disputed policies and improve insurance coverage litigation outcomes.

Insurance policies serve a function in the social ordering of personal and economic activity. Although this statement is perhaps true for any contract, commonly sold insurance policies are particularly important in that they serve as part of the infrastructure by which such activity is conducted, at least in the United States and other industrialized countries. Although the activity involved could, in theory, be conducted in the absence of insurance—and to a significant extent is conducted without insurance in less developed countries—insurance is integral to business and social activities and practically necessary to modern industrial society. Anyone needing a mortgage to buy a home, for example, is practically required to purchase homeowners insurance, at least in an amount equal to or greater than the lender’s financial exposure.

Economic policy reforms started during late eighties and speeded up in nineties are the context in which liberalization of insurance sector happened in India. It was very obvious that the liberalization of the real (productive) and financial sector of the economy has to go hand in hand. It is imperative that these sectors are consistent with policies of each other and unless both function efficiently and are in equilibrium, it would be difficult to ensure appropriate economic growth. Given these facts liberalization of both sectors has to proceed simultaneously.

Indian economic system has been developed on paradigm of mixed economy in which public and private enterprises co-exist. The past strategies of development based on socialistic thinking were focusing on the premise of restrictions, regulations and control and less on incentives and market driven forces. This affected the development process in the country in serious way. After the economic liberalization the paradigm changed from central planning, command and control to market driven development. Deregulation, decontrol, privatization, delicensing, globalization became the key strategies to implement the new framework and encourage competition. The social sectors did not remain unaffected by this change. The control of government expenditure, which became a key tool to manage fiscal deficits in early 1990s, affected the social sector spending in major way. The unintended consequences of controlling the fiscal deficits have been reduction in capital expenditure and non-salary component of many social sector programmes. This has led to severe resource constraints in the health sector in respect of non-salary expenditure and this has affected the capacity and credibility of the government health care system to deliver good quality care over the years. Given the increasing salaries, lack of effective monitoring and lack of incentives to provide good quality services the provides in the government sector became indifferent to the clients. Clients also did not demand good quality and better access, as government services were free of cost.

Another imperative for liberalization of the insurance sector was the need for long-term financial resources on sustainable basis for the development of infrastructure sector such as roads, transports etc. It was realized that during the course of economic liberalization, the funds to development the infrastructure also became a major constraint. Country certainly needed infrastructure development. For this the finances are major constraint. In these investments the benefits are more social than private. The major concern was how these finances can be made available at low costs. In past the development of social sector were financed using government channeled funds through various semi-government financial institutions. Under the liberalized economy this may not be possible. One hope is that if the insurance sector develops rapidly under privatization then it can provide long-term finance to the infrastructure sector. The financial sector, which consists of banks, financial institutions, insurance companies, provident funds schemes, mutual funds were all under government control. There was less competition across these units. As a result these institutions remained significantly less developed in their approach and management. Insurance sector has been most affected by the government controls. Government had significant control on the policies these insurance companies could offer and utilization of the resources mobilized by insurance companies. One can see that most of the insurance products (e.g., life insurance products) were promoted as mechanisms to improve the savings and tax shelters rather as risk coverage instruments. Other segments of the insurance products grew because of the statutory obligations (e.g., Motor Vehicle, Marine and Fire) under various acts. The management and organization of insurance sector companies remained less developed and they neglected new product development and marketing. Thus one of the hopes in opening of the insurance sector was that the private and foreign companies would rapidly develop the sector and improve coverage of the population with insurance using new products and better management.

Last imperative for opening of the insurance sector was signing the WTO India. After this there was little choice but to open the entire financial sector - including insurance sector to private and foreign investors. (Dholakia 1999).

HEALTH INSURANCE SCENE IN INDIA

In India it has limited experience of health insurance. Given that government has liberalized the insurance industry, health insurance is going to develop rapidly in future. The challenge is to see that it benefits the poor and the weak in terms of better coverage and health services at lower costs without the negative aspects of cost increase and over use of procedures and technology in provision of health care. The experience from other places suggest that if health insurance is left to the private market it will only cover those which have substantial ability to pay leaving out the poor and making them more vulnerable. Hence India should proactively make efforts to develop Social Health Insurance patterned after the German model where there is universal coverage, equal access to all and cost controlling measures such as prospective per capita payment to providers. Given that India does not have large organized sector employment the only option for such social health insurance is to develop it through co-operatives, associations and unions. The existing health insurance programmes such as ESIS and Mediclaim also need substantial reforms to make them more efficient and socially useful. Government should catalyze and guide development of such social health insurance in India. Researchers and donors should support such development.

INDIAN INSURANCE IN THE GLOBAL SCENARIO

In life insurance business, India ranked 9th among the 156 countries for which data are published by Swiss Re. During 2014, the life insurance premium in India grew by 12.1 per cent (inflation adjusted). However, during the same period, the global life insurance premium had contracted by 2.2 per cent. The share of Indian life insurance sector in global market was 2.95 per cent during 2014, as against 1.98 per cent in 2013.

The non-life insurance sector witnessed a marginal growth of 1.91 per cent during 2013. However, its performance was better when compared to global non-life premium, which contracted by 0.1 per cent during the same period. The share of Indian non-life insurance premium in global non-life insurance premium remained very low at 0.46 per cent and India ranked 26th in global non-life insurance premium.

Insurance penetration in select countries - 2013

TABLE 1

INSURANCE PENETRATION AND DENSITY IN INDIA

Year	Life		Non-Life		Industry	
	Density (USD)	Density (USD)	Density (USD)	Penetration (%age)	Penetration (%age)	Penetration (%age)
2005	9.1	2.15	2.4	0.56	11.5	2.71
2006	11.7	2.59	3.0	0.67	14.7	3.26
2007	12.9	2.26	3.5	0.62	16.4	2.88
2008	15.7	2.53	4.0	0.64	19.7	3.17
2009	18.3	2.53	4.4	0.61	22.7	3.14
2010	33.2	4.10	5.2	0.60	38.4	4.80
2011	40.4	4.00	6.2	0.60	46.6	4.70
2012	41.2	4.00	6.2	0.60	47.4	4.60
2013	47.7	4.60	6.7	0.60	54.3	5.20
2014	48.2	4.62	6.8	0.62	54.6	5.23
2015	48.5	4.74	6.9	0.70	55.3	5.35
2016	48.6	4.76	6.9	0.71	55.4	5.36

Source: Swiss Re, Various Issues.

The insurance density of life insurance sector had gone up from USD 9.1 in 2005 to USD 48.6 in 2016. Similarly, insurance penetration of life sector had gone up from 2.15 per cent in 2005 to 4.76 per cent in 2016.

The penetration of non-life insurance sector in the country remains near-constant for the last 11 years at around 0.60 per cent. However, there is a marginal increase in density, which has increased from USD 2.4 in 2005 to USD 6.9 in 2016.

Non-Life Insurance

As on 31st March, 2016 there are 26 general insurance companies, which have been granted registration for carrying out non-life insurance business in the country. Of these, six are in public sector and the rest are in private sector. Among the public sector companies, there are two specialised insurance companies: one for credit insurance (ECGC) and the other for crop insurance (AIC). Out of the 17 private sector companies, two have been granted licence during 2015-16. The business growth figures in the following paragraphs excludes specialised and three standalone health insurance companies.

Premium

The non-life insurance industry underwrote a total premium of 34,620 crore in 2013-14 as against 30,351 crore in 2012-13 (Table 2) registering a growth of 14.06 per cent as against an increase of 9.09 per cent recorded in the previous year. The public sector insurers exhibited an impressive growth in 2013-14 at 14.49 per cent; more than twice the previous year’s growth rate in 2012-13 at 7.12 per cent.

TABLE 2
GROSS DIRECT PREMIUM INCOME IN INDIA: NON-LIFE INSURERS
(Rs. crore)

Insurer	2014-15	2015-16
Public	18030.74 (7.12)	20643.45 (14.49)
Private	12321.09 (12.09)	13977.00 (13.44)
Total	**30351.83** (9.09)	**34620.45** (14.06)

Note: Figure in brackets indicates growth over previous year (in per cent).

The premium underwritten by 13 private sector insurers in 2015-16 was 13,977 crore as against 12,321 crore in 2014-15.
The above table also explains that total collection of public and private sector's insurance has been represented which is increasingly rapidly. It again represents positive contribution of Indian insurance industry in economic development.

INVESTMENT BY THE INSURERS FOR THE WELFARE OF THE SOCIETY

The Corporation has deployed the funds to the best advantage of the policyholders as well as the community as a whole, true to the spirit of nationalisation. National priorities and obligation of reasonable returns to the policy holders are the main criteria of our investments. The total funds, so invested for the benefit of the community at large have accumulated to Rs.321753.53 crore as at 31st March, 2004 after meeting the liabilities towards the claims, management and other expenses, registering an accretion of Rs.48384.41 crore during the year 2003-2004. The investment of the Corporation's funds is governed by Section 27A of the Insurance Act, 1938, subsequent guidelines/instructions issued there under by the government of India from time to time, and the IRDA by way of regulations. As per the prescribed investment pattern approved by the I R D A. the controlled funds are invested as follows: -

Not less than 50% is invested in government securities or other approved Investments.
Not less than 15% is invested in infrastructural and social sector Investments,
Not exceeding 20% in others to be governed by exposure prudential norms.
Not exceeding 15% is invested in investments other than approved investments. The total investment made by LIC in the socially oriented sector including investment in central/state government securities and government guaranteed marketable securities up to 31st March, 2004 amounted to Rs.256105 crore.

BETTER HEALTH, MORE POWER AND HOUSES TO MASSES

The LIC has been actively involved in nation-building activities. It has been promoting social welfare through socially oriented investments. These investments are regulated by the government from time to time to benefit the people at large by providing basic amenities like potable water, drainage, housing, electrification and transport.

Under the Corporation's scheme of providing financial assistance for piped water supply and drainage schemes, 63 urban/local bodies in 5 States and the Union Territory of Chandigarh have benefited during the year. In addition, 1448 Schemes in 2 states have also received financial assistance from the Corporation for rural piped water supply schemes during the year. The investment in this sector up to 31st March, 2004 was Rs.7111 crore. (Including Investment in Irrigation) The Corporation also provides financial assistance to state electricity boards/power corporations for power generation projects by way of loans/subscriptions to their bonds. The Corporation's investment of Rs.21217 crore up to 31st March, 2004 in the power sector makes the Corporation the largest single contributing factor in the progress of electrification schemes in the country.

Housing is one of the basic necessities of human beings. Housing finance, therefore, occupies a prime place in the Corporation's socio-purposive investments. Since inception, the Corporation has been providing finance for housing to individuals, co-operative housing societies and private undertakings under its various mortgage housing schemes. With a view to solving the housing shortage in the country, the Corporation joined in a big way in the massive effort by providing financial assistance to state governments for social housing schemes for economically weaker sections, low income groups, middle income groups, state government employees and rural population. The Corporation has also been extending financial assistance to state level apex co-operative housing finance societies, the benefits of which are passed on to individuals through primary societies. Besides, the Corporation is providing finances by way of subscribing to bonds of housing finance institutions like Housing Development Finance Corporation, Housing and Urban Development Corporation, and National Housing Bank etc. The total contribution of the Corporation up to 31st March, 2004 to housing development activities by way of loans/bonds to state governments, state-level apex societies, HDFC, HUDCO, NHB, LIC HFL etc. and loans under mortgage housing schemes amounted to Rs.20694 crore.

The Corporation has been assisting development of road transport by providing financial assistance to State Road Transport Corporations for augmenting their fleet of buses. The total investment in this sector up to 31st March, 2004 was Rs.1373 crore.

In 1997-98, the scope of the socially oriented sector has also been widened to accommodate infrastructure projects both in the public and the private sectors pertaining to ports, railways (BOLT Projects), roads, highways. The total investment in this sector up to 31 st March, 2004 was Rs. 1272 crore.

LIC PENSION FUND LTD.

Government of India has introduced New Pension System (NPS) for the employees of Central Government Employees (excluding Defence Services) who have joined services with effect from 1st January 2004. Subsequently, 22 State Governments have joined the NPS. New Pension System has also been opened to all citizens of India with effect from 1st May 2013, is sponsored by Life Insurance Corporation of India, and incorporated on 21.11.2011 under Companies Act, 1950 s a Public Ltd. Company certified by Registrar of Companies Maharashtra on 8.1.2012. Authorized of the Company is Rs. 25 crores and Paid up capital is Rs. 15 crores.

Funds inflow: NPS Trust allotted 5% Pension Funds of Central Govt. Employees during 2012-13 which increased to 29% during 2013-14. State government also followed the same pattern of allocation. During the first year i.e. from 1-04-2012 to 31-03-2013, LIC Pension Fund received an amount of Rs. 101.61 crores towards Central Government pension funds. During the year 1-04-2013 to 31-03-2014 LIC Pension Fund received Rs. 538.07 crores of Central Government pension funds and Rs. 48.83 crores of State Government pension funds. Therefore, by 31st March 2014, total funds assets were Rs. 688.51 crores. .

Investment portfolio of LIC Pension Fund is basically debt oriented, 85% are to be invested in debt instruments, up to 15% in equity and/ or equity related mutual funds schemes and up to 5% Money Market Instruments. The net asset value of Central Government scheme as on 31st March 2016 was Rs. 12.3524 and that of State Government scheme was Rs. 10.6027. An annualized return for Central Government funds was 11.7620% and that of State Government funds was 7.8566% by 31st March 2016.

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