

Impact Of LIC In Socio-Economic Development Of India

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Abstract

The Indian economic development got a boost through its Economic reforms in 1991 and again through its renewal in the 2000. Insurance serves a number of valuable economic functions that are largely distinct from other types of financial intermediaries. Insurance contribution materially to economic growth by improving the investment climate and promoting a more efficient mix of activities then would be undertaken, in the absence of risk management instrument. Insurance sector in India is one of the most booming sectors of the economy and is growing at the rate of 15-20 percent per annum. In India, insurance is a flourishing industry, with several national and international players competing with each others and growing at rapid rates. Indian insurance companies offer a comprehensive range of insurance plans, a range that is growing as the economy matures and the wealth of the middle classes increases. The economy of India is the eleventh largest in the world by nominal GDP and the fourth largest by Purchasing Power Parity (PPP).

Keywords: Economic reform, Investment, GDP.

Introduction

Most of the nation in this world, in one form or the other claim themselves as welfare states and have instituted certain measures for welfare of weaker sections of their respective societies— whether socially or financially or physically. In advanced countries with affluent economics, Government are playing for better role in providing “Social Security” to individuals designed to protect them against certain type of economic insecurity, which neither individuals nor private insurance companies can afford. The programs which initially started for employees (initially for military service men) were then extended to employees another sector and in many developed countries are now extended to general population and (hence universal in nature). The scope also, over decades, has been expanded to cover old age, disability, survivors (on death), health insurance, and unemployment and workers compensation on mishaps related to employment. Thus a term with wider purport is used to cover these benefits, viz “SOCIAL SECURITY”.

Social security has emerged as a macro measure or public welfare, for quite a number decade’s economists and sociologists have been recommending some universal system of medical care to be operated by government or its agencies. Normally families putting considerable strain on

their resources and time undertook the care of elder, sick people and disabled. It was felt that if states share this burden, it would free the individual from this and enable them to more productive work, which in turn will be beneficial to the state. Further state participation in such programs will bring down inequalities in the society—inequalities being major cause for social unrest.

One of the objectives of nationalization of life insurance industry was channelization of its funds benefit of the community at large. Life insurance combines two elements simultaneously: one, it provides protection against risks and the other is the element of investment. Its primary obligation is towards its policyholders as well as the community at large. While investing the funds, which are held in trust, the LIC has to keep in view the national priorities on the one hand and the obligation of reasonable returns to the insurers on the other. Investment should be spread over the widest possible range in order to secure advantages of favorable and minimize the disadvantage of unfavorable investment climate in the country. It has been the constant endeavor of the corporation to provide security to as many people as possible and to channelize the savings mobilized for the welfare of the people at large.

To meet this end, the corporation has been promoting social welfare through socially oriented investments, which include central and state

government and other approved securities, municipal securities, co-operative securities, loans and advances, house property and land, investment in government sector, private sector, joint sector and co-operative sector. LIC has invests huge amount of its fund for the development of infrastructure such as roads, railways, housing, water supply, electricity etc. of which housing, water supply and electricity are the important components in which LIC invests a huge amount out of its total investment. Infrastructure means the structure below, which implies the foundation. It is basic to all activities in the economy. It refers to some kind of permanent installations, which are used over a long period of time for supply of basic inputs, which helps to push up development of the economy. Table 3.1 shows LIC's investment in infrastructure development.

Table - 1 : LIC's Investment in Infrastructure Development

S. No.	Year	Housing	Electricity And power supply	Water Supply & sewerage	Total	% of Total investment			
						H	E	W	Total
1	2006-07	8731	7580	1881	6409 9.52	13.62	11.82	2.93	30.80
2	2007-08	10967	8214	2028	8066 5.00	13.27	9.97	2.45	33.67
3	2008-09	12242	9429	2264	9360 0.00	13.10	10.10	2.41	35.33
4	2009-10	14207	11392	2508	1140 2.69	12.45	9.98	2.19	26.13
5	2010-11	15885	13609	3001	1390 32.15	11.42	9.79	2.15	24.94
6	2011-12	17998	14017	3657	1619 81.48	11.11	8.65	2.25	22.01
7	2012-13	19054	17244	4000	1849 30.81	10.30	9.32	2.16	21.78
8	2013-14	19944	20613	4420	2078 80.14	9.59	9.91	2.12	21.62
9	2014-15	20694	21217	7111	2308 29.47	8.96	9.19	3.08	21.23
10	2015-16	21436	25727	10346	2537 78.81	8.44	10.13	4.07	22.64
11	2016-17	21963	34928	10374	2742 12.64	8.00	12.73	3.78	24.51

The government of India appointed a committee in 1970 to study the investment policy of LIC and on the basis of the recommendations of the

committee, LIC has invested total of 75 per cent of the controlled fund in the socially-oriented activities. The investment of the corporation's fund is governed by section 27 (A) of the Insurance Act, 1938, and subsequent guidelines/instruction issued there under by the government of India from time to time. Not less than 50 per cent of all accretions to the fund are invested in central government securities, state government securities; government guaranteed marketable securities, loans to socially-oriented sectors for approved purpose such as power, housing, water supply and sewerage, road transport and co-operative industrial estates.

In one particular field of investment, LIC had not made a significant impact earlier. It relates to residential accommodation for large sections of the community in urban areas. It was not only urgently required but investment in housing was so remunerative that LIC itself could well undertake a large-scale programmes of housing. Because of the significant contribution of LIC to housing development, it brings under special focus in the next section, along with other activities to which a section is developed.

Housing Development

It was being felt increasingly that it would be most desirable if LIC could also take up on its own, construction of residential flats in urban areas for letting them to people in the lower and middle income groups, whose needs were acute. In other countries substantial amount of insurance funds were invested in residential buildings and it was hoped that LIC would take on hand this important task, in addition to advancing loans to local government for housing.

Housing finance occupies a prime place in corporation's investment. Since inceptions, the corporation has been providing finance for housing to individuals, co-operative housing societies and private undertakings under its various mortgage schemes. With a view to solve the housing problem in the country, the corporation joined the massive effort in a big way by providing financial assistance to state government under social housing schemes for economically weaker sections, including people of low and middle income groups, and state government employees. The corporation has 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 bulk loans to housing finance institutions like Housing Development Finance Corporation (HDFC), Housing and Urban Development Corporation (HUDC), National Housing Bank (NHB) and State Police Housing Corporation in a few states. Apart from building its own staff quarters, LIC also encouraged formation of co-operative housing societies among its employees by offering them loans. The corporation progressively introduced the following schemes for development of housing in the country:

- i. Own the house scheme.
- ii. Scheme for financing of cooperative housing societies formed by the employees of the corporation.
- iii. Schemes for granting loans to individual employees of the corporation for construction of their houses.
- iv. Schemes for granting loans to public limited companies for purpose of housing schemes of their employees.
- v. Schemes for granting loans to cooperative housing societies of employees of public limited companies for construction of houses.
- vi. Scheme for grant of loans to senior agents of the corporation for construction of houses.

Granting of individual housing loans now rests with LIC Housing Finance Ltd. The total investment in housing as on 31.03.2016 amount to Rs 20,130.43 crore. The corporation spent an amount of Rs. 245.65 crore on construction of own buildings, staff quarters and township development.

Life Insurance for the under Privileged

Under privileged persons are those persons whose income are too low to purchase life insurance policies, who have no adequate provision for old age and family security and who become incapable to earn adequate income due to accident injury or disease. For this, two alternatives are generally provided in life insurance which is:

a. Industrial Life Insurance

Industrial life insurance is a form of life insurance specially designed to meet the requirements of wage earning population of industry. It may also apply to low income classes of business

or even of the population. It may be issued without medical examination. The premiums may be collected by agents on weekly or monthly basis. The main purpose of industrial life insurance is to provide at least clean up funds to meet least expenses of the assured. Since, the amount of industrial life insurance is not much; family protection is not always possible.

b. Group Term Insurance Scheme by Corporation

This scheme is a form of renewable term insurance. In the event of death of life assured while in service, the sum assured is paid to the dependents of the deceased persons. A policy is issued to the employer and each member included in this scheme is given a certificate there to. The sum assured cannot be assigned or mortgaged.

The scheme is applicable to all the permanent employees of an employer. The amount of insurance to each employee is determined by mutual understanding of the employer and the corporation.

Various Social Security Schemes Launched by LIC

One of the objectives of LIC is to spread life insurance much more widely and in particularly in the rural areas and to the socially and economically weaker classes with a view to reaching all insurable persons in the country and providing them financial cover against death at a reasonable cost.

LIC has always been committed to the welfare of the economically weaker section of the society and constantly endeavors to bring about hope and security into the lives of those people who are struggling to make ends meet, through its various Social Security Schemes.

Providing social security to the economically weaker sections of the society has been a major social responsibility of the LIC. Social security is one of the social sector programmes like education and health. Public expenditure on social security is one of the measures of human development.

Article 25 of the United Nations Declaration of the Human Right (1948) states that "everyone has the right to a standard of living adequate for the health and well being of himself and his family, including food, clothing, housing and medical care and necessary social services and the right to security in disability, widowhood or other lack of livelihood in circumstance beyond his control"

In India social security finds a place in the Constitution. Article 41 requires the State, within limits of its economic capacity and development to make effective provision for security the rights to work, to education and to provide public assistance in case of old age, ickness, and disability etc. Parts of the states obligations to the poorer sections are met through the mechanism of life insurance.

LIC has been pioneering group insurance schemes as a measure of social security. This was a new strategy LIC adopted, to extent the benefit of insurance from the classes to the masses, from the privileged to the not-so-privileged, from the affluent to the weaker and vulnerable section of our society, who cannot afford to buy individual policies of insurance. The schemes were extend to non conventional group such as member of voluntary organizations and co-operatives. Efforts were made to insure unorganized labour through their unions associations etc. To extend the system of Social Security to the weaker sections of the society, a Social Security Fund was set up in the year 1988. Funds were deposited by the Central Government and LIC in 1988 and 1989 to provide subsidy in the premia under the various Group Insurance Schemes covering persons of weaker sections.

To reiterate the organization's commitment and to speed public awareness about the benefits available under the various schemes being implemented. LIC celebrates the month of October as "Social Security Month" every year. A special drive is launched to spread the message throughout the length and breadth of the country. Seminars, functions, meeting of NGO at workplaces and in rural areas are arranged and claim cheques and scholarships cheques are distributed in these functions.

LIC through its Group Insurance Schemes provides for insurance cover to all the weaker sections of the society such as fishermen, beedi worker, plantation worker, agriculturists, urban and rural poor, auto rickshaw workers etc.

The following schemes have been devised by the central Govt. and implemented through LIC of India, with the objectives of providing economic security to weaker and vulnerable section of the society.

1. Social Security Group Insurance Scheme
2. Krishi Shramik Samajik Suraksha Yojana
3. Rural Group Life Insurance Scheme
4. Landless Agricultural Labourers Group Insurance Scheme.
5. Integrated Rural Development Programme
6. Swarna Jayanti Gram Swarozgar Yojana
7. National Agricultural Insurance Scheme
8. Janshree Bima Yojana
9. Shiksha Sahayog Yojana
10. Universal Health Insurance Schemes

Role of Insurance in Economic Development

Most of the business activities carried out in an economy is expected to escalate the welfare of masses and placing them at higher levels of satisfaction on persistent basis. Despite steady hard work made by developing countries to speed up the development process, more than 525 million people constitute about 40 percent of the total population still live below the poverty line in these countries. For reducing the level of poverty, there has to be continuous increase in productivity in all sectors of the economy, which will translate in generation income and productive employment to different sections of the society on a self-sustained basis. Although different sectors of the economy do not grow in isolation and contribute to each other's development, yet the development experience in both developed and developing economies disclose that as the economy progresses, the service sector assumes a prime role and its share in the national income rises.

In the ancient economic literature, the prosperity of the nation was measured by the yardstick of the increase in the national income of the economy. The national income could be measured through its different variants such as gross domestic product (GDP) or net domestic products (NDP) at current or constant prices. Economic development was perceived as sustained increase in the gross domestic product (GDP) or per capita GDP over a period of time. Normally, in order to assess the real pace of development, the growth in GDP at constant prices was taken into account. These writing did not consider the qualitative changes such as structural and institutional transformation of the productive system within the ambit of the concept of economic development. The issues such as alleviation of poverty, reduction in inequalities of

income and unemployment were assumed to be taken care of by the mere growth of GDP as it was conceived that the growth would automatically trickle down to the masses and to the grass root levels in a self-sustained basis

Modern writing on the subject questioned the above mentioned concept of economic development as it failed to mirror upon the qualitative changes in the life of an individual and the nation. These qualitative changes can be measured through indices such as changes in the composition of production technological and institutional organization of production, distributive pattern of income, reduction in poverty, unemployment, inequalities of income etc. In relation to an individual and at the micro level, the indices comprised of raising the level of education, health, nutrition etc, are also equally significant in this context.

Economic development has to incorporate both sustained increase in the GDP per capita GDP as well as improvement in the basic indicators affecting the quality of life of the people. These economists distinguished the concept of growth from that of development. The concept of growth was defined as sustained increase in per capita GDP while development means both the rise in the national income as well as qualitative changes in the economic institutions and organization of the country.

In this section while snooping the relationship between economic development and insurance, the economic development has been taken up in the sense of growth implying sustained increase in the GDP/per capita GDP of the country. The qualitative concepts have by and large not been taken into consideration except in those areas where it is feasible to quantify.

The growth of GDP is a function of host of factors, both economic and non-economic in nature, which directly or indirectly contribute to it. From an economic angle, these factors could be grouped into the following four categories:

- * Human resources (labour, education, discipline, motivation etc.)
- * National resources (land, minerals, fuels, climate etc.)
- * Capital resources (machines, factories, road etc.)

* Technological resources (sciences, engineering, management, enterprise etc.)

One of the most important factors contributing to the process of economic development particularly in developing or underdeveloped economies is the capital formation. The relationship between capital formation and insurance services in both developed and developing economies of the world has been quite prominent and noteworthy.

Capital Formation and Insurance

Capital formation may be defined as an increase in the capital stock of country consisting of plant, equipment, tools, factory, building, raw material, semi-finished product; means of transport, communication etc. capital itself may be defined as a means of production. In economic literature, capital has always been regarded as a means of increasing specialization, means of production, and productivity in the economy and thereby contributing to the future stream of income to the economy as a whole. Capital performs the function of increasing both the total output as well as the output per worker in the society. For sustained growth of the economy, what is required is that the capital stock should grow not only at the rate adequate to replace the depreciated stock but should also contribute to the net addition to the same.

The process of capital formation envisages three essentials.

These are:

- a. Real savings.
- b. Mobilization and channelising of saving through financial and non financial intermediaries to be placed at the disposal of investors
- c. The act of investment.

The contribution of insurance in the process of capital formation appears at all these stages. Insurance service act as a tool to mobilize saving, function as financial intermediary and at time, though rarely, also indulge in direct investment.

Insurance as a Financial Intermediary

In the process of capital formation, one of the important steps involved is the mobilization of saving and placing them at the disposal of investors. The financial intermediaries carry out this function. In a market-oriented economy, while the act of savings is performed by a large number of units

scattered across the country, the investment function are carried out by different entities, which are also scattered. Financial intermediaries perform the function of channelising savings into domestic investment. These financial intermediaries with their specialized knowledge place the saving of these units into most productive investment channels. These intermediaries facilitate the efficient allocation of capital resources which in turn improve productivity and economic efficiency of the country. It contributes in reducing the capital-output ratio in the economy. Insurance companies, both life and non-life, in their role as financial intermediaries perform extremely useful, function in the economy. Harold D. Skipper has pointed out that insurers promote financial system efficiency in the following three ways:

1. Reduction in Transaction Cost

Insurers, particularly life insurer, collect the premium a very large number of policyholder and thereby command huge funds at their disposal. These insurers invest these funds in variety of project scattered over different regions of the country. But for these companies, the policyholder would have to indulge in direct lending and investing which is both specialized job and is also time consuming. Thus insurers help in reducing the transaction costs in the economy.

2. Creating Liquidity

The funds at the disposal of insurer are being used for longterm project and loans. The funds collected are out of the premium paid by the policyholders. In the case of occurrence of loss, insurers immediately compensate for the losses and pay the requisite claim amount to the policyholders. Thus, the funds of policyholders are extremely liquid as there is no time lag between occurrence of loss and receipt of the claim. Besides, the borrowers of the funds are not required to repay the loans immediately. If the policyholders start direct lending of their funds, they may land up locking their funds in long-term illiquid assets. As pointed out by Skipper, "Insurers, thereby reduce illiquidity inherent in direct lending."

3. Facilitating Economies of Scale in Investment

Insurer in their role as financial intermediaries is in a position to investment in large projects requiring heavy investment. Insurance

companies command huge funds at their discretion collected from large number of policy-holders, which they can invest in huge projects requiring large investment such as national road project, railways, port, power projects etc. These large project create economies of scale, facilitate technological innovations and specialization, and thereby promote economic efficiency and productivity .With these funds the large investment become feasible.

Life Insurance Density

The insurance density has been defined as per capita expenditure on insurance premium. The insurance density has a direct correlation with per capita GDP income of the country. The lower per capita GDP translate itself into low insurance density in the country. Insurance density has been calculated with the help of premiums a per capita US \$ for different countries and for the world as a whole.¹¹ Life insurance density of different countries adopted for the analysis is given in the following table. There seems to be big difference between the insurance densities of the selected countries. The life insurance density has been lowest for Nigeria and highest for Japan.

Emerging Needs in India

Life insurance cannot afford to lose the sight of its social relevance and shy away from its social responsibilities. It has to constantly study the emerging needs of the markets, arising due to the change in the values of social life. Demographic changes also produce the different needs amongst the population. It will be the duty of the life insurer to satisfy the demands so arising. The concept of family in undergoing metamorphosis- a joint family has given way to the small families which now face the threat of further changes like single parenting, live-in-relationship, double income no child units etc. The product design has to be oriented to the changing family scenario.

With the liberalization and globalization, the days are not far when labour laws would be brought in tune with those of the other developed economies. These economies are already facing a threat of involuntary unemployment of an earning member of a family. The contingency, which may arise due to such an event resulting in stoppage of earning, needs to be provided for by a life insurer.

With the decline in the birth rate as well as mortality rate, the composition of population will be showing the tendency of increase in the proportion of aged people. The longevity over and above the earning span of an individual will further open the huge pension market in India.

The population is also being affected by other factors like growing terrorism, increase in number of accidents and calamities as also the spread of disease like 'AIDS' at exponential rate. The insurer needs to identify his role to address those issues that are adversely affecting the social fabric of our country.

The contribution to the nation building through strengthening the economy of a country, improvement of the health care facilities, education as well as employment shall go long way to ultimately improve the quality of life individual members of society. Investment in infrastructure project shall set the country on a road to the progress on one hand and create goodwill and favorable organizational image in the minds of public on the other hand.

Life insurer will also have to play a role for encouraging development of technology and make its effective use by enhancing the matching skills of inside public. The employees are also needed to be developed to interact with the associates at large for harmonious existence. Poverty alleviation programme and schemes for unorganized sectors of the society are some more areas, where life insurer can make a favorable impact.

It may be said that it is the responsibility of a life insurer to completely integrate itself with the society by offering peace of mind to each constituent of the society by offering peace of mind to each constituent of the society. Insurer has to build up the economic confidence of the society members by providing for financial contingencies. It has to build up confidence by providing instrument to face the uncertainties and thus create a conducive environment. It has to make this world a better place of living.

The socially-oriented projects include a wide range of contributions such as rural electrifications, housing, water supply, urban sewerage, agriculture and agricultural laboures, small- scale industries and artisans, and a number of social security schemes.

Apart from all these, the corporation promotes the welfare of the masses through investments in transport and communication, government and corporate securities.

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