

A STUDY ON THE COMPARATIVE ANALYSIS OF THE INVESTMENT DECISIONS IN LIC OF INDIA AND NEPAL

Prof. Solomon Jayakumar

*Professor, Post Graduate Department of Commerce and Management, Mount Carmel College,
Bengaluru – 560052, Karnataka, India*

Mitali Madhusmita

*2nd Year M. Com IB Student, Post Graduate Department of Commerce and Management,
Mount Carmel College, Bengaluru – 560052, Karnataka, India*

ABSTRACT

An investment is to put money into something in order to get a suitable return out of it. Any investment is a risky affair and hence, depends on certain factors that determine the investment decision. In case of an individual investor, the investor should always do a thorough analysis of the investments being offered that will make the decision making more scientific and rational. Anaja B. and Emmanuel E. (2013), pointed out that many individual investors rely on the credibility of the financial statements of the organisations that is approved by an auditor or a financial expert. However, returns on investment depends on the highs and lows of the market conditions. A successful investment results in a good return or profit to the investor that will serve the sole purpose of investing.

Investment is one of the simplest ways to build wealth and has various ways for increasing funds. Investing in insurance plans creates wealth for the future when you require it and needs a good understanding and planning of the different options available. In case of LIC, it is a state-owned insurance group and is the oldest insurer with a wide range of investment plans and an extensive customer base. Investment plans offered by LIC are customized to serve its customers with varied investment objectives like marriage, health, life coverage, retirement planning etc.

This study focuses on the factors influencing the investment decisions of the investors in insurances. The method of the study is descriptive and contains both primary and secondary data.

KEYWORDS: *investment, insurance, decision-making, factors responsible*

INTRODUCTION

Investment in insurance is considered one of the best options for investment. It is a form of investment which is stable as long as premiums are paid. In case of life insurance, the policy holder's beneficiary will obtain the death benefit on the event of his/her untimely demise. This benefit is known as the face value and the premiums that are needed to be paid should surpass its value. There are various types insurances; it is necessary to familiarise with them before opting or investing in them. While, investment is often risky, many investors actively search for risk to invest in, as long as the

compensation or benefits are appropriate. Investing in Insurance is often opted because of retirement benefits and tax rebates. There are diverse offerings in insurance industry as compared to investment companies.

Insurance companies issue same types of investment options as other industries. One can even invest in insurance companies through common stocks, debts and preferred stocks etc. However, investing in life insurance provides financial safeguards in case of untimely death of the policy holder and also certain plans help as a good investment that gives returns

after retirement. Considering the amount of premiums received by the insurance companies, there are quite a lot of investments done by these companies in the economy.

REVIEW OF LITERATURE

Anaja Blessing & Emmanuel E. Onoja (PhD) (2004-2013)

– They concluded in their Research Paper titled “THE ROLE OF FINANCIAL STATEMENTS ON INVESTMENT DECISION” that, the investors taking their investment decisions via financial statements of the respective organisation focuses mainly on the profitability and the relationship between the profit and assets, liabilities and equity of the organisation.

Thair A. Kaddumi (2011-2015)– The Research Paper titled “FINANCIAL ANALYSIS AND INVESTMENT DECISION”, concluded that usually investors do not invest in companies having low debt and low asset turnover as it will affect the stock prices negatively.

Kenneth J. Arrow and Mordecai Kurz – In the Research Paper titled “PUBLIC INVESTMENT, THE RATE OF RETURN, AND OPTIMAL FISCAL POLICY”, they have concluded that even if there were some interest rate that could be regarded as essentially risk free, it would not necessarily follow that it measured the time preference of individuals.

OBJECTIVES

- To analyse the returns on investment made in LIC of India and Nepal
- To study the factors determining the investment decisions.
- To give suggestions where required.

LIMITATIONS

- The study is limited to the one-time investment plans offered by LIC to its customers and does not include the premium plans or other insurance plans.
- The study is limited to the accuracy of the information received from the Branch Office and other internet sources.
- This study is limited to the investments done in the Indian Branch Office and Nepal Office and does not include the decisions made in other countries.

RESEARCH METHODOLOGY

The methodology for this study is descriptive method. This method will be appropriate in studying the different factors that determines the investment decisions of the investors in different markets. Moreover, this method is helpful in certain areas like the preferences in different countries. The data is collected from secondary sources. Findings are summarised and suggestions are given.

STATEMENT OF PROBLEM

Investing in Insurance plans are a way to secure the future as well as achieve investment goals. Investors look to invest their money in such plans that can multiply the money as per their risk appetite. Moreover, a proper understanding and planning of investment plans is necessary in order to get suitable returns. Not many people are aware of these investment plans. Hence, various studies on investment decisions makes a difference by making people aware of such investment plans.

This study emphasises on the factors that are required to determine the investment decisions by LIC both in India and Nepal. This research will analyse the returns on investments for the company. This research will be conducted on the basis of secondary data received by the corporation on both the Indian and Nepal branches.

SCOPE OF STUDY

The research analyses the comparison of the investment plans offered by LIC in two different branches of two different countries. The research is conducted in the Branch Office situated in Odisha, India. The investment decisions of the Odisha Branch Office are compared with the investments done in the Nepal Branch Office situated at Kathmandu, Nepal. The study focuses on the following:

- The preferable investment plans such as Jeevan Labh, New Bima Bachat, Pradhan Mantri Vaya Vandana Yojana, Jeevan Umang, Jeevan Lakshya, Single Premium Endowment Plans in the Indian Branch and Jeevan Astha Plan, Jeevan Bachat in the Nepal Branch since 2014-2019 by the customers.
- The returns on such investment plans and how beneficial it is.
- Reviewing the factors that determine the investment decisions.

DATA COLLECTION

The present study incorporates the collection of secondary data as it is a comparison of an Indian branch with that of a Foreign branch.

Secondary Data

The secondary data is collected from the information available through the internet sources and company websites.

DATA INTERPRETATION AND ANALYSIS

Indian Branch

Profit and Loss Account ending March 2019

Table 1 Showing Profit and Loss Statement of LIC in India

31 मार्च, 2019 को समाप्त वर्ष का संबन्धित लाभ-हानि लेखा
PROFIT & LOSS ACCOUNT FOR THE YEAR ENDED 31ST MARCH, 2019

विवरण Particulars	अनुसूची Schedule	वर्तमान वर्ष Current Year			
		नॉन-संबद्ध व्यवसाय Non-linked Business		संबद्ध व्यवसाय Linked Business	
		भारत में In India	भारत के बाहर Out of India	भारत में In India	भारत के बाहर Out of India
पॉलिसिधारकों के लेखा (तकनीकी लेखा) से जेब को अग्रणी : Amounts transferred from/to the Policyholders Account (Technical Account):		265724.82	334.62	0.00	0.00
निवेश से आय / Income from Investments					
(क) ब्याज, लाभांश एवं किराया-कुल (a) Interest, Dividends & Rental - Gross		1413.88	2323.65	0.00	0.00
(ख) निवेश की बिक्री/मोच पर लाभ (b) Profit on sale/redemption of investments		0.00	1259.94	0.00	0.00
(ग) निवेश की बिक्री/मोच पर हानि (c) (Loss on sale/redemption of investments)		(11.32)	(655.29)	0.00	0.00
अन्य आय ; सामान्य असाइन रिजर्व से अंतरण Other Income ; Transfer from General Reserve		0.00	0.00	0.00	0.00
कुल (क) TOTAL (A)		267127.48	3262.92	0.00	0.00
बीमा व्यवसाय से सीधे संबंधित कार्यों के अतिरिक्त अन्य खर्च Expense other than those directly related to the insurance business		0.00	42.06	0.00	0.00
प्रवधान (कराधान के अतिरिक्त) Provisions (Other than taxation)					
(क) निवेश के मूल्य में गिरावट का (a) For diminution in the value of investments (Net)		0.00	0.00	0.00	0.00
(ख) संदिग्ध ऋणों के लिए प्रवधान (b) Provision for doubtful debts		0.00	0.00	0.00	0.00
(ग) अन्य (संशोधित करना है) (c) Others (to be specified)		0.00	0.00	0.00	0.00
कुल (ख) TOTAL (B)		0.00	42.06	0.00	0.00
लाभ/हानि कर पूर्व / Profit/(Loss) before tax		267127.48	3220.86	0.00	0.00
कराधान का प्रवधान Provision for Taxation		400.11	1008.57	0.00	0.00
लाभ/(हानि) कर प्रवधान Profit/(Loss) after tax		266637.37	2212.29	0.00	0.00

Analysis and Inference

- The Profit after tax for the year ending 31st March, 2019 was Rs. 2,66,637.37 from India and Rs. 2,212.29 from outside India.
- The total Income from investments as shown in Table 3 was Rs. 2,67,127.48 from India and Rs. 3,262.92 from outside India and the total Indirect Expenses was Rs. 0.00 from India and Rs. 42.06 from outside India.
- The Total Profit from India according to the Profit/ Loss account is much less as compared to that of Nepal which has a Profit of NRs. 1,406,425,352 in 2019 solely from all over Nepal.

Cash Flow Statement ending March 2019

Table 2 Showing the Cash Flow Statement of LIC in India

प्राप्ति एवं भुगतान लेखा
RECEIPT AND PAYMENTS ACCOUNT
३१ मार्च, २०१९ को कुल व्यवसाय से संबंधित नकद प्रवाह विवरण
CASH FLOW STATEMENT AS AT 31ST MARCH, 2019 IN RESPECT OF TOTAL BUSINESS

विवरण Particulars	(₹ लाखों में) (₹ in lakhs)	
	कुल चालू वर्ष CURRENT YEAR	कुल पिछले वर्ष PREVIOUS YEAR
परिचालन गतिविधियों से नकद प्रवाह: Cash Flows from the operating activities:		
1 पॉलिसीधारकों से प्राप्त प्रीमियम, जिसमें अग्रिम प्राप्तियाँ शामिल हैं Premium received from policyholders, including advance receipts	33591137.81	31904058.26
2 अन्य प्राप्तियाँ Other receipts	84126.21	80112.77
3 पुनःबीमाकर्ताओं को भुगतान, कमिशन एवं दावों से शुद्ध Payments to the re-insurers, net of commissions and claims/ Benefits	(22572.51)	(5097.87)
4 सह बीमाकर्ताओं को भुगतान, दावों/लाभ से शुद्ध Payments to co-insurers, net of claims / benefit recovery	0.00	0.00
5 दावों/लाभ का भुगतान Payments of claims/benefits	(24648334.55)	(19430127.53)
6 कमिशन और दलाली का भुगतान Payments of commission and brokerage	(1943689.93)	(1804986.29)
7 अन्य परिचालन व्ययों का भुगतान Payments of other operating expenses	(2776979.41)	(2290794.26)
8 प्रारंभिक एवं पूर्व-आपरेटिव व्यय Preliminary and pre-operative expenses	0.00	0.00
9 जमा, अग्रिम और स्टाफ ऋण Deposits, advances and staff loans	(491765.85)	(136159.56)
10 आयकर का भुगतान (शुद्ध) Income taxes paid (Net)	(1485417.91)	(1322387.57)
11 सेवाकर/जीएसटी का भुगतान Service tax/ GST paid	(330029.29)	(208167.23)
12 असाधारण मदों से पूर्व नकद प्रवाह Cash flows before extraordinary items	1976474.57	6786450.72
13 असाधारण संचालन से नकद प्रवाह (विवरण दे) Cash flow from extraordinary operations (give break-up)	0.00	0.00
परिचालन गतिविधियों से शुद्ध नकद प्रवाह: Net cash flow from operating activities:	1976474.57	6786450.72
निवेश गतिविधियों से नकद प्रवाह: Cash flows from Investing activities:		
14 अचल संपत्तियों की खरीद Purchase of fixed assets	(50920.76)	(57141.48)

15	अचल संपत्तियों की बिक्री से प्राप्तियाँ Proceeds from sale of fixed assets	13429.36	26710.46
16	निवेशों की खरीद Purchases of investments	(31863723.44)	(38944173.79)
17	वितरित ऋण (भुगतान से शुद्ध) Loans disbursed (Net of Repayments)	(504424.18)	(320549.25)
18	निवेशों की बिक्री Sales of investments	15136588.96	15600003.20
19	क़िताया/ब्याज/लाभांश प्राप्त Rents/Interests/ Dividends received	19145818.29	17691737.16
20	मुद्रा बाजार उपकरणों और तरल म्युचुअल फंड (शुद्ध) में निवेश Investments in money market instruments and in liquid mutual funds (Net)	(1687247.75)	(1557574.64)
21	निवेशों से संबंधित व्यय Expenses related to investments	0.00	0.00
	निवेश गतिविधियों से शुद्ध नक़द प्रवाह: Net cash flow from investing activities	189520.48	(7560988.34)
	वित्तीय गतिविधियों से नक़द प्रवाह: Cash flows from financing activities:		
	अंश पुंजी जारी करने से प्राप्तियाँ (भारत सरकार द्वारा प्रदत्त अंश पुंजी) Proceeds from issuance of share capital (Equity capital provided by Government of India)	0.00	0.00
	क़र्ज़ लेने से प्राप्तियाँ Proceeds from borrowing	0.00	0.00
	क़र्ज़ का भुगतान Repayments of borrowing	0.00	0.00
	ब्याज/लाभांश का भुगतान Interest/dividends paid	(225242.25)	(236973.37)
	वित्तीय गतिविधियों से शुद्ध नक़द प्रवाह: Net cash flow from financing activities	(225242.25)	(236973.37)
	नक़द और नक़द के समतुल्य शुद्ध पर विदेशी मुद्रा दरों का प्रभाव Effect of foreign exchange rates on cash and cash equivalents, net	8421.15	6650.56
	नक़द और नक़द के समतुल्य में नियत वृद्धि Net Increase in cash & cash equivalents	1949173.95	(1004860.43)
	वर्ष के प्रारंभ में नक़द एवं नक़द समतुल्य Cash and cash equivalents at the beginning of the year	2269356.02	3274216.45
	वर्ष के अंत में नक़द एवं नक़द समतुल्य Cash and cash equivalents at the end of the year	4218529.97	2269356.02

Analysis and Inference

- The Net Cash inflow from Operating Activities is Rs. 19,76,474.57, that is a decline in inflow of cash from operating activities as compared to an inflow of Rs. 67,86,450.72 in 2018.
- The Net Cash inflow from Investing Activities is Rs. 1,89,520.48, that is a rise in inflow of cash from investing activities as compared to an outflow of Rs. 75,60,988.34 in 2018.
- The Net Cash outflow from Financing Activities is Rs. 2,25,242.25, that is less than compared to cash outflow from financing activities of Rs. 2,36,973.37 in 2018.
- There is a Net Increase in the Cash and Cash Equivalents of Rs. 19,49,173.95 in 2019.

Profit and Loss Statement ending 2019:**Table 3 Showing the Profit and Loss Statement of LIC in Nepal****LIFE INSURANCE CORPORATION (NEPAL) LIMITED
STATEMENT OF PROFIT OR LOSS**

For the year ended Ashad 32, 2075

Particulars	Notes	FY 2074-75 Rs	Restated FY 2073-74 Rs
Gross Premium	17.1	10,458,762,810	8,709,054,018
Premiums ceded to reinsurers	17.2	(51,493,747)	(185,717,352)
Net premiums		10,407,269,063	8,523,336,666
Fees and commission income	18	15,940,964	29,100,383
Investment income	19	3,417,146,092	1,915,830,592
Income from Policy Loan	20	572,283,424	393,610,079
Net realised gains and losses	21	46,209,531	310,481,835
Provision on loan losses	22	(15,132,627)	-
Other income	23	123,637,026	86,612,984
Other revenue		4,160,084,410	2,735,635,873
Total Revenue (A)		14,567,353,473	11,258,972,539
Claims Payment	24.1	(2,424,490,197)	(1,813,802,241)
Claims ceded to reinsurers	24.2	86,122,941	52,133,353
Net Claim Paid		(2,338,367,256)	(1,761,668,888)
Policy Acquisition Cost	24.3	(1,162,226,064)	(958,594,313)
Net Service Charge Paid	24.4	(104,072,690)	(85,233,368)
Change in insurance contract liabilities	25	(8,253,066,523)	(7,501,826,878)
Finance costs	26	(14,671,170)	(20,041,096)
Other operating and administrative expenses	27	(773,187,234)	(498,040,132)
Other expenses		(10,307,223,681)	(9,063,735,787)
Total benefits, claims and other expenses(B)		(12,645,590,937)	(10,825,404,675)
Profit before tax (A-B)		1,921,762,536	433,567,864
Income Tax Expense	28	(515,337,184)	(290,767,787)
Profit For the Year		1,406,425,352	142,800,077
Basic earnings per share	29	105.38	10.70
Diluted earnings per share	29	105.38	10.70

Analysis and Inference

- The Profit after tax for the year ending March 2019 was NRs. 1,406,425,352 solely from all over Nepal.
- The Total Revenue for the year as shown in Table 6 was NRs. 14,567,353,473 and the Total Expenses was NRs. 12,645,590,937 from Nepal.
- The Total Profit of Nepal in the year ending March 2019 is much higher as compared to that of India, that had a Profit of Rs. 2,66,637.37 in 2019 solely from India.

Cash Flow Statement ending 2019**Table 4 Showing the Cash Flow Statement of LIC in Nepal**

LIFE INSURANCE CORPORATION (NEPAL) LIMITED
STATEMENT OF CASH FLOWS
For the year ended Ashad 32, 2075

Particulars	FY 2074-75 Rs	FY 2073-74 Rs
A. Cash flow from operating activities:		
Premium Income	10,458,762,810	8,709,054,018
Re-Insurance Commission Income	15,940,964	29,100,383
Other Direct Income	120,917,333	84,666,973
Claim ceded to reinsurer	80,180,823	40,704,570
Re-Insurance Premium Paid	(74,244,238)	(189,927,404)
Agent commission payment	(1,055,948,234)	(876,404,323)
Medical examination fee payment	(11,290,129)	(19,080,113)
Net Claim Paid	(2,424,490,197)	(1,813,802,241)
Service fee payment	(86,575,601)	(68,843,892)
Other Direct Expenses	(1,470,772)	(347,514)
Management expenditure payment	(602,195,661)	(456,662,298)
Bonus Paid to Employees	-	(32,547,805)
Income Tax Paid	(508,540,840)	(275,565,134)
(Increase)/decrease in current assets	(448,643,504)	74,263,805
(Increase)/decrease in current liabilities	24,547,649	137,833,356
Net cash flow from operating activities	5,486,950,403	5,342,442,383
B. Cash flow from investing activities:		
(Increase) / Decrease in Fixed Assets	(11,389,222)	(20,789,677)
(Increase) / Decrease in Investment in Fixed Deposit of Banks & Financial Institutions	(7,136,500,000)	(7,508,500,000)
(Increase) / Decrease in Investment in Other Deposit of Banks & Financial Institutions	400,322,520	651,006,954
(Increase) / Decrease in Investment in Equity Share	193,313,762	(178,911,312)
(Increase) / Decrease in Investment in Preference Share / Debenture	-	(464,169)
(Increase) Decrease in loans against insurance Policy	(2,118,231,917)	(1,317,204,438)
(Increase) / Decrease in Loans and Advances	(6,415,991)	(64,320,792)
Interest Income Received on Investment	3,356,812,787	1,910,354,023
Dividend Received	50,283,470	9,790,281
Interest on policy Loan	415,384,403	308,189,789
Gain on Sale of Investment	46,209,531	310,481,835
Other Direct Income	2,719,184	1,603,358
Net cash flow from investing activities (B)	(4,807,491,474)	(5,898,764,147)
C. Cash flow on financing activities:		
Interest Expende	(14,671,170)	(20,041,096)
Dividend Paid	-	(13,959,178)
Increase/Decrease in short term debt	(500,000,000)	500,000,000
Net cash flow from financing activities (C)	(514,671,170)	465,999,726
Change in Exchange rate in Cash and Bank Balances (D)	-	-
Net increase/(decrease) in cash and cash equivalents (E)	164,787,759	(90,322,038)
Cash and cash equivalents at the beginning of the year	968,171,588	1,058,493,626
Cash and cash equivalents at the end of the year	1,132,959,347	968,171,588

Analysis and Inference

- The Net Cash inflow from Operating Activities in 2019 is NRs. 5,486,950,403, that is an increase in the inflow of cash from operating activities from last year which amounted to NRs. 5,342,442,383 in 2018.
- The Net Cash outflow in Investing Activities in 2019 is NRs. 4,807,491,474, that is a decrease in outflow of cash from investing activities since last year which amounted to NRs. 5,898,764,147 in 2018.
- The Net Cash outflow from Financing Activities in 2019 is NRs. 514,671,170, that is an increase in outflow of cash since last year that amounted to an inflow of cash of NRs. 465,999,726 in 2018.
- There is a Net Increase in Cash and Cash Equivalents of NRs. 164,787,759 in 2019.

FINDINGS

- From the study it is found that, among the 176 options offered by LIC in India only 6 policies are long term investment options available by LIC in India to its customers namely, Jeevan Labh, New Bima Bachat, Pradhan Mantri Vaya Vandana Yojana, Jeevan Umang, Jeevan Lakshya, Single Premium Endowment Plans.
- Whereas, LIC in Nepal offers only 2 long term investment options among the 12 options that are available to its customers in total namely, Jeevan Astha Plan and Jeevan Bachat
- According to the recent investments, LIC in India has not been getting profitable returns from its investments. The investments in IPOs by LIC India resulted in loss, one such was Hindustan Aeronautics Ltd., whose stock value has fallen to 38%.
- In Nepal Branch, most of the premiums received are kept as reserves, especially the amount in excess of profit reported under Nepal Financial Reporting Standards over regulatory profit.
- It is seen from the study that the profit of LIC in India is much less as compared to LIC in Nepal all together.
- The investment decisions in case of LIC in India are mostly taken by the Central Government as it is a state-owned corporation and a comparatively less authority is provided to the Board of Directors at LIC.
- The investment decisions have affected the financial position of the corporation such as the investment in IDBI to 51%, which has not contributed to the profits and the bank is bleeding due to heavy losses.
- Similarly, it is found that the investment decisions in LIC Nepal is also taken mostly by the Indian Central Government in coordination with the Nepal Government.

CONCLUSION

Based on the study, it is clear that LIC in India has many ups and downs being a public owned corporation as compared to that of Nepal which is partially owned by LIC India along with Nepal Government. Nepal Branch is doing quite well in relation to investments and its returns. LIC India has been making investments in banks and other public sector organisations that is resulting only in losses, the Board of Directors should take on the responsibility of making the investment decisions that would contribute to the profits. Investments made by LIC in India should be more inclined towards private sector that is fetching profits and not the public sector organisations that are resulting in loss. The scenario of the insurance sector in Nepal being similar to that of India, many new investment options are introduced by the branch for a better customer satisfaction. The top management of LIC in India should take initiatives for making profitable investments from the premiums that it receives in such a huge amount from the customers instead of making poor investments that is resulting in loss of its own.

DIRECTIONS FOR FURTHER STUDY

The research carried on could be further analysed in the future for research purposes by other researchers and professors through a customer's or the government's point of view in order to understand the investment decisions taken by the top officials and the challenges that they face being in that position.

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