



## CONTRIBUTION OF LIC OF INDIA IN THE ECONOMIC DEVELOPMENT OF INDIA WITH SPECIAL REFERENCE TO 2010

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### ABSTRACT

The Life Insurance Corporation of India plays a vital role in the economic development of India. Since its establishment in 1956, LIC has become the largest public sector life insurance company in the country. By 2010, LIC had emerged as a major institutional investor, mobilizer of savings, provider of social security, and contributor to infrastructure development. This paper systematically examines LIC's multifaceted role in the Indian economy, with particular emphasis on its contributions to capital formation, employment generation, rural development, financial inclusion, and macroeconomic stability during the year 2010. Drawing upon secondary data from annual reports, regulatory publications, and scholarly journals, the study finds that LIC not only dominated the insurance sector—holding a 76.92% market share in policies—but also functioned as a critical institutional investor, mobilizing long-term household savings and channelling them into infrastructure, government securities, and social welfare schemes.

### INTRODUCTION

Insurance is an important component of the financial system of any country. Life insurance, in particular, provides individual financial security while simultaneously mobilizing long-term contractual savings for national development. In India, the Life Insurance Corporation of India has significantly contributed to economic growth through investment in infrastructure, government securities, and social welfare schemes. In the Indian context, the Life Insurance Corporation of India (LIC) has historically played a transformative role in channelling these savings into productive economic activities.

LIC was established on 1 September 1956, following the promulgation of the Life Insurance Corporation Act, which nationalized the life insurance industry. The primary mandate was to universalize life insurance coverage across urban and rural areas and to offer financial protection to citizens. Over subsequent decades, LIC emerged as one of India's most robust financial institutions. By 2010, its balance sheet had expanded to over ₹13 lakh crore in assets, positioning it as a dominant force in both the insurance and capital markets. This paper analyses LIC's economic functions during this period, focusing on its intermediary role between household savers and national investment priorities.

### OBJECTIVES OF THE STUDY

1. To study the role of LIC in the Indian economy.
2. To examine LIC's contribution towards savings and investment.
3. To analyse LIC's role in employment generation.
4. To understand the contribution of LIC in social and rural development.

## **RESEARCH METHODOLOGY**

The study is based on secondary data collected from annual reports of LIC, government publications, journals, newspapers, and websites related to insurance and economic development.

### **Growth and Performance of LIC in 2010**

By 2010-11, LIC had achieved a dominant position in the Indian insurance sector. LIC's market share increased significantly and it remained the leading insurer in India. According to IRDA data, LIC's market share in terms of number of policies issued stood at 76.92%, underscoring its continued dominance.

LIC also recorded substantial growth in premium income and total assets. Its total premium income during 2010-11 exceeded ₹2 lakh crore, while total assets crossed ₹13 lakh crore. This financial scale enabled LIC to act as a major counter-cyclical investor and a stabilizing force in domestic capital markets.

### **Role of LIC in Indian Economy**

#### **1. Mobilization of Savings**

LIC plays a critical role in transforming household savings into long-term investible funds. Through a diverse portfolio of policies—endowment plans, money-back schemes, pension plans, and children's policies—LIC incentivizes contractual saving behaviour among urban and rural households. These small, periodic premiums aggregate into a substantial pool of patient capital, which is then deployed in accordance with regulatory investment norms. This process directly contributes to gross domestic capital formation.

#### **2. Capital Formation**

LIC channels its accumulated funds into investments that accelerate capital formation. As of 2010, LIC had invested over ₹10 lakh crore across various asset classes, including:

- Government securities (mandated under the IRDA Investment Regulations)
- Infrastructure projects (power, transport, telecommunications)
- Equity and debt of public sector enterprises
- Housing finance (via institutions like NHB and HUDCO)

Such investments augment the economy's productive capacity by financing long-gestation projects that private investors may avoid due to high risk or low liquidity.

#### **3. Infrastructure Development**

LIC's investment mandate includes a significant allocation to infrastructure, which is essential for sustainable economic growth. In 2010, LIC was a key financier of national highways, railway expansion, power generation projects (both conventional and renewable), urban housing schemes, and major irrigation works. These investments not only improved physical connectivity and energy security but also generated multiplier effects on employment and regional development.

#### **4 Employment Generation-**

LIC contributes to employment through two channels: direct recruitment (officers, clerks, and development officers) and indirect engagement (a vast network of insurance agents). In 2010, LIC maintained one of the largest sales forces in the country, with over 1.1 million agents operating across urban, semi-urban, and rural areas. This agency system provided livelihood opportunities with relatively low entry barriers, thereby supporting inclusive growth.

### **5. Rural Development and Financial Inclusion**

LIC expanded insurance services to rural and backward areas. Rural insurance schemes provided financial protection to farmers, labourers, and economically weaker sections.

LIC introduced low-premium policies and social security schemes to increase insurance awareness among rural people. This helped in promoting financial inclusion in India.

### **6. Social Security and Welfare**

LIC provides essential social security against contingencies such as premature death, disability, and old-age poverty. Pension and annuity plans ensure post-retirement income stability for policyholders. Moreover, LIC administered several government-sponsored social security schemes (e.g., Janashree Bima Yojana) targeted at economically weaker sections. By cushioning families against financial shocks, LIC fosters household consumption smoothing and reduces intergenerational poverty.

### **7. Support to Government Finances**

LIC is a significant subscriber to government debt, including central and state government securities and special bonds issued by public sector undertakings. These subscriptions provide the government with non-inflationary financing for fiscal deficits and development expenditure. In 2010–11, LIC paid a dividend of over ₹1,137 crore to the Government of India as its majority shareholder, directly contributing to government revenue.

### **8. Stabilization of Financial Markets**

LIC acts as an important counter-cyclical institutional investor. During periods of stock market volatility or economic downturn, LIC's continued purchase of equities and debt instruments helps stabilize prices and maintain investor confidence. Its state-backed guarantee and solvency margins further reinforce systemic stability in the insurance and pension sectors.

### **Challenges Faced by LIC**

Despite its strengths, LIC faced several challenges in 2010:

- Intensifying competition from private life insurers (e.g., ICICI Prudential, HDFC Life) offering innovative products and aggressive marketing.
- Regulatory uncertainty surrounding Unit Linked Insurance Plans (ULIPs), following conflicts between IRDA and SEBI regarding jurisdiction and fee structures.
- Technological obsolescence, requiring substantial investment in digital infrastructure to meet rising customer expectations for online servicing and transparency.
- Asset-liability management pressures arising from high-guarantee products in a volatile interest rate environment.

LIC's deep public trust, extensive branch network, and implicit sovereign guarantee enabled it to retain market leadership.

### **FINDINGS**

1. LIC successfully mobilized long-term household savings, contributing significantly to gross domestic capital formation.
2. Its investment portfolio prioritized infrastructure and government securities, directly supporting developmental expenditures.
3. LIC generated substantial direct and indirect employment, particularly through its agency force.

4. Rural outreach initiatives improved insurance penetration and financial inclusion among underserved populations.
5. LIC's dividend payments and securities subscriptions provided critical fiscal support to the Government of India.
6. Despite competitive pressures, LIC maintained a dominant market position (76.92% policy share) in 2010–11.

### **CONCLUSION**

The Life Insurance Corporation of India functioned as more than a mere insurer; by 2010 it had become an indispensable pillar of the Indian economy. Through the mobilization of diffuse household savings, targeted investment in infrastructure and public debt, generation of extensive employment, and provision of social security, LIC contributed to both macroeconomic stability and inclusive development. Its performance during the 2010–11 period demonstrated resilience amidst regulatory and competitive challenges. As India continues to pursue high growth and financial deepening, the strategic role of institutions like LIC in balancing commercial viability with developmental objectives remains highly relevant. This study affirms that LIC's quasi-fiscal and allocative functions were central to India's economic progress in 2010.

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