Can Competition be Good for You? Ask LIC

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Life Insurance Corporation of India (LIC) plans a foray into merchant banking, either by setting up a new merchant bank with Corporation Bank or through a stake in an existing merchant bank. The insurance behemoth has a 27% stake in Corporation Bank & 30% stake in IDBI Trusteeship and Corporate Securities.

LIC has 120,000 employees operating through 2048 branches. Further, it also has 800,000 agents. Its cost structure is much above the international benchmark of 4-5%. *The management of LIC needs to be complimented for not aping the normal practice of cutting manpower to cut salary costs. It decided to reach the international cost bench mark, not by cutting costs, but by boosting revenues.*

The results are there to see. Last year it sold 20mn policies. This year it has so far sold 8mn. It hopes to do 23mn by the end of the year. Between 1984 and 2000, growth was around 20 per cent. Last year premiums grew by 65 per cent. This year growth is expected to be 80 per cent.

Has all this growth happened only because of LIC? Absolutely not. The emergence of new private sector players led to competition. In the competitive environment, every insurance player is marketing. A large market is getting created. *Competition cannot change one element – LIC's history and the comfort it inspires – for a product where it is necessary for the seller to outlive every buyer! So, while competitors are creating the market, LIC is reaping the benefits*.

What is the logical strategy for LIC? Continue reaping the benefits? Improve efficiencies in the chain? Improve service level to policy-holders? LIC does not need to hire a strategy consultant to be advised on this!

LIC may be doing all the above. But what is LIC dreaming about? If press reports are anything to go by, it is dreaming about become an "integrated financial services player". Having acquired a stake in the three entities mentioned earlier, it wants to acquire more strategic stakes. It finds primary market dealership, trusteeship, securities and other businesses "interesting".

We see two issues here –

- *Focus is important for any organisation* – even more so in a competitive environment. Competition has been good for LIC so far. Once competition establishes a name and reputation, then competition can be extremely bad for LIC – unless it gears up operationally and on service levels. Therefore, LIC needs to be concentrating on the insurance business – not dreaming about becoming an integrated financial services player.
- *What is LIC's mandate from policyholders?* Are you and I paying our insurance premia so that LIC can become a financial services player? Even indirectly through "strategic stakes" in other financial services players? Is there a shade of the Unit Scheme 64 here, where there was a gap between what needed to be done with the funds (debt bias) and what was actually being done with the funds (equity bias)? The issue in the case of LIC is not so much the distribution of their portfolio between debt and equity, which in any case is controlled by IRDA. It is more a question of distribution of their equity portfolio between investments aimed at earning normal financial returns and investments aimed at creating a new positioning for LIC in the financial services space. *We believe there is no case for a distribution – every penny has to go towards earning normal financial returns.*

The stake in Corporation Bank is understandable - there are synergies. But what about the other alliances being talked about? LIC has the strength to maintain its stranglehold in the life insurance sector. As an organisation that likes to see Indian businesses excel, Advantage-India hopes LIC will do well. But *if they choose to digress, we can only wish them 'best of luck'. They will need a lot of luck!*

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