LIC's Millionaire Agents

Shilpy Sinha profiles two persons of humble origins who found their calling in insurance serendipitously, faced the music for their unorthodox career choice, but finally laughed their way to the bank with a bigger pay than the LIC chairman himself

Bharat Parekh

Annual Income ₹4 crore*

Average policy size ₹2 lakh

"I had to carry my Income Tax returns form to show my potential father-in-law that I earn enough to take care of his daughter and bring up a family"

While still a teenager, at the age of 17, Bharat Parekh risked being an outcast among his college mates. Not that he indulged in anti-social activities, nor were his friends caste-conscious, all he did was don the role of an agent for the Life Insurance Corporation of India (LIC).

It was for ₹300 a month in 1986 that Parekh sacrificed the charm of college days. Not that he grew up money minded, but he too was faced with the bane most middle class boys still face in India — getting their sisters married respectably.

Parekh, who missed out on watching matinee shows and playing cricket during his youth, is now a millionaire who can afford most luxuries of life. As an agent, his annual income is over ₹4 crore, around five times more than the ₹87 lakhs that LIC chairman DK Mehrotra took home last year. The sweat and toil behind selling 1,000 odd policies a year, helped Parekh marry his five sisters off in accordance with the demands of Indian tradition.

But the journey was a rough one. "I was the youngest in the family after five sisters… I needed a job to financially support my family," says Parekh. "My sisters asked me if there is anything else I could do. My friends in college stopped talking to me. An LIC agent was looked down upon and the perception was that only those who had nothing else to do in life became LIC agents." Even getting recruited as an agent was difficult given the minimum age for the job was 21. But Parekh managed to find work under a development officer at 18 and has never had to look back since then.

He sells around 1,000 policies a year, the worth of a policy being ₹2 lakh on an average, and manages to generate a premium of ₹200 crore for the corporation — the highest generated by any agent in India.

Even as college mates looked down on him and LIC was still taboo for the middle class, finding a prospective bride was an uphill task for Parekh. "I had to produce my Income Tax returns to prove to my potential father-in-law that I earn enough to take care of his daughter and bring up a family," says Parekh.

We are a happy family now. But building one was probably more difficult than convincing someone to buy an insurance policy, says Parekh. Married to Babita, Parekh has no intention to abandon his career of three decades. "It is the world's best profession," says Parekh citing the independence it provides and the sky-high opportunity to earn.

Yet, not all LIC agents are as successful as Parekh. What then, is his success formula? "Money is not everything," says Parekh. "I try to understand the family and educational background of a person and then suggest which policy he or she should buy." Indeed, LIC agents also play the role of a wealth manager, or a fund manager, for many who are financially illiterate.

"I converted a term plan into a pension plan for a rich, unschooled, widow to ensure her a regular income. Money does not stay with anyone so it is necessary to have a regular income." Some learning for a man who dropped out of college for ₹300 a month!

LIC Chairman DK Mehrotra's Annual Take home

₹87 lakh 2011-12

Ravi Jethani

Annual Income ₹3 crore*

Average policy size ₹2 lakh

"My wife did not like the idea initially. She even asked what's wrong with me. Now, thanks to the success, she trusts my gut "

It is difficult to give up addictions. But once done, life takes a turn for the better and Ravi Jethani can vouch for that.

Fourty two year-old Jethani forsook his stock broking business following wild swings in 2002 when he realised he was staring at steep losses. It was in 2002 that Jethani gave up his job as a sub-broker at Mehta & Vakil, a member of the Bombay Stock Exchange. That was after the technology bubble burst, taking with it many broking firms and families.

What began as a part-time role has come to dominate his life. The sub-broker who sold insurance policies to kill time after stock broking closed at 3.30 pm, made that into a full-time vocation once he realised how reliable and steady the business is, in comparison to stock markets.

It is glamourous to be a stock broker, but not an LIC agent. It was difficult to switch to insurance, but the stability made the sacrifice worthwhile. "My wife did not like the idea initially," says Jethani who lives in Mumbai's posh Pedder Road — home to some of the country's richest. "She even asked what's wrong with me. Now, thanks to my success, she trusts my gut."

More than a decade after choosing life insurance as a career, Jethani earns over ₹3 crore a year in commission. But that does not come easily. To earn that, he attends, on an average, 2.5 meetings a day and just one in ten meetings leads to a policy sale. That's probably worse than an investment banker's mergers & acquisition strike rate.

But being in one of the richest zones in the country has ensured that the average size of his policies are far higher than the national average. His average policy size is ₹2 lakh, which is 10 times more than the industry average.

Success came knocking quite early for Jethani. In his first year, he raised a premium income of over ₹64 lakh for the LIC that pushed him to the Million Dollar Round Table league, a global professional association formed in 1927 to help insurance sales agents improve their technical knowledge. There is a threshold income that agents need to generate to be a part of the club.

"I did not think it would become such a large piece of our business. The best part about the role is that it is like doing social service," says Jethani. For him, buying an insurance is not just that, but also a long-term saving. He doesn't sell short-term, equity-oriented policies such as Unit Linked Insurance Plans (Ulips).

The scars of his stock market experience are quite deep. In fact, his happiest moment was not when the LIC chairman presented him an award for his contribution, but when the state-owned insurer wrote a settlement cheque within six hours of an insurance holder's death.

So, what is Jethani's regret? "My only regret is that when I grow old, I won't have the energy to go out and meet people."

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*ET calculations based on internal millionaire rankings

COUNTRYSIDE BANKING

In Villages, Credit is Still All About Moneylenders

GAYATRI NAYAK
MUMBAI

The Reserve Bank of India's argument that new banking licences are needed to achieve financial inclusion, mainly in rural areas, has new research supporting it, thanks to banks' falling share in rural credit.

Policy makers' push to increase institutional credit to rural areas has had reasonable progress since independence, but only at a snail's pace. The performance of banks, which have been assigned targets by the regulator to increase their rural credit, has been dismal as their share of total credit fell to less than a quarter in 2002, from over 29% a decade ago, a research paper from the Reserve Bank of India's economists show. Of course, that is a climb from less than 1% in 1951.

"Co-operatives, commercial banks and other formal financial sector programmes have not displaced informal sources of credit altogether in rural areas, as 43% of rural households continued to rely on informal finance in 2002," says the latest research authored by Nayan Chandra Pradhan, assistant adviser in the Department of Economic and Policy Research, RBI.

A disturbing trend pointed out by Pradhan is that the hold of moneylenders has strengthened since liberalisation began in 1991, i.e their share in the decade following it has risen substantially. "A more disquieting feature of the trend was the increase in the share of moneylenders in the total debt of cultivators," the research quotes a Task Force report. "There was an inverse relationship between land size and the share of debt from informal sources. Moreover, a considerable proportion of the debt from informal sources was incurred at a fairly high rate of interest." About 36% of the debt of farmers from informal sources had interest rates of 20-25%. Another 38% of loans had been borrowed at an even higher rate of 30% and above.

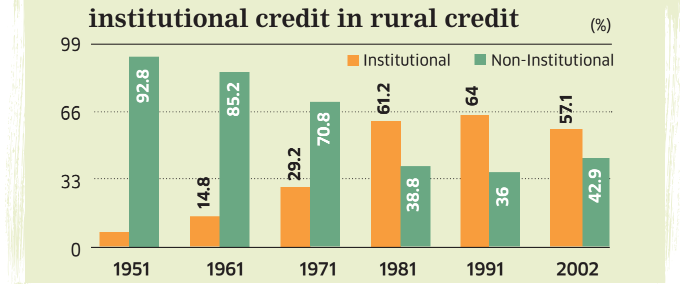
Banks are to be blamed for the plight of rural borrowers as their focus on profitable customers in urban areas, big corporate houses and more reliable and short-term retail loans have reduced lending to rural India. "The performance of some public sector banks in rural and agricultural lending is also inadequate while that of private and foreign banks is even lower, despite considerable expansion of the scope of priority-sector lending," says Pradhan.

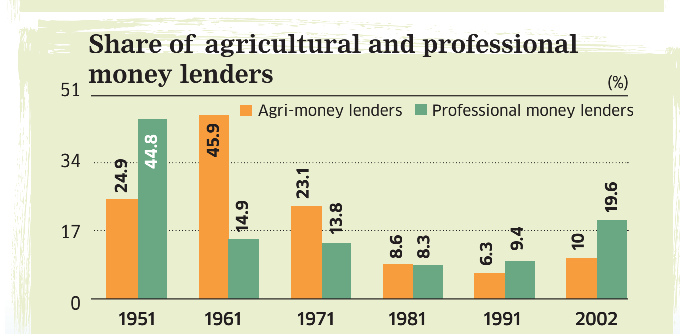
The hold of informal lenders has strengthened since liberalisation began in 1991, says RBI report

A pearl of wisdom from the report is that however much one may wish to do away with moneylenders, they will remain a part of the system in a country where banks are reluctant to lend to the rural population.

Moneylenders had a stranglehold over rural credit in the beginning of the Plan period — around 70% of the total — despite all measures to control, suppress or supplant them. That led to a suggestion in 1954 that, "… any realistic system of rural credit should seek to incorporate him (the money lender) in itself, rather than compete with him or wishfully expect to eliminate him."

Trends in Rural Credit





WINDOW TO THE WORLD

Lehman Goes Beyond Grave for Millions

I-bank is now holding confidential mediations with non-profits to settle disputes over swaps that were unwound

MARTIN Z BRAUN
NEW YORK

Almost five years after Lehman Brothers Holding filed for bankruptcy, triggering the global financial crisis, managers of the bank's estate are demanding millions of dollars from retirement homes, colleges and hospitals. After selling most of its assets, Lehman now says it was shortchanged by scores of non-profits that were forced to pay to exit derivatives, which were unwound after the firm filed for Chapter 11 protection.

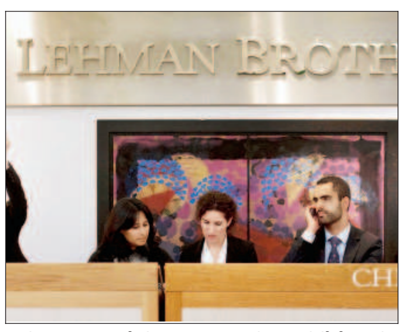
The Buck Institute for Research on Aging, California, gave Lehman $2 million in October 2008 to cancel a swap contract used to manage fluctuating interest rates. Lehman says it wants $12.1 million more and has assessed at least an additional $4.7 million in interest, the research centre said in its most recent financial statement. The amount Lehman is seeking is more than half of what Buck spent last year researching Alzheimer's, Parkinson's and other diseases. "Lehman is sort of a zombie-like bankruptcy entity: Instead of looking for brains, it's looking for cash," said Chip Bowles, a bankruptcy lawyer with Bingham Greenebaum Doll in Kentucky. "Lehman doesn't care. They have a duty to maximise their return to their bankruptcy creditors. If you're Mother Theresa, they'll go after you," he said.

Mary McEachron, Buck's chief administrative officer and general counsel, declined to comment, except to say the dispute has not been settled. Kim Macleod, a spokeswoman for Lehman in New York, declined to comment about the talks.

Before the financial crisis, Wall Street banks and insurers peddled financial derivatives known as interest-rate swaps to governments and non-profit organisations that bet they could lower the cost of borrowing. There were as much as $500 billion of the deals done in the municipal-bond market before the credit crisis, according to a report by Randall Dodd, a senior researcher on the Financial Crisis Inquiry Commission, published by the International Monetary Fund in 2010.

After Lehman filed for bankruptcy and the market for some municipal bonds collapsed, these charities and state and local governments paid more than $4 billion to Wall Street banks to exit the swaps, according to Bloomberg. Some officials said they were unaware of the risks involved in the trades.

In Lehman's case, the battle over swaps shows how far it will go to collect money for creditors, including public pension funds and municipalities that held its bonds. The disputes are taking place in confidential mediation sessions set up by the bankruptcy court in 2009. The aim is to settle disagreements faster, without costly litigation. Once the world's fourth-largest investment bank, Lehman filed the biggest bankruptcy in US history on September 15, 2008, after suffering billions in losses on subprime mortgages. It had more than 1.7 million derivative trades with thousands of banks, hedge funds, companies, municipalities and sovereign nations when it filed for protection from creditors.



Lehman says it has assessed an additional $4.7 million in interest on the swaps

Lehman's claims are now double the original based on the interest they are charging, said Phil Weeber, director of risk management at Pennsylvania-based Chatham Financial. "Lehman, from the very beginning, said they were going to use an assertive legal strategy to protect the estate," Weeber said. "That's what they're doing, and they're good at it."

Harvey Miller, the Weil Gotshal & Manges partner who has been Lehman's lead lawyer since the bankruptcy, also declined to comment on the negotiations. The New York-based law firm was paid $3.9 million in February, or about $140,000 a day.

Under bankruptcy laws, lawyers and managers of a failed company have a duty to raise as much money for creditors as they can. Lehman exited bankruptcy in March 2012 and is still liquidating. It has distributed about $47.2 billion and wants to pay creditors $65 billion by about 2016. Creditors will get an average of 18 cents on the dollar.

Some of Lehman's former clients have stopped fighting. Colorado's Housing and Finance Authority settled a dispute over swaps with Lehman as of March 2012 for an undisclosed sum, according to its most recent financial report. Others, such as Simmons College in Boston and Havenwood-Heritage Heights, which runs a retirement community in Concord, New Hampshire, are balking at Lehman's demands. — Bloomberg

Current Account

Shriram Life Insurance Seeks Alliance with HSBC

HSBC may not yet have divorced the life insurance joint venture with state-owned banks, but Shriram Life Insurance is competing with HDFC Life, Manulife and ICICI Prudential to hold the hand. Given that Shriram's insurance business is not as bright as its other businesses, the company may go more than half way to court state banks whose branches will be key to growing the business.

MUTED INTEREST IN TATAS' SINGAPORE BOND SALE

Tatas' name is among the most trusted for investors. But when it comes to global investors, this axiom does not appear to hold, given the rate at which it was willing to pay on bonds. A recent bond issue did not find many takers in the Singapore market, so the banks that arranged the sale had to take a substantial part of the loans and a state-run bank with presence overseas was the third biggest buyer, say persons familiar with the bond sale.

FIN SERVICES VETERAN RAJENDRA GANATRA JOINS SIDBI ARM

Rajendra Ganatra, who spent nearly 30 years in the financial services industry, has joined India SME Asset reconstruction Company (ISARC), an arm of Sidbi. He spent over 20 years with IDBI on the project finance side and subsequently joined SKIL as group executive director. The CEO post at ISARC was vacant since the time P Rudran moved to Arcil in April 2012.

RBI'S HOLD EXPOSED

The RBI has been steadfast in defending banks alleged of tax evasion and money laundering. It had refused to make its investigations following the cobrapost.com, expose public. But even before it realised, the report was in the cyber world. In fact, the ID from which the RBI report came was exposerbi@gmail.com. Some wonder if the next expose will be on the regulator, given the zeal with which cobrapost is proceeding.

Debt Recovery Laws a Must for Co-ops

Guest Column

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IBA

The Gujarat High Court recently ruled that a notification issued by the Central Government to extend the SARFAESI Act to co-operative banks is illegal and ultravires the powers of the centre.

The High Court granted the plea of about 70 defaulting borrowers of co-operative banks to the effect that such lenders cannot exercise recovery powers under the SARFAESI Act. With regard to the validity of the Recovery of Debts due to Banks and Financial Institutions Act (RDDB Act), 1993 ,the Supreme Court has already held that the provisions of the said Act are not applicable to co-operative banks.

The basis of this decision is that the RDDB Act is applicable to a banking company as defined in section 5(c) of the Banking Regulation Act (BR Act),1949. The definition under the BR Act is not intended to include a co-operative bank.

While extending the provisions of the BR Act to co-operative banks, through an amendment in 1965, co-operative banks were separately defined. The apex court made a distinction between banking undertaken by co-operative banks and commercial banks and observed that: "The distinction between peoples' co-operative banks serving their members and corporate banks doing commercial transactions is fundamental to constitutional dispensation and understanding co-operative banking generally and in the context of co-operative banking not coming under the ambit of the Banking Regulation Act,1949. Thus, even if co-operatives are involved in the activity of banking, which involves lending and borrowing, this is purely incidental to their main co-operative activity, which is a function in the public domain."

The Supreme Court also noted that co-operative banks have comprehensive, self-contained and less-expensive remedies before them under the State co-operative societies laws. The apex court further held that the field of co-operative societies cannot be said to have been covered by Parliament by reference to List I, Entry 45 that is banking.

Co-operative banks constituted under the Co-operative Societies Acts, enacted by the respective States, would be covered by List II entry 32 of the State list. Hence the RDDB Act is not applicable to co-operative banks.

The Gujarat High Court judgment holding that the SARFAESI Act is not applicable to co-operative banks is based on the above ruling of the Supreme Court.

Section 5(b) of the BR Act, defines 'banking' as accepting, for the purpose of lending or investment, deposits of money from the public, repayable on demand or withdrawable by cheque ,draft, order or otherwise. In the applicability of this definition, no change is made by section 56 of the BR Act which specifies modifications of the provisions of the Act for co-operative banks. The co-operative banks can, therefore, accept public deposits.

The view that co-operative banking is peoples' co-operative banking servicing their members is erroneous, as far as deposit taking activity is concerned. With respect to lending activity, co-operative banks require borrowers to become their members but that does not change the character of business undertaken by co-operative banks which is no different from commercial banks.

BANKING A UNION SUBJECT

With the highest respect for the courts of law, it is submitted that banking is a subject in the Union List and Parliament is well within its powers to enact a law to provide that any entity undertaking banking business shall be governed by banking laws which include laws to regulate banks and recover defaulted loans.

The enactment of the Enforcement of Security Interest and Recovery of Debt Laws (Amendment) Act, 2012, has modified the definition of 'bank' contained in 'SARFAESI' Act, as well as RDDB Act, to include 'multi-state co-operative banks'.

The Amendment Act negates the judgements of the apex court and the Gujarat High Court as far as multi-state co-operative banks are concerned.

In the matter of undertaking banking business, a co-operative bank established under the State cooperative law, is as much a commercial bank as any other lender, doing banking business with public money. Considering the large number of borrowers of co-operative banks objecting to recovery actions under the Central Debt Recovery Laws, it is clear that the Central laws are effective and resulting in better recovery for the co-operative banks.

In the interest of better management of co-operative banks, and to protect the interest of depositors of such banks, it is necessary to extend the Central Debt Recovery laws to co-operative banks — as has been done for the multi-state co-operative banks — as an additional remedy to recover defaulted loans.

It needs to be appreciated that banking is a subject in the Union list and any person whether a corporate, or non-corporate, or any association of persons conducting banking business has to be governed by banking laws irrespective of the status of such a person. Debts due to co-operative banks are no different from debts due to other banks and the same considerations for speedy recovery of defaulted loans of banks should apply to co-operative banks. The Central Debt Recovery Laws, therefore, need to be extended to all co-operative banks as has been done for multi-state co-operative banks.

(Views expressed are personal)