Q&A: D K Mehrotra, Acting chairman, LIC 16-Oct-2011 Source : Business Standard
By Niladri Bhattacharya,

Conventional products, which provide a regular flow of premium, is the lifeline for any insurer, says D K Mehrotra, acting chairman of the country's largest life insurer, Life Insurance Corporation (LIC) of India. In an interview with Niladri Bhattacharya, he says allowing banks to sell multiple insurers' products would not prompt banks to act like brokers. Edited excerpts:

Since the new guidelines on unit-linked investment plans (Ulips) were introduced in September 2010, sales have taken a beating, though LIC's share rose. How do you assess the current market conditions? Is it a concern?
Before September 2010, the life insurance industry was riding on Ulip sentiments, and the guidelines affected Ulip sales. It also impacted us, but we managed to show positive results. Ulip sales have also been hit by the volatile market conditions. Ulips were perceived to be investment products, rather than risk covers. This distorted the sale of the product. However, there is huge potential for Ulips, once the market conditions improve. But till that time, we are focussing more on conventional products. It is fact that LIC's market share has gone up, but total industry sales have come down. This means the insurance pie in the market is shrinking. It should ring a bell for everybody today, since this is a big concern.

You said the product mix has changed in favour of traditional plans. What is the mix for LIC?
Three years ago, when Ulip sales were booming, our product mix was 80-20 in favour of Ulips. But we realised for a long-term perspective, the basic lifeline for any insurer would be conventional products, which offer a regular flow of premium. Hence, we took a conscious decision to make a paradigm shift from Ulips to conventional products. That shift has happened, and now, 60 per cent of the products are traditional in nature.

Given the dip in premium collection, would you be able to meet annual targets?
Right now, markets are choppy and premium collections have slowed. We expect growth to return. We have targeted Rs 54,000 crore as the first-year premium collection for the current financial year. We will have to walk that extra mile to achieve the target.

Would the drop in Ulip sales affect your equity investment during 2011-12?
The drop in Ulip sales does not impact our equity investments, as we have a very simple thumb rule for investments. We invest 10 per cent of the investable surplus in the equity market. If we are able to maintain the flow of premium, through Ulips or through conventional plans, investments would not be hit. So far this year, we have invested around Rs 15,000-16,000 crore in equities. Last year, we invested Rs 43,000 crore in equities. This year, too, we should be investing a similar amount.

What is LIC's stance on opening up bancassurance ?
If the regulator allows banks to have more than one insurer as a partner, LIC should be the partner of choice for any bank. However, it should not be seen as a broking model. We have to be careful. Bankers should not start behaving like brokers and sell products only on the basis of high commissions. They should look at the convenience of buyers.

What is your take on the net asset value (NAV) products that offer the highest guarantees?
The regulator is expected to come out with guidelines on such products. We had a very

successful NAV guaranteed product. Other companies had similar products as well, which were very successful. But such products have inherent risks because to guarantee NAV, one needs to have underlying assets. The main question is whether companies can access those underlying assets. Such products must remain as one of the choices for customers.