'LIC 3.0 to be listed, nimble, agile'

Ahead of the much-anticipated initial public offering (IPO) of Life Insurance Corporation (LIC) of India, **M R KUMAR,** chairman of the corporation, and **K R ASHOK**, chief actuarial, spoke to the media on the various issues germane to the insurer and the forthcoming IPO. Edited excerpts:

"LIC CLOCKED IN ₹40,000 CRORE PROFIT FROM STOCK SALE AS OF NOVEMBER 2021"

M R KUMAR
Chairman

Q&A

M R KUMAR
Chairman, LIC

K R ASHOK
Chief actuarial, LIC

Will policyholders feel short-changed because of a change in the surplus distribution ratio?

Kumar: Policyholders' interests will be taken care of. There was a single unified fund all along. We did not do it like the private sector. The time was ripe for us to realign with the industry. We were following the 95:5 surplus distribution model, but the industry went back to 90:10 some time ago. Once we started the embedded-value exercise, the Department of Investment and Public Asset Management brought in Milliman Advisors to determine the embedded value.

It was a humongous exercise. More than 250 million policies were involved. To run them through the process, we purchased software from FIS Singapore.

Ashok: The amendment makes LIC in consonance with other players. After the transition period (by 2024-25), we will be perfectly aligned with the private players.

What happens if you need capital for growth in the foreseeable future?

Kumar: We don't require capital right now. If there is any capital requirement, we will have to approach not only the government but all shareholders, who will be part of the family by then.

What will you do to increase profitability?

Kumar: With the change in surplus distribution, profitability will increase. It's a question of how the product mix changes, penetration, more coverage, and getting into sectors we have been missing out on. That should take care of the profits.

Ashok: For life insurance companies, profit comes from the product itself. Given the strategy LIC is adopting to move in a focused way to non-par products, the higher margins associated with such products should take care of the profits.

How are you planning to expand on the bancassurance model?

Kumar: We are very strong in the agency channel. This is a channel which is very difficult to replicate. On the bancassurance side, we have been making progress over time. In terms of generating volumes (premiums), we are the third or fourth, but in terms of percentage, it is low because our base is quite high. We have tie-ups with nearly 58,000 bank branches. This is higher than any other private insurance company. There is a lot of headroom for taking that leap.

In terms of product mix, we are working on several products, both par and non-par. We might have differentiated products for bancassurance like the rest.

"FOR LIFE INSURANCE COMPANIES, PROFIT COMES FROM THE PRODUCT ITSELF"

K R ASHOK
Chief actuarial

Will the evolving geopolitical situation have some impact on foreign investor participation?

Kumar: We are monitoring the situation very closely. We are keen on having the listing in March.

Any update on policyholders linking their permanent account number (PAN)?

Kumar: There was a lot of interest. The time for policy-buying for policyholder reservation got over on February 13. But there is still time to link your PAN and to open your demat account. Roughly, we must have linked more than 6–7 million policies with PAN cards.

What is the timing of the issue? What will change for LIC after listing?

Kumar: We would like to get this done this fiscal year and that is what we have been saying all along.

When we nationalised life insurance, it was LIC 1.0. When the market opened up, we did well despite competition. That was LIC 2.0. Now we will see LIC 3.0 – a listed life insurance company. It will mean that we will be having a family of shareholders with us, whose requirements we need to cater to, and be agile and nimble. We hope to deliver excellent results to our policyholders and our shareholders.

How much profits from the equity markets has LIC made this year?

Kumar: In 2020-21, we had equity profits of ₹37,000 crore. In the current year as of November, we have reached ₹40,000 crore.

RBI to suck out $5 billion liquidity ahead of LIC IPO

MANOJIT SAHA
Mumbai, 21 February

2-YR FOREX SWAPS

- Likely to strengthen the rupee
- Creates space for OMO purchases to support government borrowing
- Allows RBI to book profit and improves its ability to pay dividend
- Smoothens banking system liquidity – one more step towards normalisation

The Reserve Bank of India (RBI) has announced a dollar–rupee two-year sell-buy swap auction for $5 billion on March 8, which will suck out rupee liquidity from the system.

The swap will be in the nature of a simple sell/buy foreign exchange from the RBI side, in which a bank will buy US dollars from the central bank and simultaneously agree to sell the same amount of US dollars at the end of the swap period.

"With a view to elongating the maturity profile of its forward book and smoothen the receivables relating to forward assets, it has been decided to undertake sell/buy swap auction of $5 billion on March 8, 2022," the RBI said in a statement. The auction cut-off will be based on the premium amount in paisa terms up to two decimal points.

In the first leg of the transaction, the bank will buy US dollars from the RBI at the FBIL Reference Rate of the auction date. The settlement of the first leg of the swap will take place on spot basis from the date of transaction and the RBI will debit the Rupee funds from the current account of the successful bidder and the bidder will receive US dollars into its nostro account. In the reverse leg of the swap transaction, that is, after two years, US dollars will have to be returned to the Reserve Bank, to get the Rupee funds back including the swap premium.

Market participants said the move would suck out liquidity ahead of the initial public offering of Life Insurance Corporation of India (LIC) and other such issues that are lined up in March – to the tune of $18 billion. "The FX swap tool would also prepare RBI to manage the gush of dollar flows ahead of the LIC IPO and other smaller IPOs lined ahead in the coming month(s) amounting to $15-18bn+," said Madhavi Arora, lead economist, Emkay Global. "The sell-buy swap would thus be used tactically by the RBI as one of the tools to smoothen banking system liquidity," Arora said.

Foreign exchange players said the move is positive for rupee and will push up dollar/rupee forward premium. "The RBI wants to absorb the liquidity pertaining to LIC IPO," said Amit Pabari, managing director, CR Forex. "This will result in forward premia going up," he added. The RBI had a long forward book of $49.1 billion as of end-December. Of that, net $699 million long dollar positions were to mature in up to one month, $1.2 billion in more than one to three months, while $47.2 billion were to mature in more than three months to a year.

In March 2019, the RBI announced a dollar-rupee swap for $5 billion to boost liquidity, where it purchased dollars to infuse rupee liquidity. The latest announcement was also aimed to suck out that dollar liquidity that will be coming in due to that end of the three-year swap period.

The dollar-rupee sell buy is also seen as a balance sheet management exercise of the central bank before the account closing on March 31.

"This is firstly a balance sheet management exercise by the RBI. It will allow them to book some profits as well as reduce the forex reserves size. That would imply lower capital buffers to be set aside when the annual accounts are closed on March 31 and that would improve RBI's ability to pay dividends," said A Prasanna, head (fixed income research) at ICICI Securities PD.

"As a byproduct this move will also suck out rupee liquidity from the money market. However, I don't think this is the primary objective as using the forex market for liquidity management would be expensive. Ideally the RBI should only use bond market and money market tools for liquidity management," he said.

The move will enable the RBI to conduct open market operations to purchase bonds, and infuse liquidity, in the next financial year which would be required to manage ₹11.6 trillion of net government's borrowing.

FROM PAGE 1

LIC...

"The whole idea of us picking up a stake in the bank was for a strategic reason and that has not gone away. In fact, IDBI Bank has been the strongest contributor for us in the bancassurance channel," Kumar said.

"In a post-listing scenario, when we would want to expand on the bancassurance business, this is something that will really help us. I, as chairperson, LIC, would like to see this relationship continuing in the future," he added.

LIC had picked up a 51 per cent stake in IDBI Bank in 2019. Subsequently, in 2020, it reduced its shareholding to 49.24 per cent. Currently, the government of India and LIC hold 94.71 per cent in the bank. The government is looking to sell its stake in the lender and LIC will also offload its stake, although the quantum of stake sale has not been made public so far.

"It is up to the government and DIPAM to kick off the privatisation exercise. But since it was a strategic partnership to begin with, we might stick on to some stake so that we continue the relationship we have in bancassurance and other areas, which is a win-win for both LIC and IDBI Bank," Kumar said.

Since LIC is the parent company of both IDBI Bank and LIC Housing Finance, and since both are engaged in the mortgage business, the RBI had given LIC time till November 2023 to wind down either of its associates' housing finance business. Kumar said, "The RBI has given time to us till November 2023 on the LIC Housing and IDBI Bank issue. Before that we have to take a call whether we want LIC Housing Finance to source the business from IDBI Bank. The other scenario is in case disinvestment happens before the timeline, then the problem would not arise." LIC had a single "life fund" before Section 24 of the LIC Act was amended by the government to bring its surplus distribution mechanism at par with private life insurers.

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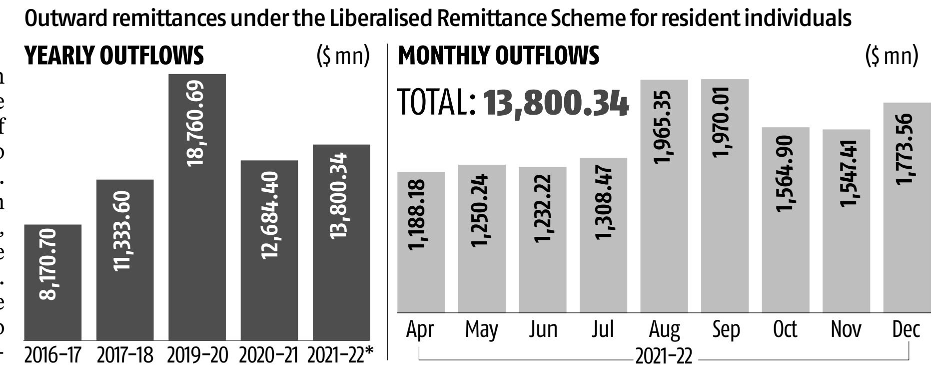
$14 bn remitted by Indians in Apr-Dec

Travel, studies abroad lead the surge as Covid-19 restrictions ease

MAKING A COMEBACK

Outward remittances under the Liberalised Remittance Scheme for resident individuals



MANOJIT SAHA
Mumbai, 21 February

Outward remittances under the Reserve Bank of India's Liberalised Remittance Scheme (LRS) have made a strong comeback in the current financial year after a tepid 2020-21 as Covid-led disruptions impacted the flows.

According to the latest data released by the RBI, outflows under the scheme were $13.8 billion in the first nine months of the current financial year as compared to 12.7 billion for the entire FY21.

Remittances in the last three months of 2021 were $4.9 billion, mainly due to a surge in travel and studies abroad-related remittances. Capital India, which provides foreign exchange-related solutions via its arm Remitx, said opening up of visas by several countries for leisure travel was one of the factors for the sharp increase in travel-related remittances.

"There are multiple factors that have led to a jump in travel-related remittances. The embassies and consulates of many countries have opened to issue visas for leisure travel. Countries like Dubai have been promoting their Expo 20-20, which has also seen a sharp rise in travel to the UAE. Universities overseas have been asking their students to fly to their respective colleges/universities and attend lectures. All these reasons have led to an increase in travel-related remittances," a senior official at Capital India said.

Travel-related remittances jumped to $884 million in December 2021 as compared to $456 million in November. Remittances related to studies abroad dipped to $254 million in December after touching $580 million in October and $482 million in November.

Total outward remittance in December was $1.78 billion as compared to 1.5 billion each in November and October.

Under the LRS, all resident individuals, including minors, are allowed to freely remit up to $250,000 in every financial year for any permissible current or capital account transactions, or a combination of both.

The LRS for individuals, while it is open for both current and capital account transactions, is largely in current account transactions like travel, studies, etc.

The RBI had recently said the LRS is largely in current account transactions and that there is a need to review the scheme due to changing requirements.

In the financial year 2019-20, outward remittances hit a record $18 billion, a year before the Covid-19 pandemic broke out. Capital India said the actual spike in remittances is expected in 2023-24.

"Number of events that have been postponed since FY20 will have to be completed. MICE (meetings, incentives, conferences, and events), which were postponed due to travel restrictions, will open. Corporate travel, though restricted, will also see a small spike which will add to the outflows. Finally, leisure travel will see a considerable spike as many people have been waiting to travel on vacation overseas," the Capital India official said.

"We feel that the outflows (FY22) could either be at the same levels seen in FY20 or a shade lower. We at Capital India (RemitX) feel the actual spike can be seen in FY23-24 when all the countries will have opened up and travel/trade growing substantially," the official added.