GUIDELINES FOR CASE STUDY COMPETITION

1. The case study competition is an assessment of the students analytical thought process and their understanding to the content subjected in the case.
2. The competition will be held faculty wise where in students from participating colleges of similar faculty will be selected randomly to form a group.
3. The case will be allotted to the group before-hand. The case would be both analytical and informative in nature.
4. The case study competition will culminate in a power point presentation, where all the students' participation is anticipated as one of the part of assessment.
5. Individual assessment of the students will be done during the presentation. Students are required to introduce themselves, stating their Name and student code allotted to them.
6. The assessment will on the basis of
    a. Comprehension of the Case
        - Introductory content
        - Statement of Problem
    b. Analysis and solution to the stated problem/condition in the case.
    c. Presentation and Report.
    d. Skill Assessment will on :
        - Problem-solving skill
        - Creativity skills and
        - Presentation skills.
7. The assessment will also be in the form of questions raised by the judges to any of the group member, therefore a thorough understanding and full coordination is expected by all the members in the comprehension of case study.
8. The time allotted for the presentation of the case is 4 minutes. The presentation should not be more than 5-8 slides.
9. The first slide should specify the topic/ title, Discipline (Management, engineering....), and name of the group members along with student code.
10. Students are required to stick to the time limit as there would be negative marking.

Case 1. The Ketan Parekh Scam

KP was a chartered accountant by profession and used to manage a family business, NH Securities started by his father. Known for maintaining a low profile, KP's only dubious claim to fame was in 1992, when he was accused in the stock exchange scam. He was known as the 'Bombay Bull' and had connections with movie stars, politicians and even leading international entrepreneurs like Australian media tycoon Kerry Packer, who partnered KP in KPV Ventures, a $250 million venture capital fund that invested mainly in new economy companies. Over the years, KP built a network of companies, mainly in Mumbai, involved in stock market operations.

The rise of ICE (Information, Communications, and Entertainment) stocks all over the world in early 1999 led to a rise of the Indian stock markets as well. The dotcom boom contributed to the Bull Run8 led by an upward trend in the NASDAQ9.

The companies in which KP held stakes included Amitabh Bachchan Corporation Limited (ABCL), Mukta Arts, Tips and Pritish Nandy Communications. He also had stakes in HFCL, Global Telesystems (Global), Zee Telefilms, Crest Communications, and PentaMedia Graphics KP selected these companies for investment with help from his research team, which listed high growth companies with a small capital base. According to media reports, KP took advantage of low liquidity in these stocks, which eventually came to be known as the 'K-10' stocks. The shares were held through KP's company, Triumph International. In July 1999, he held around 1.2 million shares in Global. KP controlled around 16% of Global's floating stock, 25% of Aftek Infosys, and 15% each in Zee and HFCL. The buoyant stock markets from January to July 1999 helped the K-10 stocks increase in value substantially (Refer Exhibit I for BSE Index movements). HFCL soared by 57% while Global increased by 200%. As a result, brokers and fund managers started investing heavily in K-10 stocks. Mutual funds like Alliance Capital, ICICI Prudential Fund and UTI also invested in K-10 stocks, and saw their net asset value soaring. By January 2000, K-10 stocks regularly featured in the top five traded stocks in the exchanges (Refer Exhibit II for the price movements of K-10 stocks). HFCL's traded volumes shot up from 80,000 to 1,047,000 shares. Global's total traded value in the Sensex was Rs 51.8 billion10. As such huge amounts of money were being pumped into the markets, it became tough for KP to control the movements of the scrips. Also, it was reported that the volumes got too big for him to handle. Analysts and regulators wondered how KP had managed to buy such large stakes.

KP's modus operandi of raising funds by offering shares as collateral security to the banks worked well as long as the share prices were rising, but it reversed when the markets started crashing in March 2000. The crash, which was led by a fall in the NASDAQ, saw the K-10 stocks also declining. KP was asked to either pledge more shares as collateral or return some of the borrowed money. In either case, it put pressure on his financials. By April 2000, mutual funds substantially reduced their exposure in the K-10 stocks. In the next two months, while the Sensex declined by 23% and the NASDAQ by 35.9%, the K-10 stocks declined by an alarming 67%. However, with improvements in the global technology stock markets, the K-10 stocks began picking up again in May 2000. HFCL nearly doubled from Rs 790 to Rs 1,353 by July 2000, while Global shot up to Rs 1,153. Aftek Infosys was also trading at above Rs 1000.

In December 2000, the NASDAQ crashed again and technology stocks took the hardest beating ever in the US. Led by doubts regarding the future of technology stocks, prices started falling across the globe and mutual funds and brokers began selling them. KP began to have liquidity problems and lost a lot of money during that period.

It was alleged that 'bear hammering' of KP's stocks eventually led to payment problems in the markets. The Calcutta Stock Exchange's (CSE) payment crisis was one of the biggest setbacks for KP. The CSE was critical for KP's operation due to three reasons. One, the lack of regulations and surveillance on the bourse allowed a highly illegal and volatile badla business (Refer Exhibit III). Two, the exchange had the third-highest volumes in the country after NSE and BSE. Three, CSE helped KP to cover his operations from his rivals in Mumbai. Brokers at CSE used to buy shares at KP's behest.

The small investors who lost their life's savings felt that all parties in the functioning of the market were responsible for the scams. They opined that the broker-banker-promoter nexus,

which was deemed to have the acceptance of the SEBI itself, was the main reason for the scams in the Indian stock markets.

SEBI's measures were widely criticized as being reactive rather than proactive. The market regulator was blamed for being lax in handling the issue of unusual price movement and tremendous volatility in certain shares over an 18-month period prior to February 2001. Analysts also opined that SEBI's market intelligence was very poor. Media reports commented that KP's arrest was also not due to the SEBI's timely action but the result of complaints by BoI.

1. Study the developments that led to the Ketan Parekh scam and comment on SEBI's actions after the scam was unearthed.

2. The Ketan Parekh scam was an example of the inherently weak financial and regulatory set up in India. Discuss the above statement, giving reasons to justify your stand.

Case 2. Life Insurance Corporation's Future Prospects

Ravi Bhargava (Bhargava), Assistant Marketing Manager, Life Insurance Corporation of India (LIC) was disconcerted by the full-page advertisement in the newspaper. The advertisement, by an Indian company in alliance with a US insurance company declared, 'Till now we were all buying insurance blindfolded, wake up. Experience the new phenomenon, one giving shape to all your dreams and driving away all your fears.' On the next page was another advertisement by an Indian bank, inviting applications from agency managers, promising a very good work atmosphere and 'best in the industry' remuneration. Bhargava had been Marketing Manager at LIC for the past eighteen months and eight of his best performing agents had submitted their resignations. He feared more would follow suit. The new players in the life insurance market were already affecting LIC. The Monitor Group, a Boston-based strategy consulting firm, which studied the trends in the Indian insurance market after it was thrown open to private players, predicted that LIC would find the going tough.

But Prakash Sharma, (GM, Marketing Division) was more optimistic: "It is obvious they will look for the best of our people, but we are not unduly worried. LIC offers a commission of 35% of the premiums for the first year and 7.5% for the next two years, and 5% for the rest of the period for which the sum is assured. At the most, the new players will be able to offer 40% - not good enough to attract our people. These are all new players and none can beat our 44 years of experience." But Bhargava and Sharma knew that the issues involved were not that simple.

In 1956, there were 154 Indian insurers, 16 foreign insurers and 75 provident societies in the life insurance sector in the country. The life insurance business was concentrated in urban areas and served only the wealthy sections. In January 1956, the management of the 245 Indian and foreign insurers and provident societies was taken over by the Central Government. Life Insurance Corporation was formed as a government regulated monopoly in September 1956 by an Act of Parliament, (LIC Act 1956) with a capital contribution of Rs 50 million. Over the years, LIC built a strong distribution and agent network. By 2000, LIC had 2048 branches and 500,000 agents across the country. With income from premiums totalling

Rs 6,262 crore and a Rs 1,60,935 crore asset base for fiscal 2001, LIC was a financial powerhouse, with a presence in mutual funds and housing loans besides life insurance (Refer Table I for LIC's growth statistics).

The company had insured more than 11.5 crore people in the country through its individual and group schemes. Of the 60-80 million life insurance policies outstanding, 48% were from the rural and semi urban areas. This was very impressive since no company in any other industry had been able to tap the rural market to this extent. LIC's annual revenue growth rate was 8.8% during 1993-2000.

Table I
LIC'S Growth over the Years

	1957	1974-75	1979-80	1996-97
Individuals (Rs billion)	14.7	118.52	192.43	344.62
Group (Rs billion)	0.05	14.57	61.37	64.61
No. of policies in force (million)	5.69	18.8	22.09	77.75
Group business (million)	n.a.	2.33	5.84	24.45
Life fund (Rs billion)	4.1	30.34	58.18	877.59

The opening up of the insurance sector had been the subject of debate for many years. The Insurance Regulatory and Development Authority (IRDA) bill, which was tabled in Parliament, contained detailed guidelines for inviting private players into the insurance sector. In December 1999, the Government approved the IRDA Act, making IRDA the authority to protect the interests of policyholders, and to regulate, promote and ensure the systematic growth of insurance industry.

After August 2000, private licenses were given to HDFC-Standard Life, ICICI Prudential and Max New York. International companies that entered the sector included Lombard, Zurich, Allianz, Royal & Sun Alliance, Chubb Insurance, AIG, ING and CGNU, while ICICI, Hero Honda, Dabur, the Tatas, the Birlas, SBI, HDFC and Reliance were the major Indian players. With the opening up of the insurance sector, media reports predicted tough times ahead for LIC. A report revealed that LIC was 70% over-staffed, which meant that its competitors would have substantial labor-cost advantages. The report also predicted that LIC might find it difficult to retain and protect its extensive agent network and, in particular, to ensure that the most talented and influential agents stayed with it. LIC was also expected to face fierce competition on the new product development front.

In November 1999, even as the IRDA Act was being debated in Parliament, LIC begun preparations for meeting the threat posed by private players. The company appointed

consultants Booz, Allen and Hamilton to do a scenario-building exercise, suggest areas for process re-engineering, and recommend ways to sharpen customer focus. LIC gave top priority to introducing over-the-counter (OTC) facilities that would help it serve its customers better. By 2000 it had computerized and locally networked all its 2,048 branches. The speed of service delivery, particularly in the case of claims-settlement, had also improved. The total outstanding claims were brought down to 2.74% in 2000 from 3.47% in 1995.

LIC realized that to be able to retain its position, it would have to be match the technological sophistication of the multinationals. LIC extended its Metropolitan Area Network (MAN) system from Mumbai, Delhi and Bangalore to Ahmedabad, Pune, Hyderabad, and Calcutta. This enabled LIC customers to pay premiums and get status reports from any of its branches in these cities. LIC planned to eventually connect upto 27 cities in a Wide Area Network (WAN). E-mail and Internet facility were introduced at over 600 additional branches. A mechanism was put in place to facilitate insurance premium payment over the Internet in cities that were covered by the WAN.

Soon after the IRDA announcements, there were a number of breakups in the private sector joint ventures. This was largely due to IRDA rules and regulations, which stipulated that the partners to a joint venture could not disinvest from the venture for a period of seven years after the license was granted. This meant that no there was no exit route for companies that wanted to opt out. Also, foreign insurers were allowed only 26% equity participation. With the majority stake being with the domestic partner, foreign insurers would have little say in the management of the company and important decisions could be easily considered without them. This led to the break up of several partnerships: AXA-Cholamandalam, Hindustan Times-CGU, Alpic-Allianz, Dabur Finance-Allstate, CGNU-Bombay Dyeing, Chubb-Kotak Mahindra, Eaglestar-ITC, Cigna-Ranbaxy, Manulife-UTI etc. The companies that did stay back found the going tougher than expected as they had the added burden of having to build credibility in the marketplace and to build infrastructure. The average business LIC got per active agent was Rs 1.26 million - a figure hard to achieve over a short period of time. The services offered by the new players were found to be quite similar to the ones offered by LIC, with differences only in the presentation and packaging of the policies.

Reacting to media reports about LIC being adversely affected by the entry of MNCs, an LIC agent said, "The entry of the private players will not make any difference to LIC. The private players will concentrate more on the higher income groups while LIC will maintain its goodwill among the masses." A policyholder added, "LIC has already been offering all the frills that the private players are now banking on and the only differentiating factor could be the quality of service." Apprehensions of the MNCs 'taking over' the Indian insurance sector were gradually put to rest as various reports revealed that LIC would easily continue to be the market leader. A Monitor Group study predicted that LIC would continue to have 75-80% market share even in 2010. A report by consultants KPMG revealed that the threat of new players taking over the market had been overplayed and that the nationalized players would continue to hold strong market share positions. At the same time, there would be enough business for new entrants.

A look at the developments in other countries which opened up their insurance sector to global players reveals that new companies seldom displace the existing players. In China, Malaysia, Indonesia and Thailand, the foreign companies accounted for only 10% of the

market share. In South Korea, the opening up of the sector saw the six biggest domestic players, who initially controlled the entire market, increase their business substantially. The foreign companies were not able to capture more than 0.4% of the domestic market. What LIC does to retain its competitive strength will determine its success in the future. For now, LIC seems to be taking a Business Wire report very seriously. This report aptly summed up the whole issue: "Over the years, LIC has made money the easy way. Hereafter, it must sweat for it."

1. Write a brief note on LIC's reaction to the entry of foreign players. Critically examine the steps taken by LIC to face the competition from MNCs.

2. Do you think LIC will be able to remain the market leader in the insurance business in the long run? Give reasons for your answer.