

## Business Standard

# Insurance Bill gives chance to promoters to unlock value through FDI hike

**PSBs to raise money by divesting capital; talks begin for fair valuation**

Abhijit Lele & M Saraswathy | Mumbai  
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The Insurance Laws (Amendment) Bill, now passed by Parliament, will give room for promoters of companies in the sector to unlock value through a foreign direct investment (FDI) stake rise.

Some, like Star Union Dai-ichi Life already have the foreign joint venture (JV) partner committed to raising their stake. Others such as [SBI Life](#) might see this happen from their foreign partner.

This also throws up a chance for public sector banks (PSBs), in dire need of capital for banking operations. They could unlock value by reducing stake in insurance companies. Bank of India, IDBI Bank and Andhra Bank are among the lenders seriously looking at this option.

Girish Kulkarni, managing director at Star Union Dai-ichi Life Insurance, said: "Our foreign partner was keen to increase their stake even when the Bill was in the ordinance stage. By the JV agreement, Dai-ichi Life could increase its stake to 44 per cent but, if agreed among all promoters, they can look at 49 per cent, too. We should be among the first movers in this regard." ([Insurance law: impact on stakeholders](#))

Star Union Dai-ichi Life has Bank of India with 48 per cent stake, Union Bank with 26 per cent stake and Dai-ichi Life holds 26 per cent. For insurers promoted by PSBs, executives said it might give an alternative to putting pressure on the government to infuse capital. Among those in need are IDBI Bank, Bank of India (BoI), Indian Overseas Bank, Allahabad Bank and Andhra Bank.

Top BoI executives said there was an opportunity to raise money by divesting part of the stake in their insurance venture. Experts say private equity would be preferred in cases where prior pricing arrangements in

some insurance ventures allows the foreign partner to disagree on what is the fair value.

Sources say Andhra Bank is also looking to reduce its stake in IndiaFirst Life Insurance. Bank of Baroda holds a 44 per cent stake in IndiaFirst, while Andhra Bank holds 30 per cent stake and Legal & General holds 26 per cent.

As for SBI Life Insurance, State Bank of India owns 74 per cent of the total capital and BNP Paribas Cardif the remaining 26 per cent. Arijit Basu, MD, SBI Life, said their foreign partner was keen to increase its stake, though the talks were at a preliminary stage.

Based on current estimates, experts expect at least Rs 20,000 crore in the near term. Deepak Mittal, MD of Edelweiss Tokio Life Insurance, expects inflows of at least Rs 20,000-25,000 crore in the next 12-18 months. "Tokio Marine Holdings Inc, Japan, has said they are keen to increase stake and may raise it to 49 per cent," he said.

### SOME INSURERS PROMOTED BY PUBLIC SECTOR BANKS: LIKELY CANDIDATES FOR HIGHER FDI?

| Insurer                                   | Bank partners       | Stake (in%) |
|---|---------------------|-------------|
| <b>Star Union Dai-ichi Life Insurance</b> | Bank of India       | 48          |
|   | Union Bank          | 26          |
| <b>IndiaFirst Life Insurance</b>          | Bank of Baroda      | 44          |
|   | Andhra Bank         | 30          |
| <b>SBI Life Insurance</b>                 | State Bank of India | 74          |
| <b>IDBI Federal Life Insurance</b>        | IDBI Bank           | 48          |
|   | Federal Bank        | 26          |

Note: The foreign partner holds 26 per cent stake in all the above entities  
Source: Companies

### Irdai on control

While stake rises by the foreign partner will happen in the next few months, experts said the issue of Indian management and control will also have to be clarified by the Insurance Regulatory and Development Authority of India (Irdai). Anuj Shah, principal associate, Khaitan & Co, said the new law requires an Indian insurer to be Indian-owned and controlled. The Bill defined control to include the right to appoint a majority of directors or ability

to control certain decisions.

"However, Irdai's interpretation of control remains to be seen. Any foreign investor investing 49 per cent will expect some say in the company's affairs. It remains to be seen which rights would Irdai allow for foreign investors to have. We expect it to be liberal with interpretation of 'control' and to draw a parallel from other regulators such as Sebi (the securities market regulator) in interpreting it," he added.

### PSBs' stake shedding

Three issues could make PSBs look at shedding part of the stake in their insurance ventures. First, the profitability of PSBs is under pressure due to high credit costs and low interest income. This has meant a limited amount of profit for plough it back. At the same time, banks have to maintain a higher amount of capital under the newly stringent Basel-III norms.

Second, the government has told PSBs it will ration capital infusion in their equity, as it has limited resources. It will make capital available only to banks which are efficient.

Finally, the capital markets offer limited room to raise equity, as valuations for PSB stocks are low. The price of most PSB scrips rule at a discount to the book value.

A senior IDBI Bank executive said the bank might look at reducing some stake to unlock value in IDBI Federal Life Insurance. The executive said the bank needed capital for itself for business growth, as the government, the majority owner, had not infused any. IDBI Bank holds 48 per cent in the venture; Federal Bank and foreign partner Ageas hold 26 per cent each.

The bank has had one round of discussion with Ageas but an indication of intent was awaiting the parliamentary nod. Now, IDBI would hold discussions with both partners (Federal Bank and Ageas), the official said.