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UNLOCKING LIC

BRINGING THE INSURANCE BEHEMOTH TO MARKET THROUGH THE PROPOSED IPO IS A DAUNTING CHALLENGE. THE GOVERNMENT HOPES THE STAKE SALE WILL HELP REDUCE THE FISCAL DEFICIT AND SIGNAL REFORMS

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UNLOCKING LIC'S VALUE

THERE IS MUCH TO GAIN FROM BRINGING LIC TO MARKET VIA AN IPO, AND GETTING A HOLD ON THE FISCAL DEFICIT NOT THE LEAST TEMPTING OUTCOME, BUT THERE ARE HURDLES TO CROSS

By **SITANSHU SWAIN**

ts acronym, LIC, and its logo have been iconic symbols of financial security for Indians born before the new millennium. Even now, 290 million—or one in five—Indians are insured by the government-owned Life Insurance Corporation. It still controls 66 per cent of the country's life insurance market even though private insurers, allowed into the fray in 1999, have now been around for over two decades. LIC is a financial behemoth like no other in the country, overshadowing even the State Bank of India (SBI). It has 4,955 offices across the country, many of them occupying prime real estate. It directly employs 108,000 people, besides 1.3 million agents across the country, and has assets under management of Rs 36 lakh crore, making it a megacorp three times the size of Reliance Industries, India's largest private sector company.

For years, successive Indian governments have treated LIC as family silver—a prized possession they considered sinful to part with. The corporation has also shored up government finances on countless occasions, being the biggest buyer and investor of government securities, totalling Rs 17 lakh crore as on March 31, 2020, way higher than SBI's Rs 10.47 lakh crore.

Illustration by NILANJAN DAS

LIC investments also gave the corporation a seat on the boards of many private companies, which, in turn, allowed the government to exercise indirect influence on them. For the past two decades, the government—and LIC—had resisted disinvestment demands. But desperate times call for desperate measures. Even before the pandemic, the BJP-led Narendra Modi government, faced with a growing fiscal deficit and a flailing economy, had in Budget 2020 announced its plans to divest a part of its share in LIC through an initial public offering (IPO) of anything between 5 and 10 per cent. Facing resistance from certain sections of the Sangh Parivar and within the LIC, there was little forward movement. But with the pandemic choking government revenue and driving the fiscal deficit (shortfall between government's total revenue and total expenditure) to an all-time high of 9.5 per cent of the GDP in 2020-21, the Modi government is frantically exploring all financial options to scale down the deficit to the 6.8 per cent it has committed itself to achieving for the next financial year. The impending LIC IPO has now become critical to rescue the government from the financial pickle it finds itself in, besides saving the economy from spinning out of control if fiscal targets are breached.

HOW LIC CAN SAVE THE ECONOMY

With the economy showing signs of recovery only now after two quarters of negative GDP growth, a 6.8 per cent fiscal deficit target is a tough ask. Going by the budget, the revenue receipts must increase by Rs 2.33 lakh crore, says a Mumbai-based economist. Finance ministry officials hope to meet the target through increased revenue from taxes, dividends from public sector enterprises and, most importantly, realising its disinvestment target of Rs 1.75 lakh crore. Likely to get only Rs 32,000 crore of the Rs 2.10 lakh crore disinvestment it had committed to in FY21, the government does not inspire much hope in its ability to realise its divestment ambitions. It reiterated its commitment to float the IPO in the budget document. Though no formal market valuation has been undertaken, LIC's IPO has the potential to raise Rs 1 lakh crore, nearly six times the Rs 15,200 crore state-owned giant Coal India raised through its IPO in 2010, the largest till date in the country.

This mammoth fund-raising exercise would help the government meet a substantial part of its disinvestment target and thereby its fiscal one. The move could also potentially transform the opaque and slothful public sector monolith into a nimble-footed, world-class insurance company with a much sought-for transparency in its operations and a market capitalisation (the measure of a company's worth as determined by the stock market) akin to firms such as Reliance Industries, Tata Consultancy Services and HDFC Bank. "The disinvestment in LIC is likely to create one of the most valued listed entities in India and attract large foreign capital investment," says Motilal Oswal, CMD, Motilal Oswal Financial Services. LIC's IPO, expected to hit the market in the next financial year, would also help bring in an estimated 10 million individual investors into the Indian stock markets, broadening its retail base. The government will keep up to 10 per cent of the issue size in LIC's IPO reserved for the company's policyholders, minister of state for finance Anurag Thakur told the Rajya Sabha in February.

In another important announcement, the government simultaneously declared that it would raise the FDI (foreign direct investment) limit in private insurance companies from the current 49 per cent to 74 per cent. Experts view it as a major economic reform that would not only usher in much-needed private competition for government-owned insurance companies, especially LIC, but also unlock the huge potential the Indian insurance sector offers, including for employment. However, the move is easier said than done and fraught with challenges.

ADVANTAGE LIC

To understand the challenges, one must first understand how and why the LIC was bestowed with such hallowed status since its inception. It was founded on September 1, 1956, via the Life Insurance Corporation Act, which nationalised the insurance sector. Over 245 insurance companies and provident societies were merged to create the behemoth. With its liberalisation in 2001, the life insurance sector has seen a more than 16-fold growth in premium. From a base figure of Rs 36,071 crore in 2000-01, life insurance industry premiums have grown at a CAGR (compound annual growth rate) of 15.6 per cent per annum to touch Rs 5,72,910 crore in 2019-20. LIC has also taken

THE BIG PICTURE

₹7.63
LAKH CRORE
Size of Indian insurance sector in 2019-20

66
PER CENT
LIC's market share in India's life insurance sector

₹36
LAKH CRORE
Size of LIC's assets under management

₹1
LAKH CRORE
Expected IPO size if the government dilutes 10 per cent in LIC

290
MILLION
Total no. of LIC policyholders

"WE EXPECT HUGE INSTITUTIONAL, FPI (FOREIGN PORTFOLIO INVESTOR) AND NRI (NON-RESIDENT INDIAN) INTEREST IN THE ISSUE TO CREATE A NEW RECORD FOR AN IPO"

VIPIN ANAND
Managing Director, LIC

MANDAR DEODHAR

WIDE ANGLE
The LIC headquarters at Nariman Point in Mumbai

advantage of liberalisation to grow at a CAGR of 13.2 per cent every year.

Currently, the Rs 7.63 lakh crore (according to IRDAI or the Insurance Regulatory and Development Authority of India) Indian insurance sector comprises 67 companies, including 24 life insurance companies and 10 global reinsurance companies. LIC is the only public sector company dealing with life insurance. It had a total income of Rs 6,15,883 crore in 2019-20, with a net profit of Rs 2,713 crore. Market shares of individual private life insurance firms look measly compared to the 66 per cent that LIC controls. Among the top five life insurers (in terms of new business premiums) in the private sector, SBI Life, a subsidiary of SBI, has a market share of 7.68 per cent; HDFC Life, an arm of HDFC, 7.23 per cent; Max Life, where Axis Bank has 12 per cent stake, 2.3 per cent; Bajaj Allianz Life Insurance, a joint venture between Bajaj Finserv and German major Allianz, 2.04 per cent; and Aditya Birla Sun Life Insurance, a joint venture between the Aditya Birla Group and Canadian major Sun Life Financial, 1.64 per cent.

Globally, the share of life insurance business in total premiums was 46.34 per cent in 2019. In comparison, the share of life insurance business in total premiums in India was a high 74.94 per cent. According to data published by the Zurich-based reinsurers, Swiss Re, India ranks 10th among 88 countries in terms of premium income from life insurance. India's share in the global life insurance market was 2.73 per cent in 2019. Life insurance premium in India rose 9.63 per cent in 2019, while global life insurance premium rose just 1.18 per cent.

LIC has certain inbuilt advantages that account for its continuing dominance. Unlike private insurance companies, LIC policies have a sovereign guarantee as envisaged under Section 37 of the LIC Act, 1956, according to it a higher level of trust. The Income Tax Act, 1961, as amended, gives a deduction up to Rs 1,50,000 for those investing in life insurance policies under Section 80C. A lot of savings, therefore, get diverted to life insurance in India. Unlike the newer players, a great majority of the policies LIC sells are as a savings-cum-life cover. These products are 'participating' in nature. A 'participating' policy enables a policyholder to share the profits of the insurance company in the form of bonuses or dividends. LIC thus concentrates on mass volumes as a unique selling proposition.

"LIC CAN EASILY ADD Rs 5-5.5 LAKH CRORE OF MARKET CAPITALISATION TO THE COUNTRY'S EQUITY MARKET"

DEVEN CHOKSEY
MD, KR Choksey Investment Managers

TOP 10 IPOs

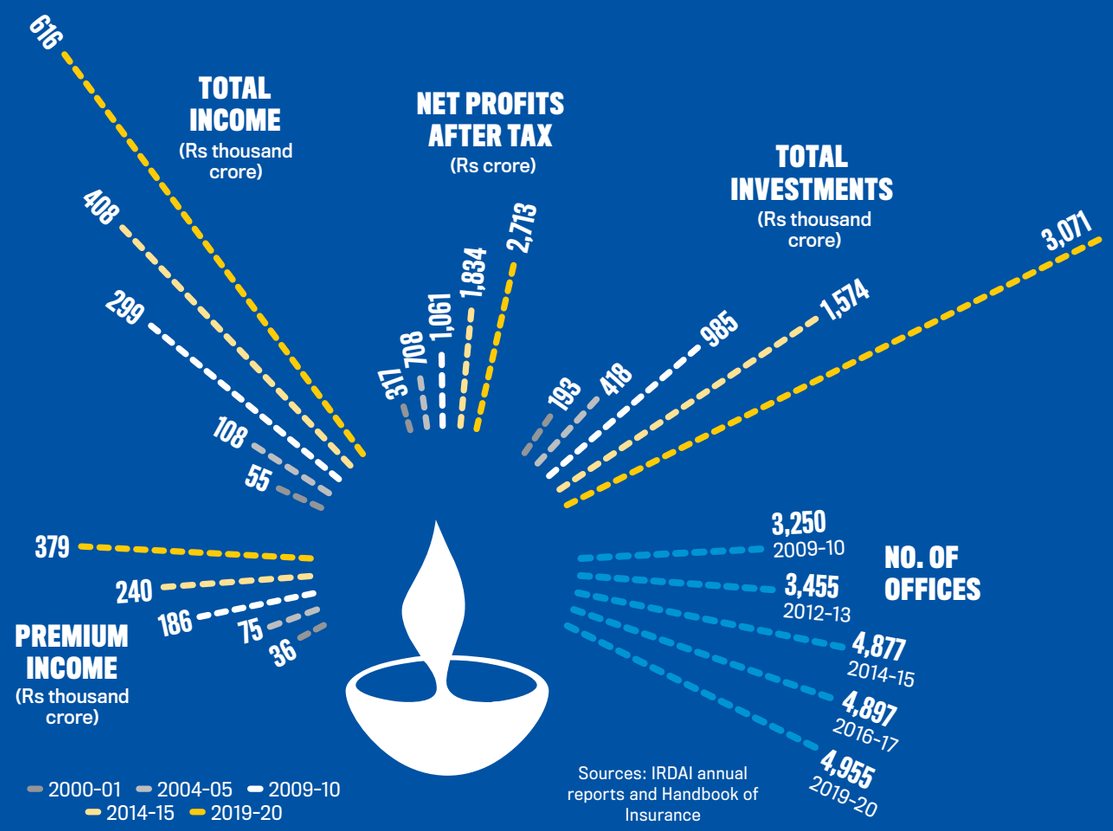
LIC's IPO, when launched, will overtake Coal India's public offer in 2010 as India's largest ever

	COMPANY	OPENING DATE	ISSUE AMOUNT (Rs crore)
1	Coal India Ltd	Oct. 18, 2010	15,199
2	General Insurance Corp. of India	Oct. 11, 2017	11,257
3	SBI Cards & Payment Services Ltd	Mar. 2, 2020	10,341
4	Reliance Power Ltd	Jan. 15, 2008	10,123
5	New India Assurance Co Ltd.	Nov. 1, 2017	9,586
6	DLF Ltd	Jun. 11, 2007	9,186
7	HDFC Standard Life Insurance Co Ltd	Nov. 7, 2017	8,695
8	SBI Life Insurance Co Ltd	Sept. 20, 2017	8,388
9	Gland Pharma Ltd	Nov. 9, 2020	6,479.6
10	ICICI Prudential Life Insurance Co Ltd	Sept. 19, 2016	6,056.8

By issue amount since April 1989

WHAT MAKES LIC A BEHEMOTH

Over the years, the only public sector company dealing in life insurance has built a formidable presence in the sector



Graphics by TANMOY CHAKRABORTY

Unlike private players, the company claims it has fewer delinquencies, lapsed policies and discontinuance of high premium policies, a claim that many contest. LIC has been settling approximately 94 per cent of the individual death claims within 30 days of lodging the claim. The comparative figure for the private sector is 85 per cent for the same class. The faster settlement of death claims vis-à-vis the private sector has created a highly positive image of LIC in the minds of the public. On a conservative basis, LIC is likely to get Rs 75,000 crore over the next 20 years as renewal premium.

THE POLITICS OF LIC DISINVESTMENT

The plan for raising funds through an LIC IPO isn't new. Soon after the National Democratic Alliance (NDA) government under Narendra Modi assumed power in June 2014, then finance minister Arun Jaitley met captains of trade and industry, including a few chiefs of PSU banks and insurance companies, for a pre-budget consultation. While Jaitley was focused on the ways and means to bring down the fiscal deficit (4 per cent in 2014-15), Uday Kotak, MD & CEO, Kotak Mahindra Bank, suggested that the government disinvest in the LIC by way of an IPO to pare the government's fiscal deficit. But nothing came of those discussions. Disinvesting in the LIC, widely seen as an institution for fulfilling the government's social objectives, it was surmised, could invite stiff political resistance.

Further back in history, Jaitley's counterpart in the NDA-1 government under Atal Bihari Vajpayee, Yashwant Sinha, while piloting the IRDAI Act in December 1999 that paved the way for the opening up of the Indian insurance sector to the private sector and foreign players, had asserted that the government was not in favour of state monopolies anymore. However, Sinha had also set at rest doubts

THE VALUATION PUZZLE

The discovery of LIC's embedded value (EV), which must precede the IPO, is a tricky exercise. Not only is the public sector life insurance behemoth unlike other financial services companies (like banks, NBFCs or mutual funds), for the purposes of a pre-IPO valuation, it's not quite comparable with private sector life insurers either. If even other life insurers do not quite offer a reliable benchmark, it is mainly on account of LIC's unique product mix and profit-sharing structure. Guesstimates of likely valuation vary between Rs 2-3 lakh crore and Rs 20 lakh crore—that wide range in itself an indication that the exercise is complex. It's possibly a good start that the valuation mandate has gone to actuarial firm Milliman Advisors, which is among the world's largest providers of actuarial services.

PRESENT VALUE OF FUTURE PROFITS

Life insurance is a long-term business where the insurer receives recurring premium from policyholders over a period of five to 25 years (in the case of LIC). The valuation of such a revenue stream involves calculating the present value of future cash flows.

LIC's product mix has a pronounced skew towards savings products—the so-called 'endowment' plans—which, unlike pure-insurance 'term' plans, have an investment element built in. LIC has thrived on these investment-cum-insurance plans—the allure of 'bonuses' and 'guaranteed additions' and a 'sovereign guarantee' to top it making them very popular with the risk-averse Indian investor. A key parameter in valuing LIC will be its product mix—because the profitability of a savings product is significantly higher than a pure protection plan.

Another factor that will critically determine the valuation is how the government alters the LIC Act of 1956. Of special interest in the context of valuation are proposed amendments to the unique profit-sharing commitment LIC has vis-à-vis its policyholders. In the current dispensation, 95 per cent of the surplus goes to policyholders and only 5 per cent to the government, currently the lone shareholder. "The entire structure of LIC has to be revisited to make it more investor-friendly. If a major part of surpluses goes to policyholders, investors, especially institutions, will be wary of investing," says Ajay Sharma, managing director, Valuation Services (India) at Colliers International.

— Anand Adhikari

SUBIR HALDER

RESISTING CHANGE
LIC agents protest the government's move to sell stake in the insurer outside the LIC building in Kolkata

about dilution of equity in LIC and state general insurance companies by saying that the government had no intention to privatise these corporations.

Jaitley reversed part of Sinha's assurance to Parliament in 2015 when the Modi government amended the General Insurance Business (Nationalisation) Act, 1972, to allow disinvestment in five state-owned general insurance companies: General Insurance Corporation (GIC Re), New India Assurance, United India Insurance, Oriental Insurance Company and National Insurance Company.

The government also added a new section—10B—to the Act, according to which GIC Re and insurance companies could raise their capital for increasing their business in rural and social sectors to meet solvency margins and such other purposes as the central government deemed fit. Here again, Jaitley, while piloting the amendments, had assured the House that LIC would continue as a fully-owned government entity.

UNSHACKLING THE BEHEMOTH

While the burgeoning fiscal deficit compelled the Modi government to change its mind on LIC, it still has many hurdles to overcome. First and foremost, it has to amend the LIC Act, 1956, to facilitate the IPO, which the government has already embarked on, according to Tarun Bajaj, the economic affairs secretary. As many as 27 amendments are being pushed through the Finance Bill 2021, tabled by finance minister Nirmala Sitharaman along with Budget 2021, so that both houses can pass it swiftly and smoothly. A separate bill on these amendments would possibly have invited greater scrutiny of the amendments and possible opposition too.

A second hurdle is the technical exercise of finding the right valuation before hitting the capital markets. For life insurance firms like LIC, whose premium income is staggered over a long tenure, valuation involves the discovery of an 'embedded value' (EV) (see *The Valuation Puzzle*); EV is a version of 'enterprise value', calculated for IPO-bound non-insurance firms. DIPAM or the Department of Investment and Public Asset Management, which manages the government's equity in state-owned companies, has selected US-based actuarial firm Milliman Advisors to ascertain the embedded value of LIC, while Deloitte and SBI Caps have been appointed as pre-IPO transaction advisors. "We currently have only three listed life insurance players in India, so the government's decision of going ahead with the listing of LIC is a welcome move, as it will aid further transparency and add more depth to the insurance sector in the equity markets," says Mahesh Sharma, MD & CEO , SBI Life .

"THE LIC ISSUE IS EXPECTED TO BECOME INDIA'S BIGGEST IPO EVER. ITS SHEER SIZE COULD MAKE STOCK EXCHANGES BROAD-BASED AND CHANGE INDIA'S WEIGHTAGE AND RATING ACROSS GLOBAL INDICES"

MOTILAL OSWAL
CMD, Motilal Oswal Financial Services

However, while DIPAM will provide administrative support, the Department of Financial Services (DFS) will drive LIC's disinvestment. While the government has appointed a team of evaluators, there are varying assessments on the likely valuation, ranging from between Rs 2-3 lakh crore and Rs 20 lakh crore, say sources. Already, there is a tussle within the government on this front, with two camps at work. One camp wants to push through the disinvestment even at a lower valuation while the other wants to first ensure the right valuation for the insurance giant.

An industry source who advises the prime minister's office says that while the PMO is very keen on the LIC stake sale, it also has concerns about arriving at the right valuation. This is because of the unique nature of LIC's present profit-sharing mechanism. Section 28 of the Life Insurance Corporation Act stipulates that 95 per cent of the profits on valuation surplus be transferred to policyholders (after taxation), and the balance 5 per cent to the government, as dividend.

Though subsequent IRDAI regulations have reduced the stipulation to 90 per cent to policyholders and 10 per cent to the shareholder (the government), LIC sticks to the old 95:5 formula to distribute the said surplus between policyholders and the government. In other words, under the Act, policyholders—not shareholder/s—have the first right to LIC's profits. What is given to the government is described as net profit, which also explains why LIC's retained profits (Rs 2,713 crore last year) and reserves are very low.

With more shareholders becoming LIC stakeholders in LIC in the post-IPO scenario, this structure will have to change. If it doesn't, the LIC stock will not be so attrac-

tive to potential shareholders and will compare unfavourably with other listed insurance companies that promise shareholders a larger share of their profits. This implies that the proposed amendments to the LIC Act tackle the current skew towards policyholders in profit-sharing. Retail participation will depend on the government's pricing strategy, says Rajeev R. Shah, managing director of transaction advisory firm RBSA Advisors. "If they leave something on the table for the common investors, people will subscribe [to the LIC IPO]." The government has had both experiences in the past: of failing to enthuse retail investors in some cases and getting an overwhelming response in others. "It depends on how the issue is structured," says Shah. The process, however, is not easy and could delay the IPO.

LIC's total investment portfolio as on March 31, 2020 stood at Rs 33.7 lakh crore, nearly four times the combined figure for private insurance companies. Despite its low capital base and a steady increase in the volume of business—which also increases solvency requirements—LIC has so far met solvency criteria prescribed by the IRDAI. However, analysts point out that LIC's non-performing assets (NPAs) are around 6 per cent compared to the (insurance) industry norm of 1.5-2 per cent. On listing, shareholders will have an eye on that number, and will expect it to come down.

"Investors look for higher profitability and expect the organisation to reorient business strategies towards this objective," says G. Srinivasan, former chairman and managing director of public sector general insurer New India Assurance (NIA), the first-ever general insurer to get listed in 2017. "Any listed entity will have to significantly increase its focus on profitability." LIC, he says, will have to get used to higher levels of transparency, disclosures and compliance and will need to understand the expectations of investors, analysts and the market. Talking about the challenges of piloting NIA's IPO, Srinivasan said understanding the insurance sector was a challenge as there were no benchmarks at the time.

TIMING IT RIGHT

The Indian market has never seen such a mammoth float (as proposed by LIC), says Shah of RBSA Advisors. A recent decision by market regulator Sebi (Securities and Exchange Board of India) to ease listing norms for large companies will

OPENING THE DOOR WIDER

The FDI hike in insurance could be a win-win for companies and insurance buyers. But foreign partners will want more say in the business

The Modi government is not looking to divest stake in Life Insurance Corporation (LIC) purely as a fiscal measure; it has also announced far-reaching reforms in the insurance sector in Budget 2021. Finance minister Nirmala Sitharaman proposed hiking the foreign direct investment (FDI) limit in the domestic insurance sector from the current 49 per cent to 74 per cent, a move that would attract additional capital and help insurers maintain adequate solvency margins and invest in technology and product innovations.

The government also plans to privatise one of the five general insurance companies. The Centre has said that 50 per cent of company boards (under the new FDI norms) will be independent directors, and all key people will be Indians. A specified percentage of the profits of the insurance JV will also be retained as a general reserve.

Among the 70-plus insurance and reinsurance firms, 35 already have JVs with foreign companies. Analysts say hiking FDI limits in the underpenetrated Indian insurance industry is an essential step—it should provide customers with better products at lower costs, which will help increase insurance penetration (percentage of premium to GDP), which was 2.82 per cent in 2019. Fitch Ratings says the Centre's moves will boost M&A activity over the medium term. Last year, the government had permitted full foreign ownership (previously 49 per cent) in insurance intermediary companies, including insurance agents, brokers, loss assessors and surveyors.

When FDI was hiked to 49 per cent, several foreign players had increased their stake in Indian insurance ventures. They included Nippon Life (JV partner in Reliance Life Insurance), Tokio Marine (Edelweiss Tokio Life) and Japan's Dai-ichi (Star Union Dai-ichi Life). That said, there are still a handful of Indian insurers where foreign partners hold 26 per cent stake or below.

"The focus now is on how soon the government and the insurance regulator announce the revised framework," says Indranath Bishnu, partner, Cyril Amarchand Mangaldas. "We are anticipating restrictions in relation to nationality and residency of directors and certain KMP (algorithm)-related party transactions, and perhaps the repatriation of dividends."

There could be new players coming in and some shareholders may go for stake changes. Along with 74 per cent stake and management control, many other regulations will have to change, like those for private equity (PE) reinvestment, accounting and capital and risk, for the JV to be able to roll up the financials to their global book with a higher than 50 per cent shareholding, says PwC's Joydeep Roy. Sakate Khaitan, partner, Khaitan Legal Associates, says the regulator will need to balance Indian control while giving the foreign partner incentive to invest money. It can't be that they invest money and take the risk but have no say in how the business is run, he adds.

India accounts for merely 2.6 per cent of the world's total insurance premium, indicating that the potential for growth is immense for the sector. An underpenetrated market and factors such as a young population, growing working age group, rising income levels, increasing awareness about insurance and expected increase in dependency ratio are expected to fuel growth in the sector. The Indian insurance industry has grown significantly over the past decade, but there is room for further growth.

The insurance industry grew at over 12 per cent CAGR between 2009 and 2011. This growth rate in life and non-life insurance is probably the fastest sustained growth in the world for a 20-year period, says Roy.

INDIA ACCOUNTS FOR JUST 2.6% OF THE WORLD'S TOTAL INSURANCE PREMIUMS, SO THE POTENTIAL FOR GROWTH IS IMMENSE

This is also thanks to the government's consistent efforts at financial inclusion, which have resulted in nearly 400 million Jan Dhan account-holders who enjoy some form of insurance cover. There are over 60 million Pradhan Mantri Jeevan Jyoti Bima Yojana beneficiaries and 160 million Pradhan Mantri Suraksha Bima Yojana beneficiaries (the figures are not necessarily mutually exclusive). This implies a significant percentage of those covered under some form of insurance if one takes the estimate that puts India's insurable population at around 750 million.

The increase in net financial assets of households is an opportunity for life insurance firms (it touched 7.7 per cent of GDP in 2019-20). As of March 2020, around 66 per cent of financial assets and liabilities were allocated to currency and deposits, while 23.2 per cent was given to life insurance funds, according to the RBI bulletin of June 2020. A higher proportion of financial assets in deposits and currency is a challenge as well as an opportunity for insurers. They are eyeing a large portion of this savings in financial assets. Mutual funds, which are always competing with insurance, have seen outflows due to the recent liquidity crisis faced by the sector and general risk aversion due to the Covid-related uncertainties.

Keki Mistry, managing director & vice chairman, HDFC, says he is bullish on the growth potential of the retiral business, given the changing demographics, increase in life expectancy and lack of social security. Also, India's elderly population, estimated at 78 million in 2015, is expected to double by 2035 and triple by 2050. The current reforms in the insurance market should tap this vast potential, both for jobs and to bolster India's economy.

Illustrations by TANMOY CHAKRABORTY

help LIC's mega float—large companies can now divest a minimum 5 per cent in an IPO, instead of the earlier norm of 10 per cent. Further, they now have five years, instead of three, to raise the public float to 25 per cent. This effectively means LIC can make a smaller issue to begin with—say Rs 50,000 crore—and make a smarter price discovery through market trades before deciding on a further stake dilution.

An upbeat stock market is good for any potential public issue of shares, and with the real economy also making a faster-than-expected recovery, experts say the time is good for an IPO. In the third quarter of this fiscal, the economy came out of the recession to post a positive growth figure of 0.4 per cent. In 2021-22, GDP is expected to rebound by 10.5-11 per cent, albeit on a lower base. The equity market has been witnessing historic highs for the past couple of months, with the Sensex crossing the psychological 50,000-point mark on January 21. LIC can attract great valuations at this juncture, according to Keki Mistry, managing director & vice chairman, HDFC. Third, confidence in the Indian equity market is growing among retail investors. From December 2019 to December 2020, investors opened an additional 10.5 million demat accounts. Higher returns and greater liquidity, coupled with a low interest rate environment, have made equity markets attractive for the common investor.

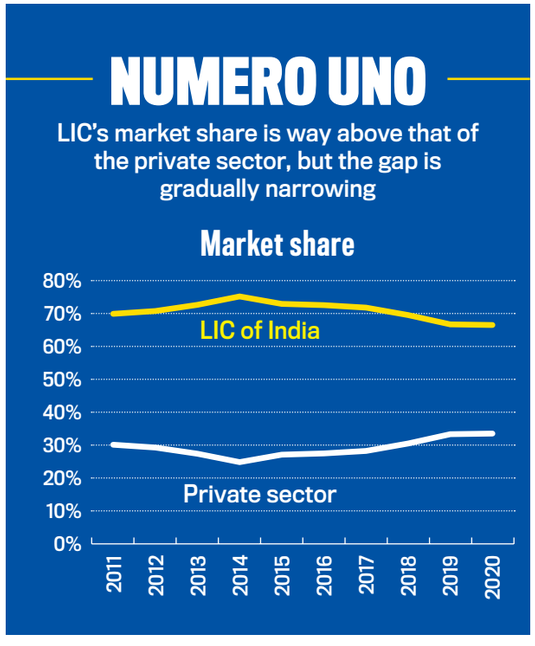
Mistry says retail and institutional investors will not want to miss an opportunity to invest in India's largest insurer. A large IPO, as proposed by the government for LIC, is likely to generate a lot of public interest. A large listed insurance company from the country will enhance India's prestige in the international market and showcase its value-creation possibilities, says Joydeep Roy, partner and global health insurance leader, PwC. The LIC IPO's benefits will be three-fold. The government will gain capital by selling some stake, the capital markets will get a blue-chip stock (having a national reputation and reliability in times of volatility) and LIC's customers will see true transparency in its financial numbers, which would rub off on the sector as a whole.

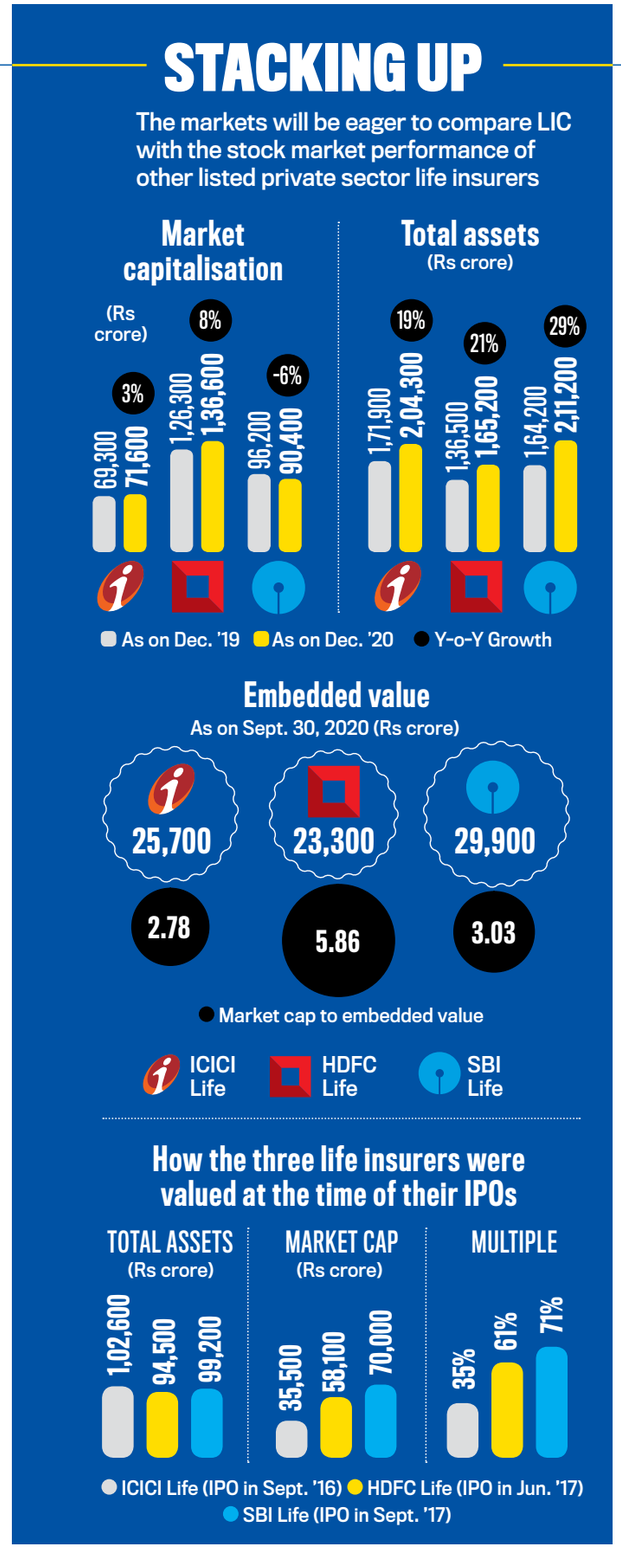
Over the long term, LIC will be able to attract additional capital to deepen its business across India. Policyholders will get a better understanding of the company's financial strategy. Media and analyst reports will also help assess the company's performance, helping customers take more informed decisions. "The expectation is that LIC's listing will reduce, though not eliminate, government control and that the markets will force greater disclosure, leading to questions and scrutiny and, therefore, greater accountability, which will drive performance," says Sakate Khaitan, partner, Khaitan Legal Associates.

"LIC'S LISTING WILL REDUCE, THOUGH NOT ELIMINATE, GOVERNMENT CONTROL ...THE MARKETS WILL FORCE GREATER DISCLOSURE AND SO GREATER ACCOUNTABILITY, WHICH WILL DRIVE PERFORMANCE"

SAKATE KHAITAN
Partner, Khaitan Legal Associates

From the market's point of view, given its sheer size, the IPO could make stock exchanges quite broad-based and change India's weightage and rating across various global indices, including MSCI, which measures the performance of large and mid-cap companies. Oswal says that with a valuation of around Rs 10 lakh crore, the government can expect to garner more than Rs 1 lakh crore through a 10 per cent stake sale. In the Coal India IPO, the retail offering was oversubscribed 2.1 times and more than 170,000 retail investors applied for its shares.





"RETAIL PARTICIPATION (IN THE IPO) WILL HINGE ON THE GOVT'S PRICING STRATEGY. IF THERE IS SOMETHING ON THE TABLE FOR THE COMMON INVESTOR, THEY WILL SUBSCRIBE"

RAJEEV R. SHAH
MD, RBSA Advisors

"LIC can easily add Rs 5-5.5 lakh crore of market capitalisation to the country's equity market," says Deven Choksey of KR Choksey Investment Managers. "I expect institutional buyers, including foreign institutional investors, to subscribe to the LIC shares." According to him, LIC has a well-defined investment strategy and has been paying good dividends to the government and its customers. The listing will get global recognition for its sheer size, he adds. However, even after being listed, LIC may still be lower than Chinese financial conglomerate Ping An Insurance in terms of market capitalisation, but possibly bigger than some of its other global peers. Ping An Insurance had a market capitalisation of Rs 17.13 lakh crore as on December 2020, while Prudential Financial Inc. and Metlife of the US had m-caps of Rs 2.25 lakh crore and Rs 3.08 lakh crore, respectively, as on December 2020. If LIC is allowed to include its real estate assets, it will have a huge valuation. Vipin Anand, MD, LIC, said the participation of even a fraction of LIC's customers, employees and agents in the IPO would be enough to see it sail through comfortably.

After years of dithering, the government has finally decided to unlock the value in India's insurance sector. The process may not be easy and has already run into resistance from trade unions, but it will serve as the first step to unshackle India's largest insurance company. In the process, it also gets to gain by garnering sizeable revenues. The LIC IPO will be a template for the government's disinvestment programme. It will also be an acid test of its perseverance and dexterity to surmount challenges along the way. ■

with inputs from Shwweta Punj