
Prelims and Mains focus: about the disinvestment plan and its benefits; about LIC

News: The government is working on the modalities of Life Insurance Corporation of India (LIC) share sale which is India’s largest and oldest life insurer.

Background

- The Budget 2020-21 announced an ambitious disinvestment agenda, aiming to raise Rs 2.1 lakh crore through stake sales next year, including plans to sell part of the government’s stake in LIC, the country’s largest insurer, through an initial public offering (IPO).

- The Centre also proposed to sell its equity in the stressed IDBI Bank to private, retail and institutional investors through the stock exchange.

About the move

- The sale of govt’s stake in LIC will be carried out depending upon stability of markets, and an initial 5 per cent equity can be sold in the market.

- It is a complex exercise and the work has already started to seek necessary approvals for selling shares in the market.

- Even after the listing of LIC, the government will continue to provide sovereign guarantee for all policies issued by the Corporation.

Present Scenario

- LIC is currently governed by the LIC Act of 1956, which enables the state-owned insurer to obtain a special dispensation in several areas, including
higher stakes in companies beyond the limit set by the insurance sector regulator.

- The government currently owns 100 per cent stake in LIC and 47.11 per cent equity in IDBI Bank, which is majority-owned by LIC with 51 per cent equity in the stressed lender.

What’s next?

- The govt. is examining a number of legal issues post which a proposal will be taken to the Cabinet for its approval. Discussions are underway with the law department.

- The government will have to first amend the LIC Act before taking the Corporation public. The Department of Financial Services is working on the structuring, modalities and timing of the proposed IPO of LIC.

What could be the benefits?

- Listing of the Corporation’s shares on the market is expected to lead to more disclosures of investment and loan portfolios of the Corporation as well as better corporate governance.

- Share sale of LIC, which was set up in 1956, is expected to generate significant investor interest given its dominant position. LIC had 66.24 per cent market share in total first-year premium and 74.71 per cent share in new policies in 2018-19, as per the insurer’s latest available Annual Report.

About LIC

- Life Insurance Corporation of India is an Indian state-owned insurance group and investment corporation owned by the Government of India.

- It was founded on September 1, 1956 when the Parliament of India passed the Life Insurance of India Act that nationalized the insurance industry.
in India. Over 245 insurance companies and provident societies were merged to create the state-owned Life Insurance Corporation of India.

- Life Insurance Corporation of India settled 26 million claims in 2018-19. It has 290 million policy holders.

- The insurer’s total assets had touched an all-time high of Rs 31.11 lakh crore in 2018-19, an increase of 9.4 per cent.

- The Corporation realised a profit of Rs 23,621 crore from its equity investment during financial year 2018-19, down 7.89 per cent from Rs 25,646 crore in the previous fiscal.

**Other disinvestments on the anvil**

- The share sale in IDBI Bank is likely through the offer for sale route. Even though IDBI Bank is categorised as a private bank, sale of government stake could act as a test case for privatisation of state-owned banks.

- Apart from LIC and IDBI Bank stake sale, the government has also lined up privatisation of BPCL, Container Corporation of India, Shipping Corporation of India and Air India in the next financial year.