

IPO of LIC – Impact on Organisation and Insurance Sector

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Abstract: In budget 2020-21, our Finance Minister Nirmala Sitharaman announced to sell part of government holdings in Life Insurance Corporation of India through the initial public offerings. At present the government owns LIC hundred percent. Now through the disinvestment policy of central government 10% of its stake holdings is to be announced in the form of LIC IPO. In this paper, we made an attempt to study the overall impact of LIC IPO. In the paper, opinion of different experts has been discussed. Based on secondary data it was found that the decision of the union government to withdraw part of its stake from the investment by issuing LIC IPOs is better if it does not affect the main motto of the providing service to the people of the nation. From the point of view of development of the nation LIC IPOs are welcome feature as India is to be turned from 'developing nation' into 'developed nation'. At the same time the hard earned money of the policy holders must be safe guarded and the employees must be secured.

Key words: Employees, LIC-IPO, Stake holders

Introduction

Life Insurance Corporation of India (LIC) is an Indian government owned Insurance Corporation. It is under the ownership of Ministry of Finance , Government of India . It was established on 1 September 1956, when government nationalized the insurance industry in India [1]. Past sixty-five years since its existence Life Insurance Corporation (LIC) of India has stood behind every Indian family as a strong insurer.

In August 2000, the Indian Government embarked on a program to liberalise the insurance sector and opened it up for the private sector. LIC [2] emerged as a beneficiary from this process with robust performance. In budget 2020-21, our Finance Minister announced that government of India is diluting its partial stake in LIC by launching the IPO and inviting the public to participate in its equity. With the launch of LIC IPO and listing, LIC will come under a direct scanner of SEBI and will have to comply with requirements for listed firms.

This led to a lot of discussions and several articles in favour and against LIC-IPO. A sharp criticism also spread across the country as LIC carries an enormous amount of goodwill among people of India. As per this issue is concerned, we made an attempt to study the overall impact of LIC IPO. Whether this decision is beneficial to the people of India? What is the reaction of the most of the employees? If it is beneficial, in what way they receive it? In the paper, we have discussed various questions arising in minds of the policy

holders, employees of LICetc. and tried to put a common opinion of using secondary data, strategic tools and experts' opinion.

CONCEPTUAL FRAMEWORK

As LIC entered into its 57th year it has emerged as the world's largest insurance company in terms of number of policies covered. The LIC's total coverage of policies including individual, group and social schemes has crossed the 11 crore. It was established with the objective of spreading life insurance widely reaching to every insurable person in the country and providing them adequate financial cover against death at a reasonable cost. It also involved all people working in the corporation to the best of their capability in furthering the interest of the insured public by providing efficient service with courtesy. The functions of LIC include collecting the savings of the people through life policies and invest these funds in profitable investments so as to get good return. Hence the policy holders get benefits in the form of lower rates of premium and increased bonus. So in short, LIC is answerable to the policy holders. Apart from its society-focused objectives, it is among various market competitors in the field of insurance. Even though LIC does not enjoy monopoly in the economy, but it alone grabbed maximum share in the market share as it is public sector undertaking. In India people believe in government sectors rather than private sectors. We, most of Indians see the safety of our premium paid, so, we invest in government undertakings rather than private insurances. We can see it through table 1 shown below.

Table 1: New Business Statement of Life Insurers for the Period ended ended 30th April, 2020[3]

S No.	Insurer	Premium	No. of Policies / Schemes	No. of lives covered under Group Schemes	Sum Assured
		<i>Market Share</i>	<i>Market Share</i>	<i>Market Share</i>	<i>Market Share</i>
1	Aditya Birla Sun Life	3.89	2.02	1.32	6.73
2	Aegon Life	0.06	0.18	0.21	0.84
6	Canara HSBC OBC Life	0.40	1.13	0.98	1.24
7	Edelweiss Tokio Life	0.24	0.86	0.06	0.51
8	Exide Life	0.38	1.52	0.16	1.12
9	Future Generali Life	0.16	0.38	0.05	0.58
10	HDFC Standard Life	9.94	8.82	21.59	13.13
11	ICICI Prudential Life	3.81	7.43	19.52	15.47
12	IDBI Federal Life	0.10	0.12	0.00	0.03
13	India First Life	0.49	0.90	3.53	3.44
14	Kotak Mahindra Life	1.80	3.06	12.14	3.01
15	Max Life	2.55	5.97	4.34	14.52
16	PNB Met Life	0.65	2.83	0.67	4.60
17	Pramerica Life	0.16	0.15	11.64	1.08
18	Reliance Nippon Life	0.51	2.43	0.01	0.33
19	Sahara Life	0.00	0.00	0.00	0.00

21	Shriram Life	0.20	0.95	0.45	0.39
22	Star Union Dai-ichi Life	0.10	0.11	0.43	0.28
23	Tata AIA Life	2.29	7.14	0.80	13.67
	Private Total	46.76	55.64	96.61	96.00
24	LIC of India	53.24	44.36	3.39	4.00
	Grand Total	100.00	100.00	100.00	100.00

An initial public offering (IPO) refers to the process of offering shares of a private corporation to the public in a new stock issuance [4]. Government announced part of its investment in Life insurance Corporation in the form of LIC IPOs in the budget 2020-21. Four reasons were stated in the Budget. The listing will discipline a company, give access for its capital needs, shall unlock its value benefiting retail investors and transparency are the four issues raised in justification of the stake sale announcement [5]. It opened doors for corporate management. LIC was formed as per Life insurance Act 1956. At present LIC is under the governance of Insurance Regulatory Authority (IRDA) Act 2000. To issue LIC IPOs necessary changes or amendments are to be made as it is under the direct control of regulatory authority.

People of India are confused with this decision and they cannot decide to stand either in favour or against this decision. Several common people, policy holders, employees, academicians, finance experts etc. have expressed their views and analyzed in different ways. It's true that we cannot rely on anyone's views as we don't know really how it will work.

OBJECTIVES

- To know the relevance of LIC IPOs in India for investment as well economic growth purpose.
- To study the pros & cons of disinvestment policy of LIC funds in form of IPOs.
- To understand how this decision will affect its employees.

Research Methodology

Since the objective of our research is recent and current topic is to be discussed and implemented, so this research paper has been developed partly by exploratory research method and partly by theoretical aspects. We used primary data as it is and secondary data to derive the conclusion.

Relevance of LIC IPOs:

- Presently the government owns 100 per cent of LIC. Finance Minister Nirmala Sitharam announced that the government will sell a part of its holding in Life Insurance Corporation of India (LIC) through an initial public offering (IPO).
- LIC has net assets of more than Rs 31 Lakh crores and is way bigger than RIL, TCS etc. in terms of market capitalisation may end up taking away liquidity from markets. So LIC IPO will be a mega show [6].
- This also means the government will continue to have flamboyant investments and spending with equal focus on infra, reforms and fund through government premium holding disinvestments.
- It is expected that this IPO should effectively attract FPIs and international investors and if that happens then it would become a successful strategy of the government to add a fresh infusion of funds in the economy by getting foreign investments as against taking away liquidity from the Indian markets [7].

Pro and Cons of LIC IPOs

The pros can be understood by the views expressed by different experts, they are:

- a) The listing of LIC will be a positive move for policyholders. However they will receive indirect benefit. As a 100% government-owned entity, LIC's financial health has been largely outside the scrutiny of the financial markets, so now onwards it will be under scrutiny [8].
- b) Investment returns for traditional policies are dependent on the insurer's performance. Such plans have formed a large portion of LIC's book. The endowment policyholders' visibility is limited to annually declared bonuses and is not like ULIP investors who have a clear visibility on the daily performance of underlying funds.
- c) Listing will allow analysts to monitor LIC's governance. LIC will come under SEBI's direct watch and will have to comply with the requirements meant for other listed firms. Such compliance is likely to strengthen its overall corporate governance, financial and investment discipline. Over time, this will increase its efficiency and it may deliver higher returns to policyholders.
- d) LIC will also become more competitive. This will put pressure on its peers to innovate, benefitting policyholders in terms of pricing, product features and services [9].
- e) For stakeholders any company going public is good news since it ensures higher transparency, better governance, more disclosures and scrutiny from the investors.
- f) However, LIC has in the past invested in the equity markets to stem its fall. After being listed, LIC will be answerable to public shareholders and, hence, will be a prudent investment decision, which is good for policyholders.
- g) Also less govt interference will be a positive for LIC's financial health [10].
- h) Being under scrutiny, the quality of asset management by LIC will be enhanced as the government's influence on its asset management will reduce.
- i) Further, LIC services a few state-sponsored schemes which have underwriting challenges on the commercial front. With the IPO, these services might fall into place, improving the overall stability of LIC.
- j) The listing of LIC is a positive move which will result in transparency of the corporation in public view, sparking renewed interest in the insurance industry in international markets. Government-owned General Insurance Co. of India is already listed, so the process and transparency will not be any different.
- k) As long as sovereign guarantee over the maturity proceeds and sum assured continue, policyholders won't perceive any risk. The return on policies may have to be moderated to boost profitability and technical reserves in the face of shareholder and analyst scrutiny [11].
- l) It is not clear how much of the company will be diluted. So, the opportunity for the general public to pick up equity in LIC in the IPO may be limited.

The cons can be understood by the opposing views expressed by different experts, they are:

- a) LIC Stake sale; For who's benefit is it anyway? It has also been obvious that so far no coherent justification has been made substantiating the proposed LIC stake sale. Four reasons were stated in the Budget. But the most obvious reason may be the disinvestment target of Rs.2.1 lakh crore in the Budget [12].
- b) Capital needs; That of LIC or the Market? The share markets do indeed cater to the capital requirements of the listed companies. The proponents of the capitalist system want the capital markets to surge ahead yet it is the cyclical crisis of the capitalist model that reaffirms the relevance of the state as the 2008 crisis showed the entire world. Here main question is whether LIC needs capital? With more than 5.6 lakh crore of total income, more than 30 lakh crores of assets, a steady stream of premium and investment income, LIC has not been searching for capital for its business needs, it is resourceful enough to fund 25 per cent of the borrowing needs of the central government. Hence the doubt arises if the stake sale is to meet the capital needs of LIC or that of the markets?

- c) Will retail investors benefit? Yes they will there is no doubt. But in a country less than two per cent of the population access the share market, unlocking the value of a mammoth financial organisation for the purpose of retail investors obfuscates the stated purpose. But in the process, the stake fully enjoyed at present by the entire 135 crore population of the country will be shrunk to accommodate a few thousand out of the estimated four crore retail investors in the country. The Finance Minister seeks to draw the support of the investing public in the country with the argument.
- d) Will listing Discipline a company? It has been observed that the government has remained a mute spectator even as the savings of millions of retail investors in the markets were lost. We have witnessed sharing the legacy of the more than 8 Lakh Crore Non Performing Assets that have wrecked the Indian Banking System. Did Banks that lent the loans not listed in the market? Did the companies and large industrial groups who failed to repay the loans not listed in the market? Could the FM explain why the markets failed to discipline the companies in question? The latest crumbling of the Yes Bank just reveals the limitations of the regulatory framework in practice in a crisis.
- e) Transparency and the market- We can witness few analysts in the market who raise the issue of transparency to question the government, specifically the finance ministry in not letting the LIC full functional autonomy with particular reference to some of the investment decisions. Strangely, the FM herself has come up with the issue of transparency with regard to LIC stake sale [13].

Impact on employees

- a) IPO is nothing to do with employees. It effect management because new director become part of management [14].
- b) This is not take over. Employees need to worry when there is takeover. Currently Government of India owns 100% shares of LIC. Even with IPO, the sale would not be more than 10%.which means that Government of India would continue to own 90% of the shares. Voting rights for any other party to make an influence on Employee related policy should be more than 51%.So, Employees don't need to worry about LIC IPO.
- c) If there is business impact, then it is not good for the organization, and which ultimately impacts employees only.
- d) Because currently Government of India holds 100% stake in LIC but when the IPO will be out then LIC open door for private player. Initially it's about only 5–10% but employee think it may extend in future and ownership maybe tumble.
- e) 100% sovereignty of policy maybe lost so business may step down.
- f) Life Insurance Corporation of India(LIC) as Trusted by Us “ ZindagikesaathbhiZindagiKeBaadBhi" where individual invest their hard earned money as per future plan like Higher Education, Property, Foreign Trips etc. LIC is termed as Public Sector & fully owns by Government. It employs more than millions Employee. But now government proposes to sell a part of its holding through IPO. So Employees are unhappy because this may take the Public Sector title from LIC. So People of India will lose faith in LIC. Disinvestment in LIC will be a stepping stone for privatisation in future.
- g) LIC has always been at the service of the people and the nation & attempt to disinvest LIC will change the corporation motive from service to profit making. Thus discourage LIC from providing insurance cover to the underprivileged section of Society.

- h) Various protest took part across India for stopping LIC IPO Process."SaveLIC". The insurer is profitable, has assets of ₹31-lakh crore; why hand over such wealth to corporates, ask employees
- i) Some say it is fear of unknown, nothing more. Employees will be happy if they get preferential allotment.

Findings

- a) In a nutshell, with less federal interference, LIC will be more accountable with strong governance protocols, which will be a positive for its financial health.
- b) However, the sovereign guarantee element currently enjoyed by each LIC policyholder might cease to exit after the IPO. Some policyholders may then find it hard to trust LIC.
- c) If sovereign guarantee continues, policyholders won't perceive risk
- d) So far, LIC has operated almost like a mutual insurance company by passing on most of the earnings to the policyholders and keeping very little as profits, despite having a massive operation.
- e) LIC employees are against the disinvestment of policy i.e. issue of LIC IPOs
- f) The governance of LIC will be more transparent and efficient.
- g) It attracts more foreign investment.

Conclusion

The decision of the union government to withdraw part of its stake from the investment by issuing LIC IPOs is better if it does not affect the main motto of the undertaking. LIC is service sector, its main motto is to serve, if it is affected with the entry of the corporate sectors, the basic value of the service sector is forgotten. Proper balance of service motto and development of the nation as well is to be done. From the point of view of development of the nation LIC IPOs are welcome feature as India is to be turned from 'developing nation' into 'developed nation'. At the same time the hard earned money of the policy holders must be safe guarded and the employees must be secured.

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