भारतीय बीमा विनियामक और विकास प्राधिकरण
INSURANCE REGULATORY AND
DEVELOPMENT AUTHORITY OF INDIA

Ref: IRDA/F&A/MISC/LSTD/162/08/2016

August 11, 2016

Discussion Paper on "Listing of Indian Insurance Companies"

This has reference to the meeting of the Authority with the CEOs of Life and General Insurance companies held on April 15, 2016 at Hyderabad wherein apart from various other issues, the listing of Indian insurance companies was also discussed.

In order to direct the Indian insurance companies having completed eight years of operations in case of general/re-insurance and ten years of operations in case of life insurance, to go for public listing, the Authority intends to issue Direction as per the discussion paper enclosed.

All are requested to forward their comments within 21 days from the date of issue of this communication. The comments may be forwarded to Dr. Mamta Suri, HOD-F&A at mamta@irda.gov.in and Mr.R.K. Sharma, Joint Director at rksharma@irda.gov.in.

Iyer

(V. R. Iyer)

परिश्रम भवन, तीसरा तल, बशीरबाग, हैदराबाद-500 004. भारत
✆ : 91-040-2338 1100, फैक्स: 91-040-6682 3334
ई-मेल: irda@irda.gov.in वेब: www.irda.gov.in

Parisharam Bhavan, 3rd Floor, Basheer Bagh, Hyderabad-500 004. India
Ph.: 91-040-2338 1100, Fax: 91-040-6682 3334
E-mail : irda@irda.gov.in Web.: www.irda.gov.in

भारतीय बीमा विनियामक और विकास प्राधिकरण
INSURANCE REGULATORY AND DEVELOPMENT AUTHORITY OF INDIA

Ref: IRDA/F&A/MISC/LSTD/162/08/2016

11th August, 2016

Discussion Paper on "Listing of Indian Insurance Companies"

I. Background

The insurance sector was opened up to reforms with the promulgation of the Insurance Regulatory and Development Authority Act, 1999. Since then, the sector has been a witness to a number of significant developments and reforms over the last sixteen years. The reforms have not only increased the reach and penetration of insurance but have also facilitated and contributed to the growth of the Indian economy. The insurance industry in the country has provided crucial financial intermediary services, transferring funds from the insured to capital investment, critical for continued economic expansion. The industry generates long-term funds for infrastructure development. In the year 2014-15, Financing, insurance, professional charges, etc., have contributed 20.51 percent of the GDP against 19.71 percent of financial year 2013-14. The insurance industry is, thus, playing a significant role in India's continued economic transformation.

The Amendments to the Insurance Act, 1938 in the year 2015 have further provided impetus for the second phase of reforms, which have resulted in the Foreign Direct Investment (FDI) limits being increased to 49 percent, and has opened up the market for global reinsurance players to set up re-insurance branch offices in India. IRDAI has laid down the regulatory framework for the 'Other forms of Capital'. As a result, insurance companies can raise funds through the issue of Preference Share Capital and Subordinated Debt.

At the end of July, 2016, there are 55 insurance companies operating in India; of which 24 are in the life insurance business and 30 are in non-life insurance business. In addition GIC is the sole national reinsurer. Of the 55 companies presently in operation, eight are in the public sector, two are specialised insurers, namely ECGC and AIC, one in the life insurance namely LIC, four in non-life insurance and one in reinsurance. The remaining forty seven companies, including the standalone health insurance companies, are in the private sector. As on date, despite being hugely capitalized all of these companies are closely held. As a result, the need for providing capital to meet both the capital and solvency margin requirements rests on the promoters of these entities.

परिश्रम भवन, तीसरा तल, बशीरबाग, हैदराबाद-500 004. भारत
✆ : 91-040-2338 1100, फैक्स: 91-040-6682 3334
ई-मेल: irda@irda.gov.in वेब: www.irda.gov.in

Parisharam Bhavan, 3rd Floor, Basheer Bagh, Hyderabad-500 004. India.
Ph.: 91-040-2338 1100, Fax: 91-040-6682 3334
E-mail : irda@irda.gov.in Web.: www.irda.gov.in

As the operations of the industry players have stabilized and strengthened, and supported by the positive market sentiments, a couple of insurers in the private sector, have initiated steps to get their shares listed on the stock markets. In addition, the Government of India has also announced its intent to get the national reinsurer and one other general insurance company, listed on the bourses. These efforts are aimed at unlocking the value of the equity held by the shareholders in the respective companies. Simultaneously, the IRDAI, appreciating the industry concerns on issues which could have acted as road blocks to this smooth transition to listing of equity of insurance companies on the stock exchanges has been proactive and made necessary regulatory amendments.

In an effort to achieve inorganic growth, some of the industry players have also evinced interest in increasing their market share through mergers and acquisition. Thus, the insurance industry is today poised for major developments which could well change the shape of the Indian Insurance Industry over the next decade.

II. Listing Requirements for Insurance Companies:

The Insurance Laws (Amendment) Act, 2015 has deleted the provisions relating to mandatory divestment of insurance companies after a period of 10 years. The deletion of Section 6AA of the Insurance Act, 1938, means that any insurance company that conforms to the IRDAI's Regulations and listing requirements of the Securities & Exchange Board of India (SEBI) can initiate steps to get its shares listed on the stock markets. This decision can be taken by an insurance entity, irrespective of the number of years it has been in operations in the insurance business post receipt of Certificate of Registration from the IRDAI.

As per the regulatory framework in place in the insurance space, the insurance company can get its shares listed through and offer for sale (i.e., the existing promoters can un-lock value) or through a public issue for meeting the capital requirements. In either, case it helps the promoters to un-lock the value of their company.

In addition to the benefits which accrue to the promoters and the shareholders there are additional intrinsic advantages of getting the shares listed on the stock markets. At the minimum, these include the following:

i) Public listing enables the retail and institutional investors to participate in the fortunes of the company. As a result, it brings in shareholders' participation in the decision-making of the entity;
ii) While the IRDAI has mandated significant disclosure requirements for insurance companies, the mandate for disclosure requirements are significantly higher for listed entities. These include disclosures required to be made to the stock exchanges and through print media;

iii) Public shareholding by both retail and institutional investors means that there is a greater scrutiny of the decision making process, resulting in greater transparency of operations;
iv) The Statutory and regulatory provisions ensure that the interst of minority shareholders are protected; and
v) Financial Analysts evince greater interest in the operations of the listed entities and publish analytical reports on their operations.

III. Listing Requirements for Banks

The Reserve Bank of India, "Guidelines for 'on tap' Licensing of Universal Banks in the Private Sector" released on 1st August, 2016, The initial minimum paid-up voting equity capital for a bank shall be Rs. five billion. Thereafter, the bank shall have a minimum net worth of Rs. five billion at all times. The promoter/s and the promoter group / NOFHC, as the case may be, shall hold a minimum of 40 per cent of the paid-up voting equity capital of the bank which shall be locked-in for a period of five years from the date of commencement of business of the bank. The promoter group shareholding shall be brought down to 15 per cent within a period of 15 years from the date of commencement of business of the bank. It has further been indicated that the licensed bank shall get its shares listed on the stock exchanges within six years of the commencement of business.

IV. SEBI stipulations on Minimum Public Shareholding

The SEBI (Listing Obligations and Disclosure Requirements) Regulations, 2015 stipulate that the listed entity shall comply with the minimum public shareholding requirements specified in Rule 19(2) and Rule 19A of the Securities Contracts (Regulation) Rules, 1957 in the manner as specified by the Board from time to time. Thus, an entity which is listed on the stock exchanges must ensure that atleast 25 per cent of its equity is widely held within a period of three years.

V. Regulatory Architecture

The Authority in exercise of the powers conferred by Section 114A read with Section 6 of the Insurance Act, 1938 (4 of 1938), Sections 14 and 26 of the Insurance Regulatory and Development Authority Act, 1999 (41 of 1999) and in consultation with the Insurance Advisory Committee has notified the following Regulations to enable Indian insurance companies to go for initial public offer (IPO):

1. IRDAI (Issuance of Capital by Indian Insurance Companies transacting Life Insurance Business) Regulations, 2015
2. IRDAI (Issuance of Capital by Indian Insurance Companies transacting other than Life Insurance Business) Regulations, 2015

The regulations allow an insurance company to go for IPO subject to compliance of lock-in period specified at the time of grant of certificate of registration. However, the regulations do not provide the minimum time frame (except the lock in period) within which an Indian Insurance company has to go for IPO.

Further, the regulatory framework empowers the IRDAI to issue directions to the Indian insurance companies as under:

"Power to issue Direction

The Authority may direct an Indian Insurance Company transacting insurance business to get listed on the stock exchange(s) if the circumstances so warrant. Such company shall, notwithstanding the lock-in period, within a period of one year from the date of such directions, comply with the directions issued by the Authority."

VI. Insurance Industry in India

Globally, it has been observed that not only is the Insurance Industry capital intensive, it takes a number of years for an insurance company to stabilize operations. This is more particularly true in case of a life insurance company, due to the new business strain. For obvious reasons, thus, the insurance sector regulator, i.e., IRDAI, while considering applications for grant of Certificate of Registration (R3) to applicants under the IRDAI (Registration of Insurance companies) Regulations, mandates that the promoter entities have financial strength and the capacity to stay committed to the project for a minimum of five years from the grant of R3. Based on the global experience, as also the position in India, it would be fair to surmise, that a General and Life Insurance company can be expected to stabilize operations in a period of 5-7 years and 7-10 years respectively.

The status of insurance industry in India, in terms of number of years of operations is as under:

TABLE: No. of Years of Operations

Insurer	**0-5 Year**	**5-8 Year**	**8-10 Year**	**Above 10 Years#**	**Total**
Life Insurance	0	3	5	16	24
Non Life Insurance	3	3	4	12	22
Health Insurance	3	1	1	1	6
Specialized Insurance	0	0	0	2	2
Re Insurance	0	0	0	1	1
Total	6	7	10	32	55

 # All public sector companies are above 10 years

As can be observed from the above, 32 insurance companies in Life, General, including specialized insurers and the re-insurer companies have completed between 10 years of operations. Of these only two life insurers have applied for getting their shares listed on the stock markets.

VII. Proposal under Consideration

The IRDAI is entrusted with the regulation, promotion and orderly growth of insurance business in India. Maintaining an efficient, fair and stable insurance market is necessary for the growth of the industry as well as for the protection of the interests of policyholders. The IRDAI has been bringing out various regulations for fulfilling its mandate. One of the important measures, which will strengthen Corporate Governance and bring market discipline amongst insurers, while enhancing transparency, is listing of the insurance companies.

Accordingly, the Authority proposes to issue the following directions:

i) All General Insurance companies, including the standalone health and reinsurance, shall take steps to get their shares listed on completion of 8 years of operations;

ii) All Life Insurance companies shall take steps to get their shares listed on completion of 10 years of operations;

iii) All companies which have already exceeded the number of years of operations as indicated at (i) and (ii) above, shall initiate steps to ensure that they get their shares listed within a period of three years from the date of Issue of directions under these Guidelines.

Thus, all Indian insurance companies which meet the above said criteria shall:

a) Take up the matter of Listing to their Board of Directors within three months from the date issue of these Guidelines;

b) File the roadmap for IPO duly approved by the Board of Directors with the Authority within 45 days from the date of approval by the Board;

c) Initiate action for IPO in accordance with the roadmap within such period as may be approved by the Authority.

VIII. Interim directions on Disclosures and Governance:

As indicated above, one of the advantages of listing is the increased transparency in operations along with disclosures to the general public. In the run-up to the listing, all insurance companies shall initiate steps to ensure that the level of disclosure in public domain is brought up to the level of listed entities as stipulated by IRDAI and SEBI. These Disclosures could cover such aspects as Embedded Value, Segment wise lapsation of policies and contribution to profitability, amongst others. Already, the Authority has advised all insurers, through its Guidelines on Corporate Governance that "*all Indian Insurance Companies to familiarize themselves with Corporate Governance structures and requirements appropriate to listed entities.*

The companies, even if unlisted, are also well advised to initiate necessary steps to address the extant "gaps" that are so identified to facilitate smooth transition at the time of their eventual listing in course of time."

The Authority hereby seeks the views of the Insurance industry on the above proposal.

(V R Iyer)