IPOs in the insurance sector: myriad factors at play

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Initial public offerings or IPOs in the Indian insurance sector have garnered much interest over the last couple of years. The spark that ignited this interest can be traced to Reliance Life Insurance Company Limited's much publicized attempt to launch an IPO, which met with stern resistance from the Ministry of Finance and the Indian insurance sector regulator, the Insurance Regulatory and Development Authority (IRDA). Although a brief lull followed, which was filled with periodic promises from both the IRDA and the securities market regulator, the Securities and Exchange Board of India (SEBI), to jointly develop a framework for the listing of insurance companies, things appear to be back on track again. On 25 October a SEBI meeting discussed disclosure norms for insurance company IPOs.

There is no doubt that, in general, IPOs are the most popular route to raise money in the primary markets. However, their importance in the context of an insurance company increases manifoldly due to the opportunity that they present to Indian promoters for recovering their capital and given that such companies are, by their very nature, capital guzzlers. Given this background, the obvious question that arises is: why has there been a delay in letting Indian insurance companies list?

This month, we dig a little deeper to highlight some of the factors affecting plans by India's insurance companies' to go public.

Multiplicity of regulators

Perhaps one of the most cited reasons for prolonged delay in the release of guidelines for insurance company IPOs is the involvement of two regulators who have had a difficult relationship with each other in the recent past. The public spat over the boundaries of their respective jurisdictions in relation to the regulation of unit linked insurance plans (ULIPs) is still fresh in many minds.

While IPOs are by definition primary market securities offerings, which are typically within the domain of SEBI, the unique nature of the insurance sector makes it is impossible to exclude the involvement of the IRDA. Two areas that are specific to the insurance sector, which immediately spring to mind, are valuation norms and the protection of policyholders' interests.

Timing

A question which often arises when discussing the timing of IPO-related regulations is: why now? The answer perhaps lies in insurance regulations in India that require Indian promoters of insurance companies to mandatorily divest their shares down to 26% of the shareholding after the insurance company has completed 10 years of business. The divestment is to be done in a phased manner, which is to be specified by the IRDA. However, the IRDA has not as yet specified what that is.

The fact that several Indian insurance companies have recently completed or are shortly about to complete 10 years of business has led to rumours and speculation that IPOs may be the most optimal and lucrative route for Indian promoters to achieve this divestment. Consequently there has been a rise in the importance of this topic.

Concerns about FDI limits

The majority of private sector players in the insurance sector (especially those having foreign partners) strongly believe that the removal of the current limits on foreign investment is a necessary precursor to permitting insurance companies to list.

The chief concern of the foreign investor community has been that IPOs in the insurance sector without the liberalization of the sector could lead to several complications in existing joint venture (JV) arrangements (especially around the manner of increase of the shareholding of foreign investors).

This concern is magnified if IPOs are imposed mandatorily on Indian promoters in connection with their divestment obligations. One hopes for the sake of such investors and the health of their JVs that the IRDA will issue guidelines laying down the roadmap for IPOs, while not making them mandatory.

Time for a relook?

One can conclude that several factors may affect plans of Indian insurance companies to go public. Their listing will be far from an automatic process regardless of when guidelines are released by regulators.

While the IRDA and SEBI continue to bake proposals, JV partners – especially foreign stakeholders – would do well to introspect and consider whether it is worth relooking at their end objectives (some devised almost a decade ago) and if they can be achieved in this environment of uncertainty.

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