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Norms empower Irdai to tell insurers to go public

Draft norms rule out mandatory divestment by life insurance cos

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THE Insurance Regulatory and Development Authority of India (Irdai) in its draft norms on issuance of capital by life insurance companies has empowered itself to instruct a life insurer to go public.

The law, prior to the passage of Insurance Laws Act, 2015, mandated life insurers to go from a mandatory listing after 10 years of operations. Thus the listing of life insurers has now moved form the act to the regulator, to be decided on a case-to-case basis. The draft norms ruled out mandatory divestment by life insurance companies and also dispensed life insurers from the requirement of having embedded value twice of the shares capital plus securities premium, a key condition in the old laws that did not allow several life insurers to list.

Embedded value of a life insurance company is the present value of future profits plus adjusted net asset value. "The norms empower the authority to issue directions to an Indian insurance company to go for IPO if the circumstance warrants so. The company shall comply with these regulations within a period of one year from the date of such direction," Irdai said in the draft norms. RM Vishakha, MD & CEO, IndiaFirst Life Insurance, said, "The draft norms allow application of judgement by the regulator instead of having a prescriptive norm for listing applicable to all insurance companies." The Insurance Laws Act, 2015, has deleted Section 6AA, which provided for compulsory divestment of the holding of Indian promoter. The act also carried out amendments to the Section 6A.

The draft regulations allow an insurance company to go for IPO subject to compliance of lock-in period specified by the regulator at the time of grant of certificate of registration.

Change in the air

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The draft norms do not have any provisions for mandatory divestment. The applicant company can issue the shares as fully paid up. In case partly paid up shares have been issued, an applicant company shall not allow any period exceeding one year for payment of calls on the shares said the draft norms.

Irdai, in consultation with the insurance advisory committee, proposes to substitute the Insurance Regulatory and Development Authority (issuance of capital by life insurance companies) regulations, 2011, with the draft Regulations.

The embedded value report of the applicant company shall be prepared by an independent actuarial expert in the manner prescribed by the actuarial practice standard issued by the Institute of Actuaries of India. However, such report shall not be subject to peer review by another independent actuary, said the regulator.

Insurers will have to make additional disclosures on agent productivity; value of new business; investment in equity and bonds, exposure to each industry and total investment; reinsurance strategy; and significant accounting policies.

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