

The Initial Public Offering of Life Insurance Corporation of India

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Abstract: *Life Insurance Corporation of India is the largest insurance provider in India. LIC has a profound impact on Indian public and private sector. It has a long standing history and was one of the first tertiary sector public companies to be established in India. As part of the New Economic Policy of 1991 in India, LIC was one of the few reserved companies which were not disinvested by the government. The IPO of LIC is a radical change economically and legally. This is a non empirical research paper analyzing the past, present and future of life insurance in India and the role of LIC in the insurance sector. Additionally, the IPO has been analysed from a business point of view and an investor point of view.*

Keywords: Life Insurance, LIC, Liberalisation, Privatisation, Initial Public Offer

1. Introduction

Life Insurance Corporation is the 5th largest public company in India. In a period of less than half a century the insurance sector in the country since independence has come full circle, from being an open competitive market to complete nationalization and then back to a liberalized market. The setting up of the Insurance Regulatory and Development Authority (IRDA) ended the monopoly of LIC in the insurance sector. It has become imperative for LIC to face the competition post the entry of new private players. If under this pressure, Life Insurance Corporation of India improves its performance, the whole economy will be benefitted. The LIC - A public sector giant, which never faced competition earlier, now has to compete with the private players, who boast of the rich and long experience of their partners from the developed countries of the world. So it becomes necessary to study the performance of Life Insurance Corporation of India, succeeding sector reforms.

Objectives

- 1) To analyze the performance and growth of LIC in the Pre and Post LPG era.
- 2) To analyze the profound impact LIC has on the Insurance Sector in India
- 3) To analyze the future trend of business of LIC of India.
- 4) To analyze the public issue in detail
- 5) To understand the public sentiment and performance of LIC in the last 3 months

History of Life Insurance in India

In India, insurance has a deep - rooted history. It finds mention in the writings of Manu (Manusmriti), Yagnavalkya (Dharmasastra) and Kautilya (Arthasastra). The writings talk in terms of pooling of resources that could be re - distributed in times of calamities such as fire, floods, epidemics and famine. This was probably a precursor to modern day insurance. Ancient Indian history has preserved the earliest traces of insurance in the form of marine trade loans and carriers' contracts. Insurance in India has evolved over time heavily drawing from other countries, England in particular. 1818 saw the advent of life insurance business in India with the establishment of the Oriental Life Insurance Company in Calcutta. This Company however failed in 1834. In 1829, the Madras Equitable had begun transacting life insurance business in the Madras Presidency. This era,

however, was dominated by foreign insurance offices which did good business in India, namely Albert Life Assurance, Royal Insurance, Liverpool and London Globe Insurance and the Indian offices were up for hard competition from the foreign companies. In 1914, the Government of India started publishing returns of Insurance Companies in India. The Indian Life Assurance Companies Act, 1912 was the first statutory measure to regulate life business. In 1928, the Indian Insurance Companies Act was enacted to enable the Government to collect statistical information about both life and non - life business transacted in India by Indian and foreign insurers including provident insurance societies. In 1938, with a view to protecting the interest of the Insurance public, the earlier legislation was consolidated and amended by the Insurance Act, 1938 with comprehensive provisions for effective control over the activities of insurers. The Insurance Amendment Act of 1950 abolished Principal Agencies. However, there were a large number of insurance companies and the level of competition was high. There were also allegations of unfair trade practices. The Government of India, therefore, decided to nationalize insurance business. An Ordinance was issued on 19th January, 1956 nationalising the Life Insurance sector and Life Insurance Corporation came into existence in the same year. The LIC absorbed 154 Indian, 16 non - Indian insurers as also 75 provident societies—245 Indian and foreign insurers in all. The LIC had monopoly till the late 90s when the Insurance sector was reopened to the private sector. The process of re - opening of the sector had begun in the early 1990s and the last decade and more has seen it been opened up substantially. In 1993, the Government set up a committee under the chairmanship of RN Malhotra, former Governor of RBI, to propose recommendations for reforms in the insurance sector. The objective was to complement the reforms initiated in the financial sector. The committee submitted its report in 1994 wherein, among other things, it recommended that the private sector be permitted to enter the insurance industry. They stated that foreign companies be allowed to enter by floating Indian companies, preferably a joint venture with Indian partners. Following the recommendations of the Malhotra Committee report, in 1999, the Insurance Regulatory and Development Authority (IRDA) was constituted as an autonomous body to regulate and develop the insurance industry. The IRDA was incorporated as a statutory body in April, 2000. The key objectives of the IRDA include promotion of competition so

Volume 11 Issue 9, September 2022

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as to enhance customer satisfaction through increased consumer choice and lower premiums, while ensuring the financial security of the insurance market. The IRDA opened up the market in August 2000 with the invitation for application for registrations. Foreign companies were allowed ownership of up to 26%. The Authority has the power to frame regulations under Section 114A of the Insurance Act, 1938 and has from 2000 onwards framed various regulations ranging from registration of companies for carrying on insurance business to protection of policyholders' interests.

LIC Strengths and Weaknesses

Strengths

- 1) The largest player in India: For the nine months ended December 2021 period, LIC's market share was 61.4 per cent based on NBP.
- 2) Trusted brand: As LIC was the only life insurer in India till 2000, its name has become synonymous with life insurance.
- 3) Low operating costs: LIC incurs low operating expenses and total costs in comparison to the industry. It had an operating expense ratio of 8.7 per cent in FY21, as against a median of the top - five private players of 11.9 per cent.
- 4) Vast and productive agent network: LIC's agent network is wider than the entire private life insurers' agent network in India. As of December 31, 2021, its individual agent network accounted for 55 per cent of the total agent network in India. Further, LIC also had the highest agent productivity both by premiums (approx. Rs 4, 13, 000 per agent in FY21) and the number of policies (15.3 policies on average in FY21).

Weaknesses

- 1) Exposure to the pandemic: As LIC's policies are primarily distributed by individual agents, any lockdown could result in the company not being able to undertake the desired amount of business.
- 2) Reduced attractiveness of LIC policies: A recent amendment to the LIC Act has reduced the amount of payouts to participating policyholders so that shareholders can enjoy higher returns. In fact, LIC's embedded value (which is the present value of all future profits) jumped more than five times from Rs 95, 605 crore to Rs 5, 39, 686 crore after the amendment.
- 3) High and increasing competition: The primary competitors of LIC are private life insurance companies which have been growing faster than LIC and have been steadily gaining market share. Between FY16 - FY21, the total premium for private life insurers grew at a CAGR of 18 percent while the growth for LIC was 9 per cent.

LIC Valuation and Size

While the size of the LIC is yet to be revealed by the government, private estimates have pegged the total value of the insurer at Rs 13 - 15 lakh crore. The government has appointed actuarial firm Milliman Advisors LLP India to assess the embedded value of LIC ahead of the IPO. LIC releases its balance sheet only once a year, which means that no discernable numbers are available to derive its embedded value, which is defined by the current value of future profits

added with the net value of assets. The total value will include the value of the assets with the company, not just in terms of the value of policies LIC handles and the premium paid on it, but also other assets like real estate. LIC has appointed 10 merchant bankers to manage the offer — Goldman Sachs (India) Securities, Citigroup Global Markets India, Nomura Financial Advisory and Securities India, SBI Capital Market, JM Financial, Axis Capital, BofA Securities, JP Morgan India, ICICI Securities, and Kotak Mahindra Capital Co Ltd.

Why is LIC going public

The decision of the government headed by PM Modi to disinvest part of its stake in the country's largest insurer, the Life Insurance Corporation, has been nothing short of bold. The Government of India owns the mammoth insurance company in totality, but why has it sought to disinvest a part of it, about 5% - 6% in its initial decision? Typically, when owners of any company wish to disinvest in the company, by releasing an IPO, or initial public offering, they do so because they need more funding to grow the company further. The Government of India was due to release an LIC IPO in March 2022, via merchant bankers, for the reason of raising capital.

The Life Insurance Corporation holds huge investments in several listed companies. As a company goes, it is one of the largest institutional investors in India. The disinvestment of LIC shares, in part, by the Government of India, is primarily being done so that the Indian government can meet its prescribed target of disinvestment for FY22. Analysts predict that the IPO will only help the Indian government to meet its financial targets, as the Life Insurance Corporation is likely to be oversubscribed. Needless to say, the IPO is being eagerly awaited by investors, both institutional and retail, as investment in such a company is only predicted to be fruitful all - round. LIC is the largest insurer in India, with over 20 years of firm footing in the insurance sector. In the midst of numerous private insurers emerging, LIC has managed to keep itself afloat, and with a massive amount of success to boot.

LIC holds 71% of the market share in the segment of insurance marketplace in India. Analysts estimate that the IPO released by LIC will pull in close to Rs.1 lakh crore. With the pandemic almost crushing economies around the world, the government's disinvestment plans also include Pawan Hans, BEML and SCI.

LIC IPO - A Good Investment

- 1) Attractive valuation: Giving 'buy' tag to LIC IPO on attractive valuations, Kanika Agarrwal, Co - founder & Chief Investment Officer at Upside AI said, "The LIC IPO is priced very attractively. Since the government slashed valuation by 50 per cent to ₹6 lakh crore, its valuation to embedded value of around ₹5.4 lakh crore is reasonable at 1.1x. Private insurers trade at 2.5 - 4x. "
- 2) Diversification in single investment: "As of 30th September 2021, LIC was India's largest asset manager, with assets under management (AUM) of \$39.55 trillion, more than 3.3 times the combined AUM of all private life insurers in India and more than 1.1 times the AUM of the whole Indian mutual fund industry.

- 3) Dividend paying stock: Market experts believe that LIC will be one of the dividend paying stocks, which is another way of gaining from one's investment.
- 4) LIC's market leadership: Life Insurance Corporation of India is facing tough competition from private insurers but it's still market leader. As insurance sector has low penetration in Indian population, this record low under penetration is expected to drive further growth for the already market leader Life Insurance Corporation of India.
- 5) Strong long term outlook: LIC is synonymous with insurance in India and enjoys a huge competitive advantage in terms of brand value.

Is LIC a move to privatization and disinvestment by GOI

Moves to privatize India's public services are being met with strong opposition. However, proponents of the plans say privatization can streamline services and boost the economy.

The Indian government's deal to sell its flagship Air India was touted by supporters as a landmark move in a drive to privatize the debt - laden airline, and other public services.

Critics say privatization could mark a decline in the quality of government - supported organizations.

Air India's privatization drive had been in the works for about four years. However, past attempts to offload the loss - making airline hit several roadblocks, including government insistence on retaining some shares in the airline, and political backlash from left - wing parties.

Ultimately, it was Tata group, India's oldest conglomerate, that agreed to pay \$2.4 billion (€2.1 billion) for the carrier in October 2021, with the sale expected to close in December.

The underlying rationale behind privatization of government - run companies is that they would perform better in private hands. Proponents of the plan also argue that selling large companies would raise billions of dollars that could bolster the government's resources.

"We need to have success in liquidating some of these companies, closing them, selling the land and the assets. This we have yet to achieve," said Ajay Shankar, a retired senior bureaucrat who led the government's Department of Industrial Policy and Promotion.

The proceeds could fund new infrastructure and replenish government finances battered by the coronavirus pandemic, Shankar argued.

The government, according to officials, is expecting 500 billion rupees (€6 million or \$6.7 million) in dividends from public sector companies in the current fiscal year.

Many have called for divestment as an alternative. This would mean that the government sells some of the shares and assets in its companies, transferring control to the private sector without a change in ownership.

Supporters of this alternative additionally argue that a public - private partnership would attract the best professional managers from the market to publicly funded companies.

2. Conclusion

The life insurance industry plays an important role in improving the national economy. The private life insurer offers various new policies to attract their policyholders. In the modern competitive era human beings suffer a lot of health problems. Life insurance Corporation of India and IRDA must concentrate on introducing new plans for facing health problems of day to day activities of human beings. Life insurance Corporation of India should educate the importance of insurance to the general public through the agent and corporate social responsibility activities which will increase the insurance penetration in low income households in India fulfilling safety and security needs for Indian households. The LIC IPO can be seen as the first major step of a multifold plan to disinvest in the Indian Public Sector Undertakings to promote privatization for profit maximization and efficiency. To conclude, the LIC IPO has not lived up to its expectation for short term investors due to the overall recession and downfall in the Indian capital markets. At the same time, LIC is a must have stock for long term investors as it is a government backed corporation with major reserves and reputation. With increasing insurance proliferation in the Indian economy, LIC will continue to grow due to its reputation of trust backed by its motto of "Yogakshemam vahamyaham"

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Author Profile



Harsh Mittal is a school student interested in the world of finance. He spends his free time researching finance and the stock market. Additionally, he is interested in the world of cryptocurrency and aims to work as a venture capitalist or investment banker.

IPO details	
Total IPO size (₹ cr)	21,008
Offer for sale (₹ cr)	21,008
Fresh issue (₹ cr)	0
Purpose of issue	To achieve the benefits of listing
ADDITIONAL DETAILS	
Price band (₹)	902-949
Subscription dates	May 4-9, 2022
ROE (FY21) (%)	81.7
Net premium earned (FY21) (₹ cr)	4,05,398
Profit after tax (FY21) (₹ cr)	2,974
Post-IPO promoter holding (%)	96.5
Post-IPO market cap (₹ cr)	6,00,242
Total debt (Dec 2021) (₹ cr)	4
Post-IPO net worth (₹ cr)	8,230
Post-IPO price/earnings ratio	201.9
Post-IPO price/book ratio	72.9
Retail allocation (%)	35

Sharing of surplus between participating policyholders and shareholders

		Prior to the amendment		Post amendment	
		Surplus from participating policies	Surplus from non-participating policies	Surplus from participating policies	Surplus from non-participating policies
Allocation of surplus	Participating policyholders	95%	95%	FY22 - 95%; FY23 - 92.5%; FY24 - 92.5%; FY25 onwards - 90%	0%
	Shareholders	5%	5%	FY22 - 5%; FY23 - 7.5%; FY24 - 7.5%; FY25 onwards - 10%	100%

LIC: Peer analysis

Key financials of some of the listed peers of the company

Company name	Market cap (₹ cr)	P/EV	P/E	Net premium earned (₹ cr)	RoE (%)	VNB margin (%)	Solvency ratio
LIC	6,00,242	1.1	201.9	4,05,398	81.7	9.9	1.76
SBI Life	1,11,696	3.2	74.2	49,768	15.3	20.4	2.15
ICICI Prudential Life	76,782	2.5	101.1	34,973	12.0	25.1	2.17
HDFC Life	1,20,705	4.2	91.5	38,149	17.7	26.1	2.01

Price data as on April 28, 2022. Financials as of FY21.

P/EV calculated using embedded values as of September 2021.

No. of Policies Issued

Year	2003-04	2004-05	2005-06	2006-07	2007-08
Policies	269.68	239.78 (-11.09)	315.91 (31.75)	382.29 (21.01)	376.13 (-1.61)
Year	2008-09	2009-10	2010-11	2011-12	2012-13
Policies	359.13 (-4.52)	388.63 (8.21)	370.38 (-4.70)	357.51 (-3.47)	367.82 (2.85)

(Source: Secondary Data Annual Reports of LIC of India)

(Figures in brackets are indicates the growth over previous year)