

## IL&FS Acquisition

### What is the issue?

\n\n

\n

- Life Insurance Corporation(LIC) has been slated to bail out Infrastructure Leasing & Financial Services Limited (IL&FS) soon.

\n

- In this context, the government is facing criticism for making LIC to acquire stakes in multiple failing Public Sector Undertakings (PSUs).

\n

\n\n

### What is the situation in IL&FS?

\n\n

\n

- Infrastructure Leasing & Financial Services Limited (IL&FS) is a PSU.

\n

- It is jointly owned by the State Bank of India (SBI), LIC, ORIX (Japan), Abu Dhabi Investment Authority and Greenspring Associates.

\n

- Notably, the India's longest tunnel “The Chenani-Nashri Tunnel”, which was opened for traffic in 2017, was constructed by it.

\n

- The company is classified as systematically important due to its projects.

\n

- But IL&FS and its maze of subsidiaries have not made profits for almost a decade now and are in deep financial dept.

\n

\n\n

### What is the bailout plan and what are the problems in it?

\n\n

\n

- **LIC’s Role** - Presently, as LIC’s profits are strong, the central government is nudging it to acquire stakes in failing PSUs to bail them out.

- \n
- While the LIC currently holds 25% shares in IL&EF, it has been slated to acquire more stakes and take up a greater role in IL&EF's operations.
- \n
- Notably, LIC is already in the process of acquiring the loss making IDBI Bank, presumably due to government's insistence.
- \n
- **The Problem** - LIC is India's largest insurer and the public trust it with the belief that it would be secured through prudent investments.
- \n
- Notably, there are more than 200 million policy holders in LIC, who would want their money back at times of emergency.
- \n
- But LIC, like other well performing PSUs is being nudged to bail out multiple failing PSUs, a trend that might harm its balance sheets.
- \n
- In other words, policyholder's money has been shifted to make the government's holdings look better.
- \n

\n\n

### **What is the larger picture?**

\n\n

- \n
- **Fiscal Risks** - Due to its financial strengths, LIC has been a stalwart in acquiring public sector companies that the government puts up for disinvestment.
- \n
- This is in effect underwriting the purpose of disinvestment and is helping in channelizing depositor money to finance government's fiscal deficit.
- \n
- Governments should not dip into its people's saving (like LIC deposits) to fuel its short-term goals and to sustain its borrowing spree.
- \n
- **Regulation** - Deposits seeking long term returns should be responsibly managed by seeking appropriately safe and remunerative investment options.
- \n
- Considering the LIC's reckless investment outlook, Insurance Regulatory and Development Authority of India (IRDAI) should take notice.
- \n
- But the IRDAI has largely been absent in the context of these acquisitions by the LIC, which is not a healthy sign.

\n

\n\n

\n\n

**Source: Business Standard**

\n

