LIC IPO: A Game-Changer for the Environment?

What is the issue?

Some of LIC's policyholders' premium is invested in projects that lead to natural catastrophes that often result in death of or injury to those very policyholders.

What is the status of India's environment?

- Over the last 100 years, India has been the second-worst country affected by climate change after China.
- India has witnessed 757 natural disasters (out of 15,000 studied), which affected nearly 2.5 billion people with nearly 10 million deaths
- The economic cost was catastrophic at 186 billion dollars.
- Over time, the world has got better at reducing the number of deaths per disaster but the number and intensity of disasters has increased and continues to increase each year.
- In view of this, the number of deaths from natural disasters in India can be estimated to be in the range of 1,00,000 a year.

What is the history of life insurance?

- Life Insurance in its modern form came to India from England in the year 1818.
- **Oriental Life Insurance Company** started by Europeans in Calcutta was the first life insurance company on Indian soil but was restrticted to look after the needs of European community only.
- **Bombay Mutual Life Assurance Society(1870)** heralded the birth of first Indian life insurance company and covered Indian lives at normal rates.
- In 1912, the Life Insurance Companies Act was passed to regulate insurance business.
- The life insurance in India was nationalized in **1956**.
- The Life Insurance Corporation Act was passed in 1956 and the LIC was created.

What is the role of LIC?

- **Objective**- spreading life insurance more widely and in particular to the rural areas with a view to reach all insurable persons in the country, providing them adequate financial cover at a reasonable cost.
- **Corporate office**- Mumbai
- It is under the ownership of **Ministry of Finance**.
- LIC has tied up with some banks and service providers to offer on-line premium collection facility in selected cities.
- LIC has launched its SATELLITE SAMPARK offices and the digitalized records of the satellite offices will facilitate anywhere servicing.
- As of March 2020, LIC has more than 31 lakh crores worth of assets and has invested over Rs 2,82,000 crores in people's welfare.
- Over the years, LIC has become a synonym for life insurance in India and a financial

conglomerate.

- Finance Minister Nirmala Sitharaman announced a proposal to conduct an initial public offering for LIC in the 2021 Union Budget which is expected to occur in 2022.
- The Government of India will remain the majority shareholder after the public listing and 10% of shares are proposed to be allotted to existing LIC policyholders.
- The government is looking to raise up to Rs 1 lakh crore by selling of shares.

An initial public offering (IPO) refers to the process of offering shares of a private corporation to the public in a new stock issuance. It provides companies with an opportunity to obtain capital by offering shares through the primary market.

Has the life insurance achieved its desired objectives?

- The policies are infamous for small print, which results in narrowing of coverage.
- For LIC, settlement of these claims is a very minimal drop in the bucket as compared to its annual revenue.
- The real issue is that LIC is a significant investor in many of the projects that end up as natural disasters.
- Projects like Ken-Betwa represents our careless desire for financial investments based on political imperatives, ignoring the financial and ecological viability.
- Other such projects include dams under melted glaciers, huge tourism investments in new ports without ensuring that existing ports are made ready for sea surges and rises.
- Coal mining and dam building that destroy the ecological services supplied by pristine ecosystems.
- Increasingly, investors are recognising that underwriting categories like 'Nat Cat' should be recognised as neither Acts of God not natural catastrophes but basically a direct result of anthropogenic climate change.
- In response to accelerating climate change, general and life insurance premiums are rising already which will come to the fore during LIC's IPO.

What lies ahead for LIC's IPO?

- Unless the LIC revamps its investment policies, it will be seen as failing in the stewardship of its policyholders' premiums.
- Global investors who are being attracted for the IPO, particularly European institutional investors who need to comply with the EU's Sustainable Finance Disclosure Regulation (SFDR) should raise these issues that need to be addressed in LIC's long-term business strategy.
- The government of India should use IPO as an opportunity to be transparent about the hurdles we face in reaching our commitment of net zero in 2070.
- Although it was heartening to hear that energy transition and climate action as core thrusts of Budget, in 6 mega projects cleared between 2004 and 2020, stringent conditions to compensate for the projects' high environmental impact have been ignored.

References

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