LIC to Buy a Stake in IDBI

What is the issue?

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- The government is proposing to sell a portion of its stake in IDBI Bank to LIC.
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- The idea of routing policyholder funds into a worst-performing public sector bank has raised some concerns.
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What is the proposal?

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- The government is mulling a proposal to sell around 40-43% stake in IDBI Bank to LIC.
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- State-owned Life Insurance Corporation (LIC) of India may buy a controlling stake in IDBI Bank.
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- LIC is currently the largest public shareholder of IDBI Bank with a stake of 10.82%.
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- If it buys another 43%, its total stake in the state-run IDBI bank will be around 55%.
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- The stake sale will fetch the government between Rs 10,000-Rs 11,000 crore.
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Is this the first time?

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- LIC has pledged its support to Centre's disinvestment of New India

Assurance and General Insurance Corporation of India last year.
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- This is already costing LIC dear.
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- LIC has time and again been used to rescue capital-starved PSU banks.
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- It has been subscribing to banks' risky Basel-compliant bonds over the years.
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- It has also often been bailing out the Centre by mopping up shares of public sector enterprises even in declining markets.
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What are the concerns?

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- LIC is arguably the country's largest public insurer.
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- It has a balance sheet of about Rs.28-lakh crore as of December 2017.
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- Given this, infusing a couple of thousand crore is unlikely to cause any serious harm.
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- **Capital infusion** - But, there is concern with the Centre's massive Rs.10,600 crore bank capital infusion.
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- Notably, this has not been enough to meet the capital requirements of the bank.
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- Post capital infusion, the bank's Tier I capital ratio should have jumped by about 400 basis points.
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- Instead, the Tier 1 capital at 7.4% as of March 2018 barely meets the mandated requirement of 7.37%.
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- It is clearly because of the sharp rise in provisioning for bad loans.
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- **Taxpayer's money** - The move throws good taxpayers' money after bad.
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- It places LIC to perform the rescue act, seemingly an ill-conceived solution.
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- Notably, tackling a deeper structural issue is the need of the hour.
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- This is the case, not just in IDBI, but the entire banking sector.

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- **LIC** - The string of investments by LIC has about 29 crore policies in force.
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- The recent move raises questions on LIC as a prudent money manager for its policyholders.
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- It also raises doubts over
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i. the existing internal investment policies, if any
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ii. the overall risk to the insurer's portfolio and its aggregate exposure to sectors and stocks
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- The lack of disclosures and opacity in LIC's investment portfolio add to these concerns.
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How does the future look?

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- LIC is still a market leader in the life insurance space.
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- But it has been steadily losing market share to its private counterparts.
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- LIC's competitive pressures are rising, and IDBI Bank's capital needs are going to be huge.
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- Given this, adding the burden of recovering the PSU banks can seriously affect LIC.
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- The Centre should think twice before using the key players of India's financial system for its rescue acts.
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Source: BusinessLine

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