June 2011

Milliman

The long-delayed draft disclosure norms for life insurers launching an initial public offering (IPO) have now been published by the IRDA for public comments. They mainly focus on the eligibility criteria and minimum disclosure requirements for a life insurance company IPO.

Key provisions

The key provisions set out in the draft include the following:

1. Eligibility criteria

- A life insurance company seeking to access the primary market through an IPO should seek prior approval from the IRDA before filing its draft prospectus with the market regulator, SEBI.
- While assessing the merits of each case, the IRDA will be guided by the following considerations:
  - The life insurance company will need to have been operating for a period of at least 10 years
  - The embedded value (EV) of the company should be at least twice the paid-up equity capital, where the EV has been prepared by two independent auditing/actuarial experts, in line with IRDA's guidelines in this regard (which are yet to be released)
  - The company should have been fully compliant with the IRDA's disclosure requirements
  - The IRDA's corporate governance guidelines must have been fully adhered to
  - The company should have maintained a satisfactory regulatory record with the IRDA
  - The prescribed minimum regulatory solvency margin must have been maintained for the last six quarters
  - The company should have a satisfactory policyholder protection record, especially dealing with policyholder complaints
- The IRDA would reserve all rights to deny approval if in its opinion:
  - The life insurance company is not fit to access the markets through a public issue
  - The IPO is detrimental to the interests of policyholders
  - The IPO may not be in the interest of India's life insurance industry as a whole

2. Disclosure requirements

- Life insurance companies seeking an IPO would be required to make the following disclosures in the offer documents, in addition to the disclosures laid down in the 'Issue of Capital and Disclosure Requirements (ICDR) Regulations, 2009', issued by SEBI:
  - Risk factors specific to the life insurance company
  - An overview of the life insurance industry
  - Disclosure of the financial statements, covering the following aspects:
    - A presentation of the past five years' financial statements as per the forms prescribed by the IRDA
    - Additional disclosures covering various operational details and accounting ratios, including persistency ratios, expense ratios and commission ratios
    - The company's EV and new business achieved profit (NBAP), as per the IRDA's guidelines (which are yet to be published)
    - Legal and other information, covering regulatory compliance, policyholder protection, grievance resolution etc.
  - Glossary of terms used in the life insurance sector
  - Particulars of the issue, including its main objective
  - Particulars about the issuer, covering:
    - Compliance with corporate governance requirements
    - Details of key managerial personnel
    - Details of promoters/principle shareholders

Our observations

The draft disclosure norms have disappointed many observers for reasons such as:

- The norms are considered to be 'too little too late.' Companies have been expecting disclosure requirements pertaining to the valuation aspects (EV, value of new business etc.) of life insurance companies, which are still to be published.
- The requirement for an EV report by two auditing/actuarial firms has confused many. All the major life insurance IPOs around the world have benefited from opinions from a single firm of recognised global actuarial consultants. If two firms were engaged, it is not clear how the potential divergence of opinion between the different independent experts should be reconciled in areas that require judgement, especially in the current Indian market environment, which is forcing some companies into major strategic/operational changes.
- It is unclear if these disclosure norms apply to the listing of the holding companies of the life insurance joint ventures.
- The IRDA has also provided a very short period for consultation on this draft, up to 30 June 2011.

The number of companies qualifying for the 10-year IPO opportunity is growing each year. The publication of the IPO guidelines and the ability of a company to raise capital in this manner have been welcomed. However, it may still take some time before the IPO rules are finalised. In addition, most companies continue to adapt their strategies under the new regulatory environment which has severely affected new business volumes. Until the India life insurance growth story has been 'rebuilt,' we think it is unlikely that there will be a life insurance company IPO in the market in the short term.

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