Insurers can raise up to $12bn after higher FDI cap

Promoters of insurance companies could raise between $7 billion and $12 billion through sale of 23% stake to their foreign partners, according to rating agency ICRA. This is the headroom that is available with the insurance companies. The actual inflows will, however, depend on the extent to which Indian and foreign partners agree on the valuation.

"Hike in foreign shareholding from 26% to 49% can help industry mobilise risk capital with private life companies at $6-8 billion and private non-life at around $1-3 billion. Since, there is no urgent requirement for capital, promoters might use this to unlock value," said Vibha Batra, senior VP & co-head of financial sector ratings, ICRA. She said that many of the insurance companies are promoted by banks, which might use the opportunity to unlock value and improve their own capital position.

Incidentally, most large public sector banks (PSBs) have a stake in a life insurance company. Besides the SBI, which has its own subsidiary, other PSBs that have promoted insurance companies include Bank of Baroda, Punjab National Bank, Bank of India, Union Bank, IDBI Bank, Canara Bank, and Oriental Bank of Commerce.

A report issued by ICRA said that most private life insurance companies have a capitalization level that they are comfortable with. The median solvency level of select private players is 3.35% as against the regulatory prescription of 1.5%. Life insurers had achieved sound capitalization level on the back of low growth and improved operating efficiencies. "The hike in foreign direct investment shareholding limit will aid Indian shareholders monetize their investment," said the report. It added that the bill was crucial for companies where the Indian promoters have a weaker financial profile. "In the general insurance sector, the capital requirements for the private sector is between Rs 4,500 crore to Rs 10,000 crore. We feel that companies can easily manage this," said Batra.

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