GoM soon to speed up merger of three insurance companies

Frail financial health of firms, difference of opinion among depts creating a roadblock

SOMESH JHA
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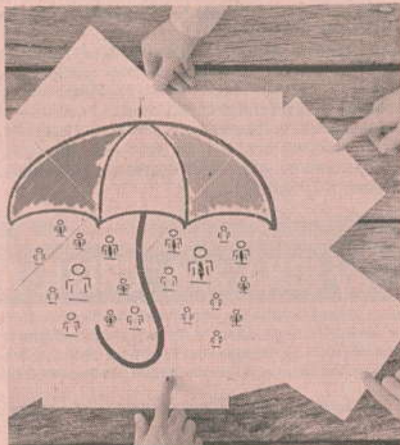

THE PLAN

- Cabinet may take a decision on the merger of National Insurance Company, United India Insurance Company, and Oriental Insurance Company
- A GoM, led by the FM, may look into whether the firms need to be merged or acquired by the one which is financially strong
- It will also see if some of the units of the firms can be put up for strategic sale, instead of merger or acquisition

The Union government is planning to form an alternative mechanism, or a group of ministers (GoM), led by Finance Minister (FM) Nirmala Sitharaman, to expedite the process of merging three public sector insurance companies.

The move comes as the merger has been facing roadblocks, owing to the frail financial health of the insurance firms and a difference of opinion among government departments over the process.

The FM-led panel may look into whether the insurance companies need to be merged or acquired by the financially strong entity or if some of the units can be put up for strategic sales, instead of merger or acquisition. The Union Cabinet is expected to take a decision on forming an alternative mechanism soon.

The government had formed an alternative mechanism, led by the Finance Minister, for merger of public sector banks. Late finance minister Arun Jaitley had announced merging three general insurance companies — National Insurance Company, United India Insurance Company, and Oriental Insurance Company — in the Union Budget of 2018-19.

Various possibilities, however, emerged during discussions between the department of financial services (DFS) and the department of investment and public asset management (Dipam) within the finance ministry. While the DFS is in favour of merging the three firms according to the plan, Dipam had proposed a merger of all four public sector general insurance companies, including New India Assurance. The last one is a listed firm and is the largest amongst all general insurance companies.

The DFS has, meanwhile, sought around ₹12,000 crore from the department of economic affairs for cash infusion into the three insurance companies before merger takes place in a bid to improve their finances to attain mandated regulatory levels.

According to the guidelines by Insurance Regulatory and Development Authority of India (Irdai), insurance companies are required to maintain solvency ratio of 1.5 i.e. their surplus should be 1.5 times of their liabilities at all times. Solvency ratio is a key indicator for financial health of insurance firms.

Oriental Insurance Company's solvency ratio stood at 1.57, while that of United India Insurance Company was 1.52 at the end of March 2019, but this was mainly because of certain dispensations provided by Irdai. The solvency ratio of National Insurance Company was the worst at 1.04 at the end of March 2019, much below the regulatory requirement.

One idea that was being discussed is that New India Assurance could take over the merged entity of the three insurance companies so that the government does not have to infuse capital into these firms.

Another proposition that, instead of merger, the companies could be de-merged and the government could go for strategic sales of the smaller units to the private sector.

"The department of financial services is, however, in favour of the original plan of merging the three insurance companies," a senior finance ministry official said.