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An Exquisite Analysis of IPO Failures and Strategic Disinvestment: A Special Focus on Life Insurance Corporation (LIC)

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Abstract:

This paper examines the disinvestment strategy of the Life Insurance Corporation of India (LIC) in light of its proposed initial public offering (IPO). Established on September 1, 1956, LIC has played a pivotal role in India's life insurance sector, providing tailored insurance plans that blend coverage and savings with lifelong financial support. The organization has a rich history, tracing its roots to the Oriental Life Insurance Company founded in 1818. It has evolved significantly to become a major player in global financial markets.

LIC's IPO, announced in the 2021 Union Budget, aims to sell a 3.5% stake, raising approximately Rs 21,000 crore and valuing the insurer at around Rs 6 lakh crore. Despite this, the IPO has faced significant challenges, including a drop in share prices and underperformance compared to expectations. This paper explores the government's strategy to achieve its disinvestment targets for the fiscal year 2022-23, the challenges involved, and the implications of the IPO's performance on LIC's products, services, and policies.

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The study employs descriptive research methods, relying on secondary sources to analyze LIC's financial position across several years, including growth in premiums and policy payouts. The financial data reveals LIC's robust market presence and performance, despite increased competition and economic fluctuations. The research also investigates various disinvestment methods, such as share sales and strategic sales, and their impact on LIC's financial stability and market position.

Keywords: *Life Insurance Corporation of India, IPO, disinvestment, financial performance, market conditions, government strategy, insurance policies, strategic innovation, market capitalization, valuation, public sector enterprises, financial position, share sale, offer for sale, cross-holding disinvestment, golden share method, warehouse disinvestment, transparency.*

Introduction:

LIC tailors its insurance plans to meet individual needs, offering a blend of coverage and savings with lifelong financial support. As one of India's oldest life insurance companies, it has a rich history, dating back to its establishment on September 1, 1956, when the Life Insurance Corporation of India was created following the nationalization of the insurance industry by the Indian Parliament.

LIC's primary mission is to gather funds through a variety of life insurance policies and invest them in global financial markets and government securities. The organization strives to make insurance-linked savings attractive, aiming to reach all eligible citizens with affordable financial protection against death. LIC is particularly focused on extending life insurance coverage to rural areas and to those who are socially and economically disadvantaged.

LIC operates with nine subsidiaries and six associate companies, including IDBI Bank, LIC Nomura Mutual Fund, LIC Lanka, and LIC Nepal.

The roots of LIC can be traced back to the Oriental Life Insurance Company, founded in Kolkata in 1818, which initially targeted Europeans in India, charging Indians exorbitant premiums. Surendra Nath Tagore later founded the Hindustan Insurance Society, which eventually evolved into the Life Insurance Corporation. The Bombay Mutual Life Insurance Association, established in 1870, was the first Indian insurance company.

LIC's central office is located in Mumbai, with eight zonal headquarters across the country, including Delhi, Chennai, Mumbai, Hyderabad, Kanpur, Kolkata, Bhopal, and Patna.

The LIC Act of 1956 was enacted to nationalize the life insurance business in India, transferring all such business to a corporation established for this purpose, and to provide guidance and expertise for its operation.

In the 2021 Union Budget, Finance Minister Nirmala Sitharaman announced plans for LIC's initial public offering (IPO), which was expected to take place in 2022. Despite the public listing, the Government of India would retain a majority stake, with 10% of shares projected to be allocated to existing policyholders.

LIC's objectives include representing the interests of policyholders, conducting business with economy and awareness, and extending life insurance to rural and economically disadvantaged areas. The organization also prioritizes responsible investment of policyholder funds, ensuring their use aligns with national priorities and delivers a desirable return. Additionally, LIC is committed to meeting the evolving life insurance needs of the public, fostering a sense of pride and job satisfaction among its employees, and leveraging technology to enhance policy servicing and corporate operations.

LIC has been a pioneer in using Information Technology, introducing computers in the 1980s for back-office operations and continuously upgrading its systems with relevant technologies.

LIC's mission is to enhance people's quality of life through financial security, providing products and services with competitive returns while contributing to economic development. Its vision is to become a transnationally competitive financial conglomerate, serving society and being a source of pride for India.

Disinvestment refers to the withdrawal or reduction of an investment, often referred to as divestment. This involves selling a stake in a company, organization, subsidiary, or other investments. Currently, the government is expected to sell a 3.5% stake in Life Insurance Corporation (LIC) through an initial public offering (IPO) slated for the first week of next month, according to an official statement. The IPO is anticipated to raise around Rs 21,000 crore, valuing the country's largest insurer at approximately Rs 6 lakh crore.

In India, disinvestment typically involves the sale or liquidation of assets by the government, usually from Central and State Public Sector Enterprises, projects, or other fixed assets. As part of the government's extensive divestment strategy, LIC is set to launch India's largest-ever IPO, surpassing Coal India's previous record.

LIC has announced plans to go public with its IPO on May 4, 2022, with the process concluding by May 9. The Indian government, as the sole owner of LIC, aims to raise Rs 21,000 crore from the sale of a 3.5% equity stake, significantly lower than the earlier target of Rs 65,000 to Rs 70,000 crore for a 5% stake, indicating a more than 50% concession on valuation. At this IPO price range, the valuation of LIC stands at around Rs 6 lakh crore.

IPO failures can occur for various reasons, often stemming from poor planning or unrealistic expectations from CEOs and their underwriting teams. A common cause of failure is the miscalculation of investor demand, which can lead to the decision to halt the IPO to avoid jeopardizing the company's operations. This year, LIC's IPO has been one of the worst performers globally. The company's shares dropped by 8%, marking the second-worst performance among IPOs that raised at least $1 billion in 2022. LIC's $2.7 billion offering was the fifth largest this year, with the biggest IPO being South Korean EV battery maker LG Energy Solution, which raised $10.8 billion and saw its stock surge by 68.3% during its January debut.

Finance Minister Nirmala Sitharaman announced LIC's disinvestment in the Union Budget 2021, with the IPO scheduled for 2022 despite the country's current economic conditions. The government faced a 55.4% shortfall in meeting its disinvestment target for 2021-22. LIC needed approval from the Securities and Exchange Board of India (SEBI) to reduce its share dilution. By releasing the IPO in early May, LIC can proceed without needing to update its financials again. However, analysts note that market conditions have shifted in recent months, affecting the valuations of life insurers and the interest of potential investors in LIC. The slow and uncertain process has brought the IPO to a point where neither the valuation nor the issue size aligns with initial expectations.

Objectives

- To examine the strategies the government will employ to meet the disinvestment target for 2022-23.
- To analyze the challenges involved.
- To explore the government's perspective on the LIC IPO initiative.
- To assess the impact of the IPO failure, disinvestment, and valuation on other LIC products, services, and policies.
- To investigate the disinvestment practices of LIC.

Research Methodology

The research design used for this project is Descriptive research. This project heavily relies on secondary sources, particularly those found online. Meaningful inferences might be made as a result of the systematic presentation of all the gathered and compiled information and data. The paper also has a connection to the current circumstances

Financial Position

Financial Position in 2018-19:

In 2018-19, India's life insurance industry experienced a 10.73% growth in total first-year premiums compared to the previous year. Meanwhile, the number of policies (NOP) saw a 1.73% increase, and the value of insurance contracts rose by 11.63% during the same period. Although the premium growth rate this year was slightly lower than in 2018, it remained strong, with a 10.99% increase in 2018-19 compared to a year-to-date growth of 10.73%.

Growth In Life Insurance Industry- 2018 Vs 2019			
	2018	2019	Growth%
Premium (Crores)	193866.24	214672.86	10.73%
Number of Policies	28198778	28687812	1.73%
Sum Assured (Crores)	3882171.65	4333541.41	11.73%

Financial Position in 2019-20:

In the year ending March 2020, LIC's New Business performance showed a significant growth of 25.17% in its first-year premium, reaching an all-time high of Rs 1,77,977.07 crore. The Pension & Group Superannuation Business also set a new record by surpassing the one lakh crore mark, collecting Rs 1,26,696.21 crore in New Business Premium Income, compared to Rs 90,848.86 crore during the same period the previous year, reflecting a growth of 39.46%. As of March 2020, LIC collected a Total Premium Income of Rs 3,79,062.56 crore, a 12.42% increase from the Rs 3,37,185.40 crore collected in the corresponding period last year. Total policy payouts amounted to Rs 2,54,222.27 crore for the period ending March 31, 2020, representing a 1.31% increase from Rs 2,50,936.23 crore in the previous year. LIC's Gross Total Income grew to Rs 6,15,882.94 crore by March 31, 2020, up from Rs 5,60,784.39 crore the previous year, showing a robust growth of 9.83%.

Financial Position in 2020-21:

LIC issued 2.10 crore new policies and settled 2.28 crore claims, a notable achievement during the pandemic, made possible by the dedicated efforts of its employees. LIC's market share was as follows:

1. Combined Insurance: 74.58%

2. First-Year Premium (FYP) Composition Ratio: 66.18%

Financial Position in 2021-22:

As of 2019, LIC reported having 290 million policyholders, a total life fund of ₹28.3 trillion, and a total value of sold policies in 2018-19 amounting to ₹21.4 million. The company also settled 26 million claims during 2018-19. LIC invested in 27 companies and filed draft papers with SEBI, bringing the Indian Government closer to its disinvestment target. The upcoming LIC IPO will be a 100% offer for sale by the Government of India, with 31.6 crore shares to be offered as part of the 5% stake divestment. Investing in equity shares carries significant risks, and all potential risks and uncertainties should be carefully considered. LIC has infused additional capital into IDBI Bank Limited, Life Insurance Corporation (Lanka) Ltd., Life Insurance Corporation (Singapore) Pte. Ltd., LIC Housing Finance Ltd., Life Insurance Corporation (International) B.S.C. (c), and LIC Pension Fund Ltd., amounting to a total of ₹32,359.18 million as of December 31, 2021.

Additionally, the capital reserve (goodwill) generated from LICI's acquisition of associate companies is included in the carrying amount of its investments in these companies, such as LIC Mutual Fund Asset Management Ltd., LIC Housing Finance Ltd., LICHFL Asset Management Company Ltd., IDBI Trusteeship Services Ltd., and IDBI Bank Limited. Nilesh Sathe, a former member of the Insurance Regulatory and Development Authority and former Executive Director of LIC, anticipates that the government may sell 5-10% of shares in LIC in the initial phase, potentially raising Rs 50,000-100,000 crore. He also mentioned that "LIC is likely to achieve a good return on its investment through the IPO."

Holdings:

LIC invests across a wide range of sectors, including banks, cement, chemicals and fertilizers, metals and mining, motor vehicles and their parts, electricity and transmission, electrical and electronics, finance and investments, healthcare, hotels, information technology, oil and natural resources, retail, engineering, construction and infrastructure, FMCGs, textiles, transportation, and logistics.

Financial:

As of 2021, LIC's total assets amount to 3,829,524 crores, with a profit of 2,974 crores. The table below provides a summary of LIC's financial status for the years 2019, 2020, and 2021.

Year	Revenue (In crores)	Profits/Loss (In crores)	Total Assets (In crores)
FY 2019	571,508	2,627	3,427,249
FY 2020	628,043	2,710	3,499,834
FY 2021	693,904	2,974	3,829,524

Reasons For Disinvestment

LIC shares have dropped by 4.5%, falling from Rs 900 to approximately Rs 700, specifically from Rs 949 to Rs 677.50. Prior to its major initial public offering (IPO), LIC raised Rs 5,627 crore from anchor investors. The company's current market capitalization stands at Rs 4.28 trillion. Although the LIC IPO was reasonably priced, it opened and remained below its issue price due to prevailing market conditions. According to Ambareesh Baliga, a market analyst, "It's challenging for any stock that opens lower and declines further to recover to its issue price. The stock may continue to fall due to institutional selling, though retail investors appear to be holding onto their shares. Now could be a good time to start buying LIC as its valuation becomes more attractive, but immediate recovery should not be expected."

Analysts note that the insurance industry is highly sensitive to stock market fluctuations, which can impact its intrinsic value and lead to a downward trend in stock prices. Inflation concerns and investor anxiety about economic growth further contribute to the short-term challenges faced by LIC.

In the context of a rapidly declining economy, the LIC IPO is perceived as another ineffective endeavor. With unprecedented unemployment, decreased labor market participation, and a stagnant manufacturing sector, such activities are viewed as futile and unlikely to achieve their intended goals. The recent experience with the failed demonetization exercise, which significantly disrupted a thriving economy and will take years to recover from, serves as a reminder of the risks associated with such ambitious initiatives.

Divestment can serve the dual purpose of enhancing the competitiveness of public sector companies and generating funds to address budgetary shortfalls. However, the government must reassess its divestment strategy, which currently has several deficiencies.

To improve the process, the government should prioritize transparency and introduce robust corporate governance practices within public enterprises. Additionally, it is crucial to foster a competitive and sustainable capital market through necessary regulatory reforms to achieve key economic goals.

The government should clarify the rationale behind LIC's involvement in selling shares, categorize companies on the stock market, and regulate them to facilitate market access and determine their value. This approach also offers retail investors an opportunity to benefit from the wealth created. The government has decided to auction a portion of LIC's shares through an initial public offering (IPO).

Key points to consider:

Firstly, LIC is fully owned by the government, and even with divestment, it is unlikely to exceed 10% of the shares being sold to the public sector insurer. Given that LIC operates under its own governing law, this law must be amended before the IPO. The Modi government has set a divestment target of ₹2.1 lakh crore for fiscal year 20, with LIC's divestment expected to generate ₹70-80,000 crore. This IPO will likely be one of India's largest in terms of market capitalization and is anticipated to attract foreign investors.

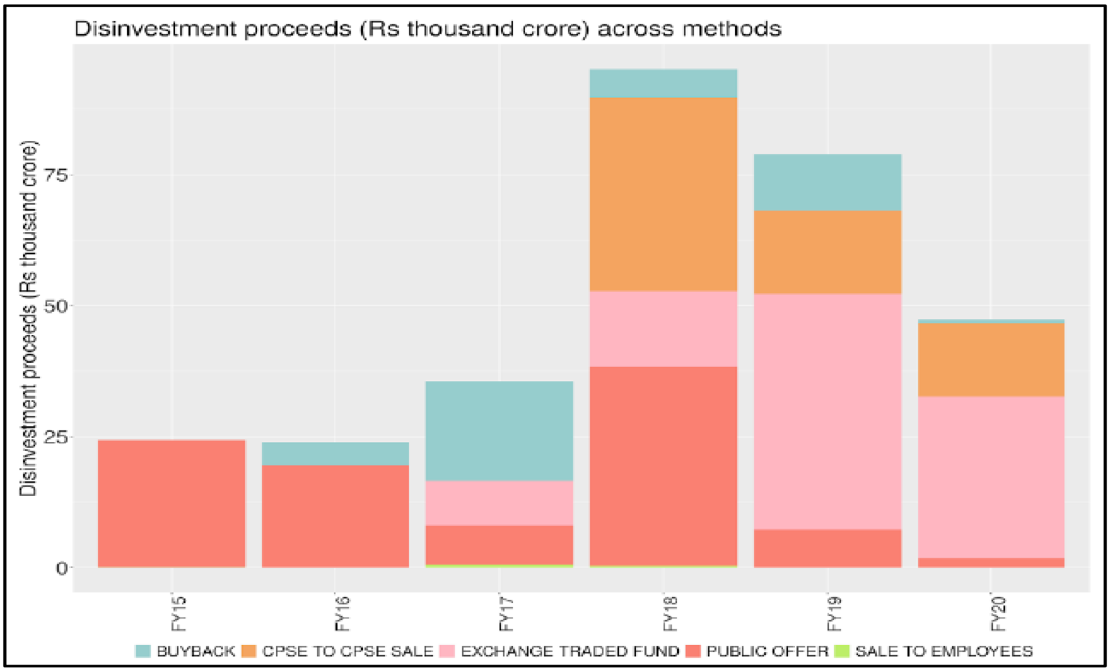
LIC remains the largest insurance company in the country, holding a 76.28% market share. It has several endowments, including IDBI Bank. The non-performing assets (NPA) for LIC increased to 6.10% in the first six months of 2019-20, reflecting an attempt to double the total NPA over the past five years. Examining this initiative from a broader perspective reveals certain advantages.

Kaur and Singh (2005) identify two primary reasons for the failure of similar initiatives: the burden of the state's non-commercial obligations and the state's excessive discretionary power, which undermines state autonomy.

Irvine (1988) notes that public sector enterprises (PSEs) often receive conflicting guidance on capital budgeting from the central government, raising questions about the standards of management accounting that should be maintained within public sector and geographical businesses, as well as the central government's role in these matters.

Methods of Disinvestment

Several approaches to disinvestment have been developed and applied to meet various goals and objectives. For instance, a public offering involves distributing shares of a public sector company at a set price through a general prospectus, with the offer being presented to the public via well-known market intermediaries. Disinvestment of LIC might fall under this category.



- **Share Sale:** This method involves selling shares through an auction among pre-determined clients, which can be extended to a broader audience. Merchant bankers may assist in setting the price for a public sector enterprise (PSE).

- **Offer for Sale:** This approach involves setting a specific price for selling shares of a public enterprise, attracting bidders, and conducting the tender process with the highest bidder winning.

- **Cross-Holding Disinvestment:** In this method, the government sells a portion of its shares to one or more public sector undertakings (PSUs).
- **Golden Share Method:** This approach ensures the government retains a 26% stake in the PSU, maintaining its position as the majority shareholder.
- **Warehouse Disinvestment:** Financial institutions that are government-owned are expected to buy shares from the government in selected PSUs and hold them until a third-party buyer is found.
- **Strategic Sale Method:** Here, the government sells a significant portion of the shares (51%) and transfers management control to a strategic buyer. The investment department oversees the shares of PSUs, and the sale price is determined by market conditions rather than being predetermined.

Relation of Reasons with Financial Position

LIC has successfully created value for its policyholders, maintaining a strong market presence throughout the study period. The company has consistently performed well and upheld its market value despite increased competition from private insurance companies. To sustain its position, LIC must continue to manage its investments effectively. The analysis indicates that investments in insured products have the second highest variability, suggesting a need for careful monitoring of these investments. The research has utilized a scientific methodology to assess different aspects of LIC's charges and performance, concluding that LIC is effectively managing its products and marketing schemes. However, the data suggests that LIC needs to improve its management practices.

The results of divestment over the past five years have not met expectations. Ownership data reveals that over 70% of sample companies in the manufacturing sector have divested less than 20% of their public shares, indicating that the government retains significant control over management and operations even after divestments.

The LIC divestment offers three key benefits: it will be supported by a stock exchange listing requiring monthly reporting, and it will introduce greater transparency and accountability.

Recommendations

From the Government's Perspective:

The government asserts that it is only seeking an IPO for LIC, not privatization. However, initiating an IPO could be the first step towards privatizing the company. The government has proposed a divestment strategy for LIC and tasked the Department of Investment and Public Asset Management (DIPAM) with soliciting bids from consulting firms, investment bankers, and financial institutions to assist with the IPO preparation and approval process.

From the Individual/Company's Perspective:

- LIC should consider launching new plans and insurance products to boost premium revenue.
- With many private insurance companies in the market, competition has intensified. To maintain its leadership position, LIC must innovate to attract customers.
- To preserve its market share in this competitive environment, LIC needs to issue more policies.
- LIC must ensure secure investments to keep policyholders' interests protected.
- Comparing various insurance companies might help reduce costs for LIC.

Conclusion

It’s premature to make definitive judgments about LIC’s divestment. The government’s fiscal year 20 disinvestment goal reflects a significant initiative. The hope is that this policy will enhance the operational efficiency of public insurance enterprises. The IPO aims to increase LIC’s competitiveness and vitality. However, there are concerns that the reduction of government shares could impact India’s financial sovereignty in the long term. The true effectiveness of the policy will become clear only after addressing the negative reactions from LIC employees and resolving any legal issues related to the plan. If these concerns are addressed and obstacles removed, LIC’s divestment could help reduce the long-standing budget deficit while potentially leading to significant increases in share value.

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