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Peoples Commission on Public Sector and Public Services

Statement on LIC IPO

January 21, 2022

The Finance Minister in her budget speech in 2021 announced disinvestment of government stake in the Life Insurance Corporation of India (LIC). According to news reports, the LIC IPO Prospectus is likely to be issued in early February 2022.

It is a matter of concern that the proposed IPO is happening in the midst of a pandemic, which has upended millions of livelihoods and which requires an immediate expansion of social protection measures, a task that the LIC has performed commendably over the last several decades. The Commission is concerned that the government has thoughtlessly decided on the LIC disinvestment, which sends a negative message on the government's intention and resolve to fulfil its Constitutional mandate under the Directive Principles to promote the welfare of the people.

The Finance Ministry's proposal, as further elaborated in the amendments made through the Finance Bill for 2021-22, seeks to pave the way for the listing of the LIC. The government plans to progressively dilute its equity stake in favour of private investors, including foreign investors, over the next decade. These profound changes have already transformed the unique character of the LIC as a financial institution, without parallel anywhere in the world of finance. Although the government has stated that it will continue to hold a controlling stake of at least 51 per cent in perpetuity, the dilution of its stake in LIC is bound to allow private interests, including foreign ones, to have a significant say in how this premier financial institution is run. The Commission fears that the dilution of government stake would dramatically reorient the LIC from what it has meant to the people over the decades. Most importantly, the change in the character of LIC is likely to significantly limit the reach of life insurance in India, a task that has been accomplished singlehandedly by this institution, which has been India's pride. Indeed, the LIC is *sui generis* in the world of finance; nothing like it exists anywhere in the world.

One of the unique features of the LIC was that it was structured as a special corporation that allowed it to play a pioneering role in spreading the culture of life insurance in India. This was especially significant because of the absence of a strong government-backed social security scheme that provided protective cover to people, especially the poor and the vulnerable. Given the nature of the life insurance business, where the long-term credibility of the insurer in the eyes of the insured is of cardinal importance, the fact that every policy issued by the LIC enjoyed a sovereign guarantee proved to be major factor in enabling the LIC's reach.

The fact that the guarantee has never ever had to be actually invoked is testimony to not just LIC's vitality but the enterprising ways in which it developed, nurtured and impressively expanded the market for life insurance in a poor and underdeveloped country like India.

The special and unique structure of the LIC was fundamentally important in enabling it to play the magnificent role it has played ever since its inception. It is important to highlight this because the legal amendments made since the last Union Budget have altered the structure in ways that are likely to undermine the functioning of this peerless financial institution. It is important to recognise that the LIC was NOT originally structured as just any other company. Indeed, even though the government had provided the seed capital, its claims on profits from its operations were limited to just 5 per cent. Instead, the corporation was legally mandated to set aside 95 per cent of its profits for policy holders. Thus, unlike a typical company, in which shareholders had first claims on profits, in the case of LIC, even though the government was legally the primary investor, the overwhelming proportion of its profits were set aside for distribution among LIC's customers (policy holders). This profound difference between LIC and other companies is what enabled the LIC to function like a giant cooperative enterprise in which shareholders ranked lower than policy holders.

The Commission feels that listing of the LIC and its disinvestment will radically alter LIC's role as a social security provider for the disadvantaged sections, dilute the pivotal role that millions of its small policy holders play, in favour of affluent profit-seeking investors. Indirectly, it implies a thoughtless handing over of control of the vast pool of household savings to private, including foreign, investors.

The ostensible justification put forward by the government that disinvestment of the LIC would bring additional fiscal resources is invalid and illusory, as such resources come from a common pool of savings in the economy, from which the government could anyway borrow on much better terms, without having to dismantle the role of the LIC as a unique social security provider. Considering the widening income gap, especially in the wake of the pandemic, it would have been much more prudent for the government to consider redistributive taxes to raise resources from the affluent and large corporates, instead of driving a large and successful financial institution like the LIC into the hands of private interests.

The Commission notes with deep concern that the LIC disinvestment exercise is proceeding in an utterly non-transparent manner. The only source of information on it have been sporadic commentary in the media. Media reports have revealed that Milliman (formerly Milliman and Robertson), a US-based actuarial and consulting firm, has been charged with the task of estimating LIC's "enterprise value", which is the first step in estimating the price at which shares would be offered in the IPO.

Reports indicate that Milliman has struggled with the task of valuing LIC, a task which the LIC itself has never done in the past. This is not difficult to understand: the valuation of a behemoth like the LIC, which has different classes of assets in its portfolio, and which operates in a market where it enjoys overwhelming dominance is fraught with significant risks. For instance, how does one even value the "goodwill" that LIC enjoys? Or, how does one estimate the brand value of LIC, which is regarded to have among the widest reach in India? There is also the extensive holdings of real estate assets that the LIC has across the country, as also its significant shareholding in almost every significant corporate entity in India.

The Commission is worried that the government, by allowing the valuation exercise which is conducted by an actuarial consultancy that has little experience in understanding the working of a unique insurance service provider like the LIC, runs the risk of significantly undervaluing its assets. The only beneficiaries from such an egregious course would be private and foreign investors participating in the proposed IPO. On the other hand, the nature of LIC and its operations would be significantly altered, jeopardizing the interests of existing and prospective policy holders, especially those from weaker and vulnerable sections of society.

About the LIC & its vast outreach:

LIC's objectives:

LIC is the single largest mobiliser of savings from households in the country. Its primary objectives are "*spread life insurance widely and in particular to the rural areas and to the socially and economically backward classes with a view to reaching all insurable persons in the country and providing them adequate financial cover against death at a reasonable cost,....keep in view, in the investment of funds, the primary obligation to its policyholders, whose money it holds in trust, without losing sight of the interest of the community as a whole;... the funds to be deployed to the best advantage of the investors as well as the community as a whole, keeping in view national priorities and obligations of attractive return,.. conduct business with utmost economy and with the full realisation that the moneys belong to the policyholders, act as trustees of the insured public in their individual and collective capacities*".

Since its inception in 1956 the LIC has, by and large, achieved these objectives admirably. As a result, it has become a household name in India, winning public trust and goodwill. It provides the largest social security cover in the country for households, especially those belonging to the disadvantaged sections. Most government social security schemes are also implemented with the help of the LIC.

LIC's contribution to the economy:

Despite competition from 23 private life insurers, the LIC has been able to maintain its dominant position in the life insurance business. In terms of premium income earned, LIC has a market share of two-thirds. In terms of the numbers of policies issued, its market share is even greater: almost three-fourths of all life insurance policies issued in India are those issued by the LIC. In 2020-21 the LIC earned premium income of Rs 4.03 lakh crores; it had a policyholder (both individual and group) base of 40 crores. At the end of the last financial year the assets under its management were worth a whopping Rs. 38 lakh crores.

Since its inception, the LIC has paid dividends amounting to Rs 28,695 crores to the government. Apart from its large investments in government securities, it has significant investments in the public and private sector companies, in infrastructure projects like those of the Indian Railways, and in social sector projects. It holds a stake of 9.25 per cent in SBI, the largest bank in India; 51 per cent in IDBI Bank; and 10.37 per cent in ICICI bank. Its income from the large and diverse investment portfolio last year was Rs2,15 lakh crores. Significantly, it is the largest owner of land after the Indian Railways. Valued at the prevailing market rates, the value of its land assets alone could well run into thousands of crores of rupees.

It is the policy holders, largely comprising small and marginal households, who have almost exclusively funded the phenomenal growth of the LIC over the last several decades, without any support whatsoever from the public exchequer. The LIC is a unique institution in the nature of a trust with 95 per cent of its profits distributed among its policy holders. The equity capital of the government in the LIC had remained Rs 5 crores till 2011 when it was increased to Rs 100 crores. In fact, even this expansion of the equity base was made possible from funds generated by the LIC; the government has, in effect, not contributed a rupee since it provided the initial capital of Rs. 5 crores in 1956. In 2021, the authorised equity capital was further increased to Rs 25,000 crores, mainly to facilitate disinvestment.

Over the decades, the LIC has made significant contributions to the infrastructure and social sector schemes in the States. During 2020-21 alone, such contributions amounted to Rs 26,322 crores, covering housing, irrigation, water supply, sewerage facilities, roads and bridges etc.

First Insurance

In pursuance of its corporate objective of providing insurance cover to more and more people, LIC has placed considerable emphasis on covering individuals who have not been insured before. During the financial year 2020-21, 186.44 lakh individuals were insured for the first time for a total sum assured of Rs. 4.90 lakh crores. The ratio of "First" Insurance to total business completed for the year was thus almost 90 per cent in terms of number of policies issued; and 84 per cent in terms of the sum assured.

Rural outreach:

The LIC has played a pioneering role in carrying the message of life insurance to the rural areas, especially in the backward and remote areas of the country. As a result, there has been a steady growth of new business from these areas. In terms of sum assured, new business from the rural areas amounts to almost Rs.92,000 crores, accounting for a little over 15 per cent of all new business in 2020-21. New business from these areas accounted a little over one-fifth of all policies, indicating that the LIC is continuing to spread its coverage in backward, remote and under-served parts of the country.

In contrast, the private sector is heavily concentrated in the bigger cities. According to IRDAI (Annual Report for 2020- 21), in Tier I cities (with population of more than one lakh), while the LIC had 1844 Branch Offices, the private sector had 4717 Branch Offices. More significantly, while the LIC has about 37 per cent of its offices in Tier I cities, private insurers' presence was heavily concentrated in large towns: in excess of 77 per cent. In Tier IV cities/towns (population between 10,000-19,999), LIC has 1037 branch offices, whereas the private sector has only 107 branch offices. It is obvious that the private insurers are content with skimming the cream at the surface, while the LIC has continued its pioneering approach to life insurance, seeking fresh and uncharted territory.

Micro Insurance (MI):

LIC's MI business vertical issued 9,92,200 policies with Rs 341.52 crores First Premium Income in 2020-21. The total number of policies sold by the vertical since its inception is 2.22 crore, thus providing valuable insurance cover for the underprivileged and the low income segments of the society. The contribution of this vertical to LIC's new business in terms of the number of policies for 2020-21 was 4.73 per cent.

MI policies are sold through a vast network of specialised distribution channels comprising NGOs, Self Help Groups (SHGs), Micro Finance Institutions (MFIs), select conventional agents, brokers, District Cooperative Banks (DCBs), Regional Rural Banks (RRBs), Urban Cooperative Banks (UCBs), Primary Agricultural Cooperative Societies (PACSs), Other Cooperative Societies (CSs), Banking Correspondents (BCs) and Farmer Producer Companies (FPCs). There are 21547 MI agents on the roll as on 31.03.2021. MI Policies are also sold through Point of Sales Persons - Life Insurance (POSPs-LI) engaged by insurance intermediaries like brokers, etc., and Rural Authorised Persons (RAP) & Village Level Entrepreneurs-Insurance (VLE-Ins) engaged by CSC e-Governance Services India Limited.

The products which were available for sale through this vertical during 2020-21 included the Term Assurance Plans, LIC's Bhagya Lakshmi and LIC's New Jeevan Mangal and the Endowment Plan, LIC's Micro Bachat.

Average Premium per Policy:

For the year 2020-21, the average premium of a policy (referred to as "ticket size") sold by LIC was Rs.16,156, while for the private sector it is Rs. 89,004. Significantly, in 2019-20, the average ticket size of LIC's policies was Rs.23,871, while for the private sector, it was Rs.76,804, indicating that while the LIC operates across the market, catering to those with low incomes as well as those who are wealthy, the private insurers have remained content with picking the low-hanging fruits.

There has thus been a declining trend in the case of LIC's ticket size, while for the private sector there has been an increase. This shows how LIC's social security cover came in handy for the low-income households affected by the economic downturn, whereas the private insurers shifted their coverage towards the more affluent sections.

Another important feature of LIC's performance, vis-a-vis its private competitors is that while private insurers have been targeting sales of unit-linked policies, in which the policy holders bear a significant portion of the risks, since they are tied to fluctuations in the share markets, the LIC has had a much more balanced approach in which it has not lost its focus on life insurance in which risk mitigation is fundamental. This is especially important for those at the lower end of the income scale.

LIC's disinvestment: far reaching implications:

The amendments to the LIC Act in 2021 provide for the government's equity share in the LIC to remain not less than 75 per cent during the first five years after the IPO. Subsequently, the government's stake is to remain "at all times, not less than fifty-one per cent," according to the Finance Bill passed after the presentation of the last budget. Media reports indicate that within the equity to be disinvested, 20 per cent is being set aside for foreign investors (FDI as well as portfolio investments) and 10 per cent for policy holders who will be eligible for a discount on the price determined for the IPO; there is also speculation that a portion may also be reserved for employees of the LIC. The roadmap for disinvestment thus points towards private investors gaining a controlling interest in determining the direction LIC takes after five years. It would then be possible for private profit-seeking investors to question and alter the objectives of the LIC, including its outreach to the rural areas and the disadvantaged sections. In such a situation not only would the character of LIC be dramatically altered but the very spread of life insurance in India would be put in jeopardy.

For example, the new private entrants into LIC could demand that the the present arrangement of 95 per cent (since the threshold already lowered to 90 per cent in the recent amendments to the LIC Act) of the profits being shared with the policy holders be altered. The composition of the policy holders may also progressively shift in favour of those with bigger ticket-sized policies, which would undermine and subvert the cause of life insurance in a poor country like India. Moreover, the reduction in profit share for policy holders is likely to affect LIC's competitiveness.

There is also the question of what will happen to the sovereign guarantee that currently backs every policy issued by the LIC. Although the government has said it would continue to provide such guarantees in the future, this may come under attack from the private insurance lobby, which is likely to demand the revocation of such guarantees in the name of providing "a level playing field." We apprehend that once the LIC gets listed in the stock markets, the government may come under pressure to revoke the sovereign guarantee provision. If the government caves in to this pressure, it will amount to policy holders losing the benefit of such guarantee cover. Then, the LIC may have to make a distinction between the existing policy holders who stand covered by the guarantee and the new policy holders who may not have that advantage. Apparently, the government has either not applied its mind to this or has deliberately chosen to allow dilution of the guarantee clause as a *fait accompli*.

We feel that the government is under an obligation to make the consequences of listing the LIC for the policy holders clear to Parliament, the policy holders and the public at large. Also, once the guarantee clause is diluted, the character of the LIC as an undertaking meant for the welfare and the social security of the policy holders will also alter significantly.

Although media reports indicate that only about 10 per cent of the government's equity is likely to be diluted, the Commission warns that the changes meant to facilitate the float jeopardise the health and credibility of India's premier insurance company.

Consequently, the interests of the smaller policy holders, who have, over the last several decades, funded LIC's growth, will get relegated to the background. It is equally possible that the LIC's focus will shift from the rural areas to urban agglomerations. In short, the LIC's character as an instrument of the State for fulfilling its welfare mandate will get progressively diluted, and its activities will be driven largely by profit-seeking investors. In the ultimate analysis, it is the smaller policy holders who will lose in the bargain and the wealth created by the LIC will gradually shift into the hands of a few affluent investors.

Does LIC's disinvestment bring additional fiscal resources?

An ostensible reason cited by the government for disinvestment in general and disinvestment of the LIC in particular is that it will bring additional fiscal resources. This is an illusory argument as explained below.

Whether it is the government or the private investors, their borrowings come from the common pool of savings in the economy. Even assuming that the LIC's disinvestment generates a significant amount of proceeds for the government, the same will have to come indirectly from the same pool of the savings in the economy, as those who will invest in the LIC's equity will in turn borrow either directly or indirectly from that pool. To that extent, the government's access to the market for borrowings would reduce. If the government chooses to raise the same amount of resources from the market directly, it can do so on much more cost effective terms, without having to lose control over the vast resources available with the LIC and without forcing a radical alteration of the LIC's character.

Once the LIC gets listed in the stock market and its activities driven by the narrow, profit-driven interests of a small segment of the investors, the government will no longer be able to extend social security for millions of the disadvantaged. Moreover, there is a possibility that powerful groups of investors will be able to enhance their block of share holdings in LIC, giving them greater clout in determining the direction that LIC takes. It is significant that the government will also not be able to channel LIC's resources for funding infrastructure and social sector projects as it has been able to do over the decades. As is evident, as a result of disinvesting the LIC, the government will lose on many fronts.

We also wish to point out in this context the inherent weaknesses in the government justifying disinvestment of the LIC and the other CPSEs on the ground that it requires additional fiscal resources to fund its social sector schemes. There is ample opportunity for the government to prune many items of non-essential and unproductive public expenditure, thereby reducing the fiscal gap. Moreover, the government, in our view, should levy redistributive taxes on the more affluent sections of the society to finance social security schemes for low-income groups, especially considering that the existing paradigm of development has widened the income inequalities among the people.

According to some studies, the top 1 per cent of the population holds 77 per cent of the nation's wealth. Between 2018 and 2022, India has produced 70 new millionaires a day, especially at a time when the pandemic and the ill-planned lockdown has stripped millions of unorganised workers of their livelihoods and basic requirements from the point of view of human dignity (https://www.oxfam.org/en/india-extreme-inequality-numbers). To kill the golden goose of the LIC that provides such a vast social security cover to the most vulnerable at a time like this is unacceptable.

How valid is the argument that disinvestment will enhance LIC's efficiency and profitability?

One argument that is usually used - that the disinvestment would enhance efficiency and profitability of the public sector institutions – is, in fact, laughable. Considering that the LIC plays a multi-dimensional role of great socio-economic relevance, to measure its performance narrowly in terms of its financial profitability is facile. Even otherwise, in addition to earning substantial profits every year, the LIC shares 95 per cent of its profits with its shareholders, especially those belonging to the low-income groups. It also makes investments in nation building through loans for infrastructure and social sector projects in the States. Adopting financial profitability alone as an index of LIC's performance is therefore fallacious, to say the least.

To put forward the argument that disinvestment will enhance LIC's operational efficiency is equally invalid and fallacious. The efficiency of a life insurance company is judged by its performance in settling claims. By this measure, the LIC is not just better than its private peers, but is among the best in the world. For the record, the LIC has been settling more than 99 per cent of the claims. The fact that the percentage of claims repudiated by LIC is far less than its private sector rivals is proof that it needs no private participation to improve its performance.

The IRDAI Annual Report for 2020-21 shows that the operating expense of LIC are 8.68 per cent of its total premium income, whereas the same for private sector life insurers is 11.72 per cent. Thus, compared to the private insurers, the LIC has been serving larger number of policies at a far lower cost.

Another justification put forward by the government for listing the LIC is that it would bring greater transparency in its functioning and create an opportunity for "retail investors to create wealth". This argument *ab initio* assumes that the LIC is presently not creating enough wealth, which is patently incorrect, as the social benefits generated by the LIC are not only huge but are also multi-dimensional. The futility of the argument put forward by the government can be understood by the fact that the proportion of retail investors in the stock markets today is as low as 3 per cent. It is unfortunate that the government should delude itself by assuming that LIC's listing in the bourses alone will enable it to create wealth! On the contrary, the LIC float would severely limit LIC's ability to continue as a provider of wide ranging benefits for the society and as a creator of national wealth.

<u>LIC and its welfare role</u>:

Under Article 12, read with Article 19(6)(ii) of the Constitution, the LIC is deemed to be a part of the government. The Directive Principles enjoin upon the government to fulfil its obligations of a welfare State. Some of the relevant provisions of the Directive Principles are Article 38(1) ["*welfare of the people*"], Article 38(2) ["*minimise the inequalities in income".....eliminate inequalities among individuals...groups of people*"], Article 39(b) ["*that the ownership and control of the material resources of the community are so distributed as best to subserve the common good*"], Article 39(c) ["*ensure that the 'operation of the economic system dies not result in the concentration of wealth and means of production to the common detriment'*"] and so on. As an arm of the government, the LIC should necessarily act in line with these obligations.

In addition, under Article 16(4), the LIC should also comply with the policy of reservations for the SCS/STs/OBCs. As long as the corporation is predominantly owned and controlled by the government, as that seems to be position even after the 2021 amendments to the LIC Act, it will be illegal for the Corporation to violate any of these statutory obligations, even when it is listed on the bourses. Apparently, the government has not applied its mind adequately to the possibility of how the pressures exerted by the stock markets could come in conflict with LIC's statutory obligations as indicated above.

We wish to caution the government that before it embarks on LIC's disinvestment, it should examine these legal implications carefully, taking note of the fact that the statutory obligations should take precedence over its ideological predilections.

<u>LIC's disinvestment against the policy holders' interests</u>:

LIC's disinvestment will undoubtedly hurt the policy holders' interests.

Millions of policy holders have reposed their trust in the LIC. Under Section 37 of the LIC Act, their policies are backed by sovereign guarantee. 95 per cent of LIC's profits come back to the policy holders. It is they who have funded LIC's phenomenal growth over the decades. LIC and its policy holders have a symbiotic relationship, each having a huge stake in the other. In the normal course, therefore, it is they who should play the pivotal role in determining the trajectory of LIC's future growth.

It is unfortunate that the government should ignore the pre-eminent place that the policy holders occupy in LIC's operations and its future growth and take a unilateral decision to disinvest it without taking them into confidence. The latest amendments to the LIC Act have reduced the policy holders' minimum share in the Corporation's profits from 95 per cent to 90 per cent, an indicator of the way the policy holders are going to be treated in the coming years, how they are going to lose more and more as a result of disinvestment. When there is a public outcry against such a shabby treatment meted out to the policy holders, the government thought that it could readily neutralise it by throwing crumbs at the policy holders by offering them a measly window of 10 per cent in equity, whereas they ought to be owning the LIC fully!

Divestment of LIC's equity hasty, without adequate debate in the Parliament:

While announcing such a far reaching decision as this, the least that the government could have done is to take note of the elaborate discussions that took place in the Parliament, when life insurance business was first nationalised in the fifties and the circumstances under which such nationalisation became necessary. The government ought to have considered the enormous contribution that the LIC has since made in providing the much needed social security cover for the millions of disadvantaged households and the pivotal role that the policy holders played in LIC's growth. The government should have placed all these facts before the Parliament and sought its considered views. Instead, caught in its own frenzy of wholesale disinvestment of the CPSEs, it decided to continue without exercising due diligence, without taking the policy holders into confidence and without a discussion in the Parliament, thereby violating every conceivable democratic norm. The government has embarked on this ill-advised adventure that runs counter to public interest.

Valuation of LIC's net worth:

For the IPO that will be issued for the LIC shortly, the government has appointed a valuation adviser to "value" the Corporation. According to news reports (https://tfipost.com/2022/01/lic-is-all-set-to-become-the-second-biggest-company-in-india-by-valuation/amp/), the value estimated for the public issue is Rs 15 lakh crores and the "*embedded value*" (*the statistical measure of investors' interest in an insurance company*) of the Corporation is Rs 4 lakh crores. The People's Commission has tried to secure access to authentic information on this but it is to be found nowhere! If the government expects transparency in LIC's operations by listing it on the bourses, one would have expected the government itself to act transparently in dealing with the valuation exercise.

The methodology of valuation, the assumptions that have gone into it, the factual information considered by the valuer and all other critically relevant information have not been divulged. It is unfortunate that the policy holders of the LIC and the public at large should get information on this, only through rumours and gossip. The government should know that it has an obligation to ensure transparency in all matters of governance under Article 19 of the Constitution. Section 4 of the RTI Act, which owes its genesis to that Article requires the government to make a public disclosure *suo motu* in all matters that are of public interest. By not disclosing the details of valuation of the LIC, the government has *prima facie* violated the provisions of Article 19 and Section 4 of the RTI Act. From this point of view alone, the LIC disinvestment process stands vitiated.

It is now widely known how the Union Finance Ministry had grossly mishandled the case of privatisation of the CEL. The methodology adopted by the Ministry for valuing the CEL was flawed and the bid process, which in itself was also non-transparent, has raised serious concerns from the propriety point of view. We refer in this connection to our statement on the subject. (https://reclaimtherepublic.co/2022/01/10/statement-on-cel-sale/). The government should have learnt lessons from the way the CEL disinvestment case has been mismanaged recently.

We feel that there are important methodological issues in valuing the CPSEs in general and the LIC in particular. CPSEs are not entities that merely carry out commercial activity and generate profits for the shareholders. As already indicated earlier, they have a much broader role in facilitating the government in playing the role of a welfare state. Therefore, it will be erroneous to value any CPSE on the basis of how a limited number of investors view their financial profitability. There are many other social benefits that flow out of the CPSEs and valuing them calls for a different kind of methodology and approach.

In the specific case of the LIC, the task of valuing it is far more complex and challenging, as its activities are multi-dimensional, its benefits, both tangible and intangible, enormous. It is also important to note that the value of such a behemoth of a public sector entity lies in "the eye of the beholder", that is, it depends on who values it.

The "embedded value" as assessed by the valuation adviser appointed by the Finance Ministry, however competent he may be, is a highly restricted estimate of the "*statistical measure of investors' interest in an* *insurance company*" on the basis of the financial returns and risks associated with the LIC. The LIC is earning profits and has valuable assets across the length and the breadth of the country. But to determine today's market value of its vast land assets alone is not going to be easy. Even assuming for a moment that the adviser could do it, still there are many intangible assets that also need to be assessed. For example, how does one assess the trust and the goodwill reposed in the LIC by the policy holders and the public at large? Similarly, how does one estimate LIC's brand value, given the fact that it is regarded to be the most-recognised brand in India? The fact that LIC is a household name is reflected in the fact that LIC's simple logo, its slogan *yogakshemam vahamyaham* ("your welfare is our responsibility") and its tag line *Zindagi ke Saath bhi, zindagi ke baad bhi* (with you for life, and ever after) are among the most recognisable among all Indian brands.

At best, the valuation adviser would assess the LIC's value from the narrow, limited view of the market participants, whereas its value in the eyes of the policy holders and the public at large would be decidedly far more. The erstwhile Planning Commission perhaps had the expertise to make such a valuation, but alas it is no more. A professional welfare economist familiar with the methodology of social-cost-social-benefit analysis alone can be entrusted with this task.

This is not the end of the story.

The policy holders are the prime contributors to LIC's growth. What would be the value of the LIC as perceived by them? The LIC has been funding many infrastructure and social sector projects in the States. How do the States value the services of the LIC?

In times of calamities, it is the LIC that has played an important role in providing social security cover for those affected. During the current pandemic too, the LIC has come to the rescue of those who have lost their kith and kin. In valuing the LIC, one cannot afford to ignore this role of the Corporation.

It should also be noted that the Finance Ministry has been, rightly or wrongly, using the large presence of the LIC as an investor in the stock market, to calm the rough waters in times of volatility and even bail out other CPSEs in distress. Listing the LIC in the stock markets will reduce such leverage.

If all these factors are considered, in our view, the so-called "embedded value" of Rs 4 lakh crores of the LIC assessed by the valuation adviser, as gathered from the news reports, would be patently erroneous and a gross underestimation. It will be sending a misleading message to the investors that the LIC's vast social capital along with its financial wealth will be offered to them on a silver platter. While we are not in favour in the first instance of divesting the equity of the LIC, the approach adopted by the Finance Ministry to get the Corporation "valued" is untenable and it should be dropped forthwith.

<u>People's Commission's findings</u>:

From the foregoing discussion, our findings are as follows.

1. It is highly imprudent to disinvest the equity of the LIC, as it will result in a radical change in the role and the character of the Corporation as the largest social security provider in the country for the disadvantaged sections of the society. The divestment exercise should therefore be dropped forthwith.

2. The disinvestment process initiated by the government has been utterly non-transparent, with very little information about the process being made public — especially about how the valuation exercise is being.

3. The changes already made to the character of LIC in the run-up to the disinvestment process threaten not just the vitality of the pioneering enterprise but jeopardise the growth, development and penetration of life insurance in India, which can only have adverse consequences for those at the margins.

4. The argument that divestment of the LIC and the other CPSEs will bring additional fiscal resources is fallacious and illusory, as the government can access the same resources from the

common pool of savings in the economy on far better terms, without having to dismantle the LIC as a social security provider.

5. The government seeking additional fiscal resources for financing its social sector schemes is also fallacious as there are other more sensible ways to reduce the fiscal gap, for instance, by reducing public expenditure on non-essential, unproductive items and by raising resources by levying redistributive taxes on the more affluent sections.

6. The government's argument that listing the LIC on the bourses will enhance the transparency of LIC's functioning and create wealth through retail investors is not valid, as the LIC's operational efficiency is amply demonstrated not only in its profitability but also by the multifarious social benefits through the social security cover it provides to a large number of disadvantaged households and the funding it provides for implementing infrastructure projects and social security schemes undertaken by both the Centre and the States.

7. The manner in which the government has recently amended the LIC Act by reducing the profit share of the policy holders from 95 per cent to 90 per cent, which will eventually benefit a handful of affluent investors, runs counter to public interest. In our view, this approach is flawed and deserves to be abandoned forthwith.

8. Considering that it is millions of small policy holders who have almost exclusively funded LIC's phenomenal growth over the last six decades, without any significant support from the public exchequer, the way the government has relegated the policy holders to the background, merely to benefit a few affluent investors, is patently reprehensible and the government should drop disinvestment of the LIC altogether.

9. The decision to divest the equity of the LIC is a unilateral one, without taking Parliament, the public or millions of policy holders into confidence. This is wholly unacceptable.

10. We feel distressed that, at a time like this, when the lives and livelihoods of millions of unorganised workers and the other low-income families stand disrupted as a result of the Covid crisis and the ill-planned lockdown that followed, instead of exploring the ways to enlarge social security for them, the government should resort to disinvestment of the LIC, knowing well that it is the LIC that provides such a ready social security cover to these hapless millions.

11. In our view, the social security cover that the LIC provides to the policy holders is of pivotal importance and every effort needs to be made to strengthen the hands of the LIC to realise that objective effectively. The internal systems of the LIC should therefore be strengthened suitably to make its functioning more transparent, more accessible and more accountable to the policy holders, Parliament and the public at large.

12. Before deciding on the disinvestment of LIC, the government has not worked out the opportunity costs of this major policy decision for the state, the policy holders and the citizens at large, outlining the potential benefits and losses — social, economic, financial — to each segment. In our view, the government has the obligation to carry out such an analysis and place it in the public domain immediately. Meanwhile, the move towards disinvestment should be abandoned immediately.

We earnestly hope that the government will pause and ponder over each of these concerns of ours with the seriousness they deserve.

We hope that political parties and Parliament take note of these concerns and intervene in the matter to resurrect the future of the LIC.

We also hope that the civil society will discuss and debate these concerns urgently as the disinvestment of the LIC touches the lives of many.

Peoples Commission on Public Sector and Public Services