LIC IPO – SELLING TRUST OF PEOPLE

The Government has moved closer to the issue of LIC IPO by filing Draft Red Herring Prospectus with SEBI on 13/2/2022. That it chose to do so late evening on holiday shows desperation of government to raise resources before the end of current financial year to meet the fiscal deficit target. It is informed that more than 31.6 crore shares of the face value of Rs.10 will be offered for sale. This amounts to 5% of the equity capital of Rs.6325 crore the government holds in LIC. The equity capital was increased from Rs.100 crore by appropriating free reserves and forfeiting the last two years dividend. The US actuarial firm Milliman Advisors has assessed the Indian Embedded Value of LIC at Rs.539686 crore. It is not known yet as to what multiplication factor would be applied to determine the market value.

The document filed with SEBI states that the entire divestment proceeds will go to the government and LIC will not get any part of it. The Offer for Sale reserves 65% of the issue to qualified institutional investors, foreign investors, domestic institutions and mutual funds. The remaining 35% will be on offer to the retail investors of which 10% is reserved for the existing policyholders and 5% for the existing employees of LIC. The price band is not mentioned in the document and perhaps it will be decided after talks with the anchor and institutional investors.

The entire process relating to LIC IPO has been done in total secrecy. There were no discussions with the stakeholders including the employees and the agency force. The letters addressed to the Finance Minister and the LIC Chairperson to hold consultations with the employee unions went unanswered. That the government wanted to avoid discussions on LIC IPO both inside and outside the parliament is evident from the fact that the amendments to LIC Act facilitating the initial public offer were brought through the Finance Bill. The Trade Unions represented to the Speaker Lok Sabha and Finance Minister to delink this from the Finance Bill and if the government so desires, it can bring the Amendment Bill separately. Such a decision would have given an opportunity for Parliament to dispassionately assess the pros and cons of this move and referring the Bill to Standing Committee on Finance would have provided opportunity for all stakeholders to present their views. This however was too much to expect from a government which suffers from democratic deficit and violates with impunity all the established parliamentary procedures.

Since the whole process lacks transparency, there are serious doubts that LIC is being under-valued. The embedded value determined does not reflect the true value of this great institution. The goodwill it enjoys among the insuring public and the gold standard of its agency force just cannot be quantified. There remains a suspicion about the valuation of its huge real estate. LIC is a unique institution and it is hard to find such an institution anywhere in the world. It was established to carry out certain objectives that relate to the welfare of the people and economic development of the nation. It is uniquely structured privileging policyholders over the shareholder. It proved all doomsayers wrong by towering over the market with a share of 64% in premium income and 72% in number of policies even after 22 years of opening the sector to private capital – both Indian and foreign. The AIIEA had also taken pride in the fact that no other insurance company anywhere in the world has enjoyed market dominance as LIC competing with 23 private companies, a majority of whom are promoted by big banks and backed by multinational entities. Grudgingly even the media controlled by big business has now conceded to this fact. The LIC is a great example of how a public sector undertaking must be run. It not only took care to give total protection to the policy monies but also made glorious contribution to the national development. It took the message of insurance to the rural hinterland. Therefore, it is no surprise that brand LIC is the most popular and valued brand in the country. It is doubtful if all these factors were taken into consideration while arriving at the value of LIC.

The AIIEA has been arguing that disinvestment, however small, is a step towards privatization. LIC is too important an institution in the lives of the people and the nation to be privatized. The LIC IPO will certainly erode the social commitment of this institution as the focus of business turns to create value for the shareholders. The change in the surplus distribution pattern from 95:5 in favour of policyholders to 90:10 is a crude blow to interests of policyholders who have financed the growth and expansion of this fine institution. A look at the Report on embedded value in the Red Herring document and the difference in valuation before and after change in the pattern of surplus distribution clearly demonstrates that prospective shareholders are privileged over the existing and future policyholders. The Prospectus itself concedes that this change will reduce the attractiveness of a policy from LIC and may impact the future business potential. A close scrutiny of the document suggests that post IPO, the business model of LIC has to undergo change to generate value for the shareholders. Such a business model will aim to target high networth clients at the cost of middle income and poorer sections of the society who need the protection of insurance most. It may also lead to the neglect of the rural areas. The new methods to procure businesses through alternate channels and use of higher technology will raise the vulnerability of the agency force which contributed the maximum to the growth and prosperity of LIC. Such a business model will also challenge the employment in the institution.

The insurance employees have waged a relentless battle since 1994 to defend their industry. The massive mobilization of public support helped the movement to halt the desire of earlier governments to fully implement recommendations of Malhotra Committee. But the present government which has the dubious distinction of taking harmful economic decisions is unmindful of public opinion. It is displaying a tearing hurry to list LIC, which has earned the trust and respect of the Indian people. It wants to enjoy and share wealth created by the workforce and the policyholders with private individuals at the cost of larger good of the society. It has put for sale what essentially is the people's trust. The AIIEA and the insurance employees will not allow the government to have it easy. The insurance employees will fight every inch of the battle ground convinced that their fight is to protect the larger interests of the Indian society. The AIIEA has called LIC employees to register strong protest by striking work for a day on the day LIC IPO opens for subscription and thereafter prepare for a sustained struggle. It has approached other unions to appreciate seriousness of situation and join this strike. The AIIEA will also broaden solidarity with other sections of the working class by joining the nationwide two day strike on 28-29 March 2022. The campaign of AIIEA has attracted lot of support. A number of political parties and the Chief Ministers of Tamil Nadu and Telangana have criticized this move and have demanded the Union Government to withdraw the process of LIC IPO. People's Commission which has eminent economists, journalists, academia and prominent personalities in various walks of life has strongly come out against the decision of government on LIC IPO. The Central Trade Unions have made LIC IPO an important point of campaign for the two day strike. The farmers' organizations too have expressed solidarity. The battle has begun. Let us join this battle with courage of conviction.