

Listing of Indian insurers: move to be IPO ready

November 07 2017 | Contributed by [Tuli & Co](#)

[Introduction](#)

[Listing regulations](#)

[Being IPO ready](#)

[Comment](#)

Introduction

The past few years have seen several Indian insurers introducing public offers in order to be listed on Indian stock exchanges. Recent press reports indicate that there may be several more in the pipeline in the next couple of years.

In this regard, Section 6AA of the Insurance Act 1938 initially provided for compulsory divestment of share capital by the promoters of an insurer after a 10-year period from the date of commencement of the insurance business or any other period specified by the central government. One of the ways in which divestment could be implemented was by way of a public offer. However, this provision was deleted pursuant to the amendments introduced by the Insurance Laws (Amendment) Act 2015.

Following the 2015 amendment, the Insurance Regulatory and Development Authority (IRDAI) issued the IRDAI (Issuance of Capital by Indian Insurers Transacting Life Insurance Business) Regulations 2015 (Life Insurance Listing Regulations) and the IRDAI (Issuance of Capital by Indian Insurers Transacting Other Than Life Insurance Business) Regulations 2015 (Non-life Listing Regulations), which set out the procedure for listing both life and non-life insurers. Notably, these regulations must be read together with the Securities and Exchange Board of India (SEBI) (Issue of Capital and Disclosure Requirements) 2009 (ICDR Regulations).

Thus far, no similar guidance has been issued for insurance intermediaries that exclusively distribute insurance products. In the absence of specific guidance, these entities will continue to be governed by SEBI norms for public offerings.

Listing regulations

The Life Insurance Listing Regulations and the Non-life Listing Regulations do not require compulsory listing by any life or non-life Indian insurer. In addition, various press reports suggest that Indian insurers will not be obliged to list on stock exchanges; instead, this decision will be left with the company's board and management.

Both the Life Insurance Listing Regulations and the Non-life Listing Regulations provide that prior written approval from the IRDAI must be obtained before any Indian life or non-life insurer approaches the SEBI for public issue of shares, as well as any subsequent issue therein. Further, the Life Insurance Listing Regulations and the Non-life Listing Regulations provide the factors which the IRDAI will consider when granting approval, including:

- the applicant's overall financial position;
- the period for which the applicant has been in business;
- the applicant's history of compliance with the regulatory requirements;
- compliance with the IRDAI's corporate governance guidelines; and

AUTHORS

[Celia Jenkins](#)



[Shubhangi Pathak](#)



- compliance with the prescribed regulatory solvency margin.

Being IPO ready

With this background, one of the key factors considered by the IRDAI is the applicant's history of compliance with regulatory requirements. Further, any gaps in regulatory compliance must be disclosed during preparation of the draft red herring prospects (DRHP) in accordance with the ICDR regulations, which will in turn form part of the risk factors set out in the DRHP.

In view of the highly regulated nature of the Indian insurance sector, compliance requirements are not only wide spread in nature, but also stringent. For example, Indian insurers must:

- maintain the requisite solvency margin;
- comply with social and rural sector obligations;
- undertake investments only as per the specified regulations;
- comply with various regulations regarding the solicitation and procurement of insurance business;
- adhere to limits on payments which may be made to insurance intermediaries;
- obtain the IRDAI's prior approval regarding specific events (eg, the appointment of key management personnel and directors to the board, changes in place of business and changes to the shareholding pattern); and
- file periodic returns and notifications with the IRDAI on various matters.

In addition, compliance with other norms which apply to all companies (eg, the compliance requirements set out under the Companies Act 2013) must be maintained.

Given the vast nature of regulatory compliance requirements, Indian insurers may find it challenging to prepare for a public issue once their board and management decide to list the company on stock exchanges. One way to address these challenges is by performing a prior review of the company to ensure that it is initial public offering (IPO) ready before the decision to list is made. Ideally, this phase would commence one to two years before any decision regarding listing could be made and entail an audit of the various compliance levels and business operations of the company in order to identify any gaps and compliance issues. This will give the company's legal and compliance teams adequate time to highlight key issues and propose necessary changes to ensure an optimum level of compliance by the time that the company decides to proceed with listing.

In this regard, the IRDAI has already provided in the Guidelines for Corporate Governance for Insurers in India (May 18 2016) that insurers, even if unlisted, should initiate the necessary steps to address any identified gaps in compliance, to facilitate the smooth transition at the time of their eventual listing.

Comment

As the Indian insurance market develops and matures further, Indian insurers and insurance intermediaries (which are also highly regulated by the IRDAI) will aim to introduce public issues and list on recognised stock exchanges in order to, among other things, raise more funds from the public and provide liquidity to their existing shareholders. In this process, companies looking to be IPO ready should focus on ensuring optimum regulatory compliance and rectifying any identified compliance issues. This will go a long way in simplifying the process of listing and will contribute towards improved market valuation of Indian insurers and insurance intermediaries.

For further information on this topic please contact [Celia Jenkins](mailto:celia.jenkins@tuli.co.in) or [Shubhangi Pathak](mailto:shubhangi.pathak@tuli.co.in) at Tuli & Co by telephone (+91 11 4593 4000) or email (celia.jenkins@tuli.co.in or shubhangi.pathak@tuli.co.in). The Tuli & Co website can be accessed at www.tuli.co.in.