Risky recourse on LIC proposed stake in IDBI Bank

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Highlights

- The Insurance Regulatory and Development Authority of India has approved a proposal to allow the Life Insurance Corporation of India to increase its stake in the ailing state-owned IDBI Bank to 51%.
- The plan envisages the insurer injecting much- needed capital into the financially stressed lender, which was placed under the Reserve Bank of India's prompt corrective action framework in May 2017 as a consequence of its non-performing assets rising beyond a threshold.

Issues

- The government clearly sees it as a relatively painless way to recapitalise the bleeding bank without adversely impacting its fiscal position, but the risks in increasingly banking on state-controlled cash-rich corporations to help bail out other state-owned companies or lenders are too significant to be glossed over.
- The IRDA, whose mission is to "protect the interest of and secure fair treatment to policyholders", is reported to have exempted the LIC from the well-reasoned 15% cap on the extent of equity holding an insurer can have in a single company.
- Securities and Exchange Board of India has in the past waived the mandatory open offer requirement under its takeover regulations when it involved a state-run acquirer and another state enterprise as the target. As the capital markets watchdog, SEBI has an obligation in all such cases to weigh the interests of the small investor.
- RBI, as the banking regulator, should not ignore the contagion risks that the level of "interconnectedness" the proposed transaction would expose the entire financial system to.

Source: The Hindu