

# Is LIC playing white knight or Don Quixote?

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## Experts rue likely use of policyholder funds to rescue ailing state-owned bank

**NEW DELHI, JUNE 25**

It's the same script playing out yet again, but with a slight twist.

Insurance behemoth LIC is seen to have been nudged by the Centre to do the rescue act, though the official word is the boards of the respective entities will take a call.

The main difference this time around is that there is no disinvestment process at play; rather, LIC will unilaterally try to prevent the ailing public sector lender IDBI Bank from going under.

The proposed move is not going well with finance experts, who are accusing the Centre of using policyholder funds to rescue IDBI Bank.

In the past, only taxpayers' funds were used for bailouts, they pointed out.

"LIC=ATM", tweeted Sanjay Bakshi, a professor of finance at the Management Development Institute in Gurugram.

The big question is whether LIC has the expertise to run a bank if it gets a controlling interest in IDBI Bank, say industry watchers. The Central Government, which owns an 81 per cent stake in IDBI Bank, may look to bring its holding below 50 per cent. However, it is not divesting its stake to LIC. Instead, IDBI Bank will make a preferential allotment to LIC through fresh equity of shares.

With the LIC board giving its go-ahead, the action has clearly shifted to the insurance regulator IRDAI and capital markets regulator SEBI.

The current regulatory norms forbid insurers from holding more than a 15 per cent stake in a company. IRDAI blessing is a must beyond this level. Also, since IDBI Bank is a listed entity, LIC ought to make an open offer. However, since two state-controlled entities are at play, SEBI might exempt it, say banking industry observers.

## PCA framework

Last month, the RBI had brought IDBI Bank under its prompt corrective action (PCA) framework due to high NPAs and negative RoAs.

For the just-ended March quarter, IDBI Bank had reported a net loss of ₹5,662.76 crore, wider than the net loss of ₹3,199.77 crore in the same quarter last year.

Gross NPA as of end March 2018 stood at ₹ 55,588 crore (₹44,753 as of end March 2017)

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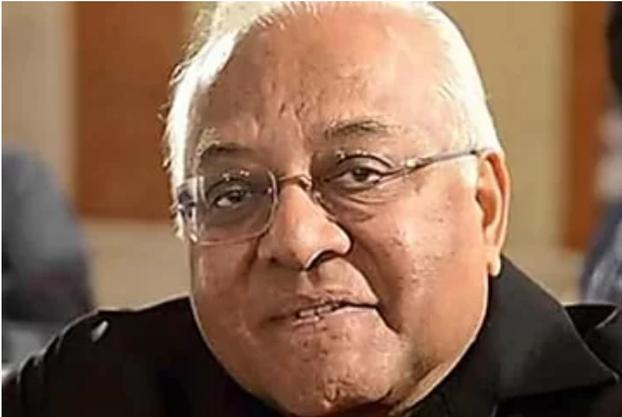
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Centre's line of thinking is that "if banks can do insurance (bancassurance) business, why not LIC does banking business". Theoretically it looks good. Presently the issue with the banks that they have remained mute for a very long time and in a situation like present, no one in the banks has the expertise how to come out successfully. All think that there is a medicine out there and by consuming that, banks will become healthy. Banks' risk policies have always been questionable and it has reflected now. Who is having the bell and when / whether they can tie with the cat? A million-dollar question!

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