

Union Budget paves the way for a PSU general insurance behemoth

Surabhi NEW DELHI | Updated on July 08, 2019 Published on July 08, 2019



Earlier in her Budget speech, Nirmala Sitharaman has set an disinvestment target of ₹1.05 lakh crore

Budget 2019-20 has cleared the decks for the merger of three state-run general insurers into a behemoth like Life Insurance Corporation of India. Under the current rules, there has to be four general insurers to execute such a merger. The proposed amendment to the the General Insurance Business (Nationalisation) Act, 1972 will give flexibility to the Centre to bring down the number to less than four.

The Finance Bill, 2019 has proposed to amend the Act by substituting the words “only four companies” with the words “up to four companies” in section 16, in sub-section (2). The section deals with schemes of reorganisation and empowers the Centre to merge or transfer one or two state-run general insurance companies to form a new company.

Apart from re-insurer General Insurance Corporation of India, the country has four general insurers — New India Assurance, Oriental Insurance, National Insurance and United India Assurance. New India is listed and is the largest amongst all general insurers, including those in the private sector.

“The proposed amendment is clearly a move towards the intent to merge the public sector general insurers, as under the current Act, there have to be four such firms. The government is still looking into various options,” said a person familiar with the development, adding that this is the reason why the Budget did not allocate any capital for infusion in the public sector general insurers.

One of the options, which is still under discussion with the Department of Financial Services and Department of Investment and Public Asset Management, could envisage a merger on the lines of ONGC-HPCL merger, which would not only help create a stronger general insurance entity.

Under this plan, the three other general insurers could possibly be merged with New India but the timelines and the process still have to be fine tuned, sources said.

The other option, which was announced in the Union Budget last year, is to merge National Insurance, United India Assurance and Oriental Insurance into a single entity, which will be subsequently listed. But this could not be done due to the limitation in the current Act with respect to the number of players.

Sources said a clear plan will be worked out and efforts will be to ensure the merger goes through this fiscal year.

Published on July 08, 2019



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