

Business Standard

Irdai in talks with insurance firms hit by govt's mega PSB merger drive

The mergers have created a problem as many of these banks are promoters of insurance companies

Subrata Panda | Mumbai September 17, 2019 Last Updated at 23:35 IST



The Insurance Regulatory and Development Authority of India (Irdai) has started informal consultations with insurance companies whose shareholding structure is in a fix after the merger of 10 public sector banks into four, said a source aware of the development.

The insurance regulation doesn't allow an entity to promote more than one insurance company. The mergers, however, have created a problem as many of these banks are promoters of insurance firms.

According to the government's merger plan, Union Bank will absorb Andhra Bank and Corporation Bank. Now, Union Bank has a 25.10 per cent stake in Star Union Dai-Chi Life

Insurance, while Andhra Bank has 30 per cent in IndiaFirst Life Insurance. The bank will, however, have to choose between Star Union Dai-Chi and IndiaFirst after the merger comes into effect.

Similarly, Punjab National Bank (PNB), Oriental Bank of Commerce (OBC), and United Bank of India will amalgamate into one, with PNB as the anchor bank. Now, PNB has a 30 per cent stake in PNB Metlife and OBC has 23 per cent in Canara HSBC OBC Life Insurance. Syndicate Bank will merge into Canara Bank and Indian Bank will absorb Allahabad Bank. Canara Bank has 51 per cent in Canara HSBC OBC Life.

Though informal consultation has started with the insurance companies, Irdai has not given any time frame to banks to bring down their stake in any of these firms as the banks are yet to be formally merged, said the source quoted above.

The banks are to officially merge from April 1, 2020. A similar timeline for merger was followed during the merger of Dena Bank and Vijaya Bank into Bank of Baroda. The move was announced September last year, the swap ratio was announced in January, and the merger was effective from April 1.

Moreover, Irdai has not yet started consulting with the banks on this matter. According to the regulations, an entity can either be an investor or a promoter in an insurance firm. If an entity is holding more than 15 per cent stake in an insurance firm, then it is a promoter. If the stake is less than 15 per cent, then it's an investor.

Experts say if two banks, which are getting merged, are promoters of two different insurance companies, then the merged bank can't remain a promoter of the two firms. So, it will either have to reduce the stake below 15 per cent in both the firms and become an investor, or bring down the stake in one firm to zero and continue as a promoter in the other.