

# Indian promoter must hold 26% stake in insurance joint ventures: IRDA

By [Shilpy Sinha](#), ET Bureau | 26 May, 2015, 05.45AM IST

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MUMBAI: The [Insurance](#) Regulatory and Development Authority of India has mandated a minimum 26% equity holding by the Indian promoter in any insurance company to ensure that the local investor does not use the liberal [foreign investment](#) and listing policy to dilute accountability.

The regulator insists that the mandatory 26% stake to be held by the local promoter will ensure that there is accountability and that the management does not rest with the foreign company alone in the event of a single block of holding falling below 25% — public shareholding limit — when a company goes for listing.

"Indian investors jointly shall not hold more than 25% of [paidup equity](#) share capital of the insurance company," said Irda. As a result of this move, the insurance regulator aims to control transfer and dilution of ownership in insurance companies similar to what the Reserve Bank of India ( [RBI](#)) does with banks, to prevent financial investors from flipping investments for shortterm gains that may hurt longterm prospects.



[Irda](#) has mandated no single entity or group of investors can hold more than 10% of paid-up equity capital in an insurance company. Amendment to the Insurance Bill had allowed all insurance companies to access capital markets.

The government had started off with the process of listing some of the public-sector general insurance companies. "The regulator wants a promoter in an insurance company, as they have given the licence to a promoter and not just to investors," said Amitabh Chaudhry, managing director and CEO, HDFC Life.

[HDFC Life](#), a joint venture with UK-based Standard Life, is likely to be the first of the insurance companies to list its shares on the stock exchanges.

"There seems to be no logic in restricting a single Indian investor's shareholding to 10% when a single foreign investor can own 26% under the automatic route and 49% under government approval route," said Nishchal Joshipura, partner, private equity and M&A at Nishith Desai Associates. "Some of these restrictive conditions will adversely impact the way foreign and domestic investments are structured in insurance companies going forward."

Large companies are expected to partially monetise their investment stake in their life insurance businesses as the foreign investment limit will increase to 49% from 26%. A quick calculation suggests that five large players could recognise capital gains of Rs 20,000 crore, assuming they reduce the stake in their life insurance subsidiaries to 51%, said a report by Kotak Institutional Equities.

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