mint

Thu, 15 Jun-17; Mint - Delhi; Size : 417 sq.cm.; Page : 12

Why listing of insurance firms is good for you

BY SHAIKH ZOAIB SALEEM
zoaib.s@livemint.com


ISTOCK

Reliance General Insurance Co. Ltd has announced its plans to list on the stock exchanges. The insurer, which is a wholly owned subsidiary of Reliance Capital Ltd, is planning to complete the listing in the current financial year by listing 10% of its stake in the first tranche and up to 25% over 3 years.

The announcement has come just days after a similar announcement by ICICI Bank Ltd, for the initial public offering of ICICI Lombard General Insurance Co. Ltd, which is a joint venture between ICICI Bank and Fairfax Financial Holdings Ltd. Earlier this year, the government had also cleared a proposal to list five public sector general insurance companies.

Rakesh Jain, chief executive officer, Reliance General Insurance said that the listing will help investors take part in the wealth-creation opportunity. "The general insurance industry is slated to grow with the economy, where affluence-led consumption will act as its primary growth driver. The coming years are likely to witness a double digit growth in the sector largely due to disproportionately low penetration of insurance," he said.

IMPROVING TRANSPARENCY

With an insurance company getting listed, it is expected that it will immediately bring in more transparency. "First impact comes to the analysts and investors because that is the area that a company focuses most on, which is transparency of figures and more detail in figures that are reported," Joydep K. Roy, partner and leader (insurance) at PwC India said.

At present, there is a standard set of public disclosures that all companies follow every year. With a company getting listed, you will see quarterly reporting of the figures in greater detail and with higher transparency in all figures like the claims ratio moving up and down, Roy said.

Jain said that the listing will bring in a lot of visibility and will also build trust and confidence as the company gets more transparent. "All this really adds to long-term credibility," Jain added.

IMPACT ON CONSUMERS

When it comes to consumers, the first thing is that they will have some comfort if someone is concerned about a company's performance. "They can understand details from analyst reports. And even if most customers will not read an analyst report, they will find out from the (company's) share price movement because the whole performance of the company gets encapsulated in the price of the stock," Roy said.

Moreover, it is expected that with the company getting listed, any kind of grievance redressal will be faster than what it is today.

"Listed companies are extremely sensitive about customer grievances because they do not want to let them linger on. Therefore I see a very positive impact on the grievance management turnaround time," Roy said.

IMPACT ON PREMIUMS

It is possible that the companies would put in efforts to make every single line of business profitable on its own. For instance, products in group health and fire categories are currently subsidised by other lines of business like private motor car insurance, liability insurance and home insurance, which are very profitable lines, Roy said.

"I would expect little bit of firming up of prices in traditionally loss-making areas like group health and fire. The current low rates, which are a drain for a company may not augur well for the share price of the company. It will certainly make for a more robust insurance marketplace," Roy said.

At present, Roy said, the company manages its portfolio as a whole. However, with greater scrutiny from investors, the companies would like to keep individual lines of business profitable too.

Jain said that premiums will be optimised if more and more people get covered. The law of large numbers works in insurance too, he added.

At the end of the day, investors are also consumers. So when investors and consumers align with what is the best thing that can happen for the business, both will stand to benefit, Jain said.