

IL&FS Acquisition

What is the issue?

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- Life Insurance Corporation(LIC) has been slated to bail out Infrastructure Leasing & Financial Services Limited (IL&FS) soon.

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- In this context, the government is facing criticism for making LIC to acquire stakes in multiple failing Public Sector Undertakings (PSUs).

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What is the situation in IL&FS?

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- Infrastructure Leasing & Financial Services Limited (IL&FS) is a PSU.

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- It is jointly owned by the State Bank of India (SBI), LIC, ORIX (Japan), Abu Dhabi Investment Authority and Greenspring Associates.

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- Notably, the India's longest tunnel “The Chenani-Nashri Tunnel”, which was opened for traffic in 2017, was constructed by it.

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- The company is classified as systematically important due to its projects.

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- But IL&FS and its maze of subsidiaries have not made profits for almost a decade now and are in deep financial dept.

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What is the bailout plan and what are the problems in it?

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- **LIC’s Role** - Presently, as LIC’s profits are strong, the central government is nudging it to acquire stakes in failing PSUs to bail them out.

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- While the LIC currently holds 25% shares in IL&EF, it has been slated to acquire more stakes and take up a greater role in IL&EF's operations.
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- Notably, LIC is already in the process of acquiring the loss making IDBI Bank, presumably due to government's insistence.
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- **The Problem** - LIC is India's largest insurer and the public trust it with the belief that it would be secured through prudent investments.
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- Notably, there are more than 200 million policy holders in LIC, who would want their money back at times of emergency.
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- But LIC, like other well performing PSUs is being nudged to bail out multiple failing PSUs, a trend that might harm its balance sheets.
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- In other words, policyholder's money has been shifted to make the government's holdings look better.
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What is the larger picture?

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- **Fiscal Risks** - Due to its financial strengths, LIC has been a stalwart in acquiring public sector companies that the government puts up for disinvestment.
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- This is in effect underwriting the purpose of disinvestment and is helping in channelizing depositor money to finance government's fiscal deficit.
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- Governments should not dip into its people's saving (like LIC deposits) to fuel its short-term goals and to sustain its borrowing spree.
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- **Regulation** - Deposits seeking long term returns should be responsibly managed by seeking appropriately safe and remunerative investment options.
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- Considering the LIC's reckless investment outlook, Insurance Regulatory and Development Authority of India (IRDAI) should take notice.
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- But the IRDAI has largely been absent in the context of these acquisitions by the LIC, which is not a healthy sign.

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Source: Business Standard

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