

In the News

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PARTNER BANKS GET OPPORTUNITY TO REDUCE HOLDINGS

Prudential, Others may Hike Insurance JV Stakes

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Mumbai: Global insurers such as Prudential, Standard Life and Nippon Life are expected to increase their stakes in Indian joint ventures with the government increasing foreign direct investment limit in the sector to 74% from 49% and allowing foreign ownership, experts said.

This will also give an opportunity to the likes of HDFC Bank and ICICI Bank to reduce their stakes in ventures like HDFC Standard Life and ICICI Prudential as the Reserve Bank of India recently told banks to try cap their insurance holding to 30%.

"I see several foreign players taking this opportunity to hike stake," said Ashish Vohra, CEO of Reliance Nippon Life Insurance. He cited two possible reasons — "either the domestic promoter is looking to exit, or there are profitability or solvency pressures".

Insurance penetration in India is only 2.44%, much less than other Asian countries, hence there's significant room for growth. "Foreign investors have seen that money is safe in India, there is huge upside of the demographic dividend, and with the pandemic having told us how big the opportunity is, a foreign player can harness this scale," Vohra said.

Suresh Ganapathy, associate director at investment bank Macquarie Capital, said Prudential Plc could be the first foreign insurer to increase stake in its Indian JV. "Unlike many other foreign JV partners who have



their own issues and want to exit India, Prudential is very committed to Asia and they believe China and India will be the key driver of their business in India," Ganapathy said. "So why wouldn't PRU increase stake to 51% if they are given control?"

Prudential had announced plans to raise \$2.5-3 billion equity later this year to invest in Asian growth.

Prudential, Standard Life and Nippon Life did not respond to emailed queries from ET as of press time.

Shares of ICICI Pru and HDFC Life fell 3.09% and 2.61%, respectively, on the BSE on Tuesday.

Sandeep Ghosh, partner and national leader — insurance at EY India, said the budget decision to allow 74% FDI in insurance "sends an extremely positive signal" to both global insurers and private equity investors. "This will allow several mid-size and smaller players to recapitalise themselves and compete effectively with the larger players, thus making it a more level-playing field with better outcomes for the customers," he said.