Capital Infusion for the Insurance Companies

Why in News

Recently, the Union Cabinet has approved the **capital infusion of Rs.12,450 crore in the three Public Sector General Insurance Companies (PSGICs)** namely **Oriental Insurance Company Limited (OICL), National Insurance Company Limited (NICL)** and **United India Insurance Company Limited (UIICL).**

- The primary regulator for insurance in India is the **Insurance Regulatory and Development Authority of India (IRDAI).**

Key Points

- **Capital Infusion:**
  - The capital infusion of **Rs. 3,475 Crore** will be allocated to three PSGICs as the **first tranche** in the current financial year and the balance amount will be released in one or more tranches.
  - To give effect to the infusion, the authorised capital of NICL has been increased to Rs. 7,500 Crore and that of UIICL and OICL to Rs. 5,000 Crore respectively.
- **Impact:**
  - The capital infusion will enable the three PSGICs to improve their financial and solvency position.
  - It will also help to meet the insurance needs of the economy and enhance the capacity to raise resources and improve risk management.
- **Background:**
  - The government has **dropped the process of merger,** which was proposed, in the 2018-19 Budget, of these three PSGICs in view of the economic crisis created due to **Covid-19 pandemic.**
    - Instead, it has decided to focus on the profitable growth of these three PSGICs.
    - The **aim of the merger was to augment capital by listing the merged entity on stock exchanges,** which would have brought down government equity (share).
  - The firms were also not in good shape.
    - As of the third quarter of 2019-20, NICL had a **solvency ratio** of 1.01, against the regulatory requirement of 1.5.
      - The solvency ratio examines a company's ability to meet its long-term obligations.
    - Its **combined ratio** stood at 173%. If the ratio is below 100%, it indicates that the firm is making underwriting profits.
      - The combined ratio is a measure of profitability used by an insurance company to gauge how well it is performing in its daily operations.

    - **Underwriting profit** consists of the earned premium remaining after losses have been paid and administrative expenses have been deducted.
  - OICL had a solvency ratio of 1.54 and reported a combined ratio of 132%.
  - UIICL had a solvency ratio of 0.94, much below the regulatory requirement, with combined ratio at 127.62%.

Note:

- Public Sector Insurance Companies are under the **Department of Financial Service, Ministry of Finance.** Life Insurance Corporation of India (LIC) is the largest insurance company in India.

Source: PIB