



# 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**

PDF Reference URL: <https://www.drishtiias.com/printpdf/capital-infusion-for-the-insurance-companies>

