



Initial Public Offer: LIC

 drishtias.com/printpdf/initial-public-offer-lic

Why in News

The Central government has started the process to launch the Initial Public Offer (IPO) of Life Insurance Corporation (LIC).

- LIC is **fully owned by the government**. It was set up in 1956.
- It has the **biggest share in India's insurance business**.

Initial Public Offer

- IPO is the selling of securities to the public in the **primary market (a type of capital market)**.
 - **Primary market** deals with new securities being issued for the first time. It is also known as the new issues market.
 - It is **different from the secondary market** where existing securities are bought and sold. It is also known as the stock market or stock exchange.
- Under IPO, an unlisted company makes **either a fresh issue of securities** or an **offer for sale of its existing securities** or **both for the first time to the public**.
 - Through an IPO, an unlisted company can get listed on the stock exchange.
- It is generally used by new and medium-sized firms that are looking for funds to grow and expand their business.

Key Points

- **LIC IPO:**
 - The IPO is **expected to be the biggest in the Indian capital markets** given the size and scale of LIC.
 - The LIC's total assets had touched an all-time high of Rs. 31.11 lakh crore in 2018-19.
 - The government is seeking some exemption related to the LIC IPO from the **Securities and Exchange Board of India (SEBI)**.
- **Benefit:**
 - It will help the government **to meet its rising fiscal deficit**.
The rating agency S&P has estimated India's government (centre and states) fiscal deficit to rise to 11% of GDP in FY21 from 7.8% in FY20.
 - An IPO **will bring transparency into affairs of LIC** since it will be required to inform its value and other market-related developments on time to the stock exchanges.
 - It also **gives an opportunity for retail investors to participate** in the wealth creation of LIC.
 - Listing of companies on stock exchanges **disciplines the company** since it comes under greater scrutiny. It also **provides access to financial markets**, thus raising the company's value.
- **Issues Involved:**
 - LIC is currently dealing with huge non-performing assets.
- **Background:**
 - In the Budget 2020-21, the government had **announced plans for IPO of LIC** and a proposal to **sell the government's equity in the stressed IDBI Bank** to private, retail and institutional investors through the stock exchange.
LIC is also a majority shareholder in IDBI Bank.
 - The government expects to raise Rs. 90,000 crore through stake sale in LIC and IDBI Bank, and another Rs. 1.2 lakh crore through other **disinvestments**.
 - Earlier, in 2017, the government had listed the shares of General Insurance Corporation and New India Assurance through IPOs.

Source: IE