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To,
All the Zonal/Divisional/State/Regional Units

Dear Comrades,

We are reproducing below one of the Editorials from the forthcoming November issue of "Insurance Worker" titled "Privatisation and Foreignisation of IDBI Bank". This will help our Comrades gain a better understanding of the issue.

With Greetings,

Comradely Yours



General Secretary

PRIVATISATION AND FOREIGNISATION OF IDBI BANK

The Cabinet Committee on Economic Affairs in its meeting of 14th October has approved the strategic sale of Industrial Development Bank of India (IDBI). The DIPAM Secretary has said that the transaction is expected to be completed before the end of the current financial year. This premier bank is being sold to Canada's Fairfax Financial Holdings for ₹52878 crore for a controlling stake of 60.72%. Of this, the government is selling 30.48% of its equity and the LIC 30.24%. It is unfortunate that the government went ahead with this deal despite large scale opposition from the financial sector workforce and progressive sections of the Indian society. This is yet another step towards allowing the foreign capital to control the Indian financial sector and the domestic savings, which in longer term would be very harmful to the political and economic sovereignty.

The AIIEA is opposed to the privatization and foreignization of one of the premier financial institutions. It is also concerned about the investments of LIC in the IDBI. The LIC has to clarify the reasons for the divestment of its holdings in IDBI; whether this serves the objectives of the investments made earlier and whether the interests of the policyholders are fully protected. After all, it was the policyholders' monies that were invested in this bank.

The IDBI is a classic example of how institutions were destroyed in the name of reforms in the financial sector following the total embracing of neoliberalism beginning from 1991. The IDBI was established in 1964 as a fully owned subsidiary of RBI to provide long term finance for projects in infrastructure development. It was to help the industrialization of the country. The ownership of this institution was transferred to the government in 1976. In the name of reforms initiated after 1991, this development finance bank was converted into a commercial bank. It is common knowledge that the functions of a development bank are different from that of a commercial bank. The legacy issues and the short-term borrowings for long term infrastructure funding found the IDBI in a terrible mess. In May 2017, the RBI placed IDBI Bank under prompt corrective action framework. In September 2018, its non-performing assets ratio rose to 31.78% and there was a negative rate of return on the investments.

It was in this background that LIC decided to make an investment in IDBI. There were concerns expressed by many citizens relating to this decision with fears that LIC is putting to risk the policyholders' monies to bail out a distressed bank. There were accusations that LIC is prompted by the government to do this. In response, the LIC said that the investment in the IDBI is purely on commercial considerations and this will help LIC in expanding its distribution network and improving bancassurance channel. It also argued that it sees opportunities to create business synergies through this investment. This sounded logical as all big private insurance companies were promoted by the Banks and this helped them in securing nearly 65% of their business through bancassurance model. The LIC was asking the RBI to permit it to have a bank. This was not agreed and even the request to allow LIC Housing Finance to float a Bank was also disallowed. In this background the RBI, IRDAI and other regulators permitting LIC to have a controlling stake of 51% in IDBI was seen as a big opportunity. The LIC invested ₹21624 crore to acquire a 51% stake in the IDBI Bank in 2019. Thereafter it invested another ₹4743 crore. Thus, the total investment of LIC which was from the policyholders' funds were ₹26367 crore.

The LIC nursed the IDBI Bank back to health by 2021. The Bank showed a remarkable turnaround. Its balance sheet reflected the health of the Bank. It returned to profit and was taken off by the RBI from its framework of prompt corrective action in March 2021. By 2026, its NPA came down to 2.3% and it has been sustaining the profits since then. If LIC's investments and guidance have brought this remarkable turnaround, why is LIC being asked to divest its holding and cede control of the Bank to a foreign entity now? It is true that LIC will hold 19% equity after this disinvestment but this does not answer the broader question; why should it cede control of this Bank? The objectives for which the LIC invested in this Bank in 2019 continue to remain valid even today. If the regulators could modify their policies to allow LIC to acquire 51% controlling stake in 2019, why should it not be allowed to retain control over this Bank now. Does this look like the government and regulators asking LIC to risk the policyholders' funds to bail out a distressed financial institution and cede control after nursing it back to health?

The AIIEA had supported the decision of LIC to invest in IDBI Bank in 2019 as it saw merits in the reasons advanced by LIC. It is disappointed now with the decision of LIC to sell its stake to enable a foreign entity gain control over this premier bank. The LIC owes explanation to its policyholders. It must explain the rationale behind selling 30.24% stake to Fairfax. It should inform the policyholders what returns this investment generated and how the policyholders are benefitted. The LIC must reassure its clients that all its decisions are taken keeping in view the interests of the policyholders and security of their policy monies. It is hoped that LIC would clear the air surrounding this deal early.

The AIIEA is strongly opposed to the policy of privatization of public sector undertakings. It regards financial sector as the most important component of the economy and foreignization of financial sector would harm the national interests. It will continue to oppose this and join the broader sections of the financial sector workforce and Indian society to demand a reversal of the disastrous economic policies being pursued by the government.
