



Infomerics Valuation And Rating Pvt. Ltd.

SEBI REGISTERED / RBI ACCREDITED / NSIC EMPANELLED
CREDIT RATING AGENCY

Dr. Manoranjan Sharma
(Chief Economist)

CAPITAL INFUSION IN PUBLIC SECTOR INSURANCE COMPANIES - AN EXAMINATION

16 December 2024

The proposed capital infusion measure will be welcome for the financial sector in general and the public sector general insurance companies in particular because the insurance market -both life and general - is here to stay and grow sharply in line with the general trend globally and the steady growth of the Indian economy. With capital infusion, these state-run general insurance companies can and must run on sound and profitable lines.

Post capital infusion, the performance of public sector banks (PSBs) is a case in point. Given the government control, it may not be necessary to read the riot act. But it has to be made unequivocally clear to these companies that this is a one-off measure and they cannot expect a bailout every time they fail to balance their books because of the cost to the public exchequer, multiple priorities, including financial inclusion of the government and the compelling need to adhere to the fiscal deficit glide-path.



Accordingly, these capital-starved companies will need to focus on a slew of broad-spectrum measures, including organisational restructuring, product rationalisation, cost rationalisation and digitalisation.

This is a difficult but doable work and requires inter-alia signing of a Memorandum of Understanding (MoU) between the government and these companies, mutually agreed performance indicators and close and careful monitoring of these indicators all along the line for a discernible and sustained improvement in profits and profitability.

It is important to question why public sector insurance companies incur losses while private insurance companies make profits? Possibly, two reasons like PSBs could be:

1. Involvement of state-run insurance companies in a large number of government programmes.
2. Absence of autonomy and flexibility in decision - making and complete management control and government say in administrative decisions.