



IPOs – Considerations & Processes

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Changing Risks, Expecting the Unexpected

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Agenda

- Recent Buzz...
- Introduction to IPO
- Listing regulations in India
- Key considerations
- Advantages and disadvantages
- Preparing for an IPO
- Role of an Actuary
- World after an IPO
- Big-ticket listings in A-PAC

Recent buzz...

IRDA Chairman expects insurance cos to get listed

“Now I expect insurance companies to get listed (following the hike in FDI in the sector to 49 per cent)” Vijayan told reporters...

- The Hindu Business Line, 24 July 2014

“HDFC Life mandates Morgan Stanley and Bank of America Merrill Lynch for IPO”

MergerMarket, 21 January 2015

“Fundamentally both of us (Standard Life and HDFC) want to do an IPO”

- Keki Mistry, VC & CEO, HDFC
The Economic Times, 5 January 2015

Recent buzz...

“The board of Max India Ltd. approved a corporate restructuring plan to vertically split the company through a de-merger.

Upon completion of the de-merger, the existing company — Max India Ltd. — is proposed to be renamed as Max Financial Services Ltd. (MFS)...and, it will focus solely on life insurance activity through its 72.1 per cent shareholding in Max Life, **making it the first Indian listed company exclusively focussed on life insurance.**

- Max India Press Release, 27 January 2015

“Now that the ordinance (insurance) is passed, we would definitely look at the insurance subsidiaries and evaluate all options including new investors or IPO.”

- Chanda Kochhar, MD & CEO, ICICI Bank
The Times of India, 6 January 2015

Introduction to IPO

“An **initial public offering** (IPO) or **stock market launch**, is the first sale of stock by a private company to the public. It can be used by either small or large companies to raise expansion capital and become publicly traded enterprises.”

Source: Wikipedia

- Most new listings in recent years by insurers has been through an IPO since the objectives of the listing (for example to raise additional capital and/or to enhance the brand or reputation of the company) usually are best served by an IPO despite its cost.
- We therefore will mainly refer to that method of listing in the remainder of this presentation but many of the aspects of listing (eg preparing a valuation of the business) apply also to other methods, some of which might be favoured by some companies in the Indian context.

Listing regulations in India

- **Manner and procedure for listing for life insurers are set out in the IRDA (Issuance of Capital by Life Insurance Companies) Regulation, 2011.**
- Important eligibility criteria for life insurance IPO include:
 - The insurer must be in the business for a minimum period of 10 years from the date of commencement of business.
 - Prior to approaching the Securities and Exchange Board of India (SEBI), the insurer must obtain approval from the IRDA, which would consider the insurer's financial position, regulatory records and other details.
 - The prescribed regulatory solvency margin should have been maintained as at the end of the preceding six quarters.
 - The embedded value of the insurer should be at least twice the paid up equity capital.

Key questions that insurers need to address

- Why are we listing?
- Who do we want as our owners and what will they want from their investment?
- How do we want to communicate with analysts and shareholders?
- How do we make ourselves an attractive listed company?
- What do we need to do to prepare?
- When do we need to start and are we already running late?

Key considerations for Indian insurers

- Likely valuations – enthusiasm for IPOs subdued in recent years due to market falls
- Outlook for insurance industry
- Clarity needed over split of FII and FDI.
- Clarity needed on Indian management control
- Constraints from JV agreements
- Financial readiness
- Operational preparations
- Procedural bottlenecks

Advantages of an IPO

- Raising long-term capital
- Increase in the firm's value
- Creation of external value
- Marketability
- Mergers & acquisitions
- Attracting talent
- Greater visibility

Disadvantages of an IPO

- Expensive process
- Increased disclosure requirements
- Increase in shareholder accountability
- Risk of misplaced value of the firm
- Rise in costs post-IPO
- Managing investor relations
- Loss of control
- Increased exposure to lawsuits
- **Irreversible !**

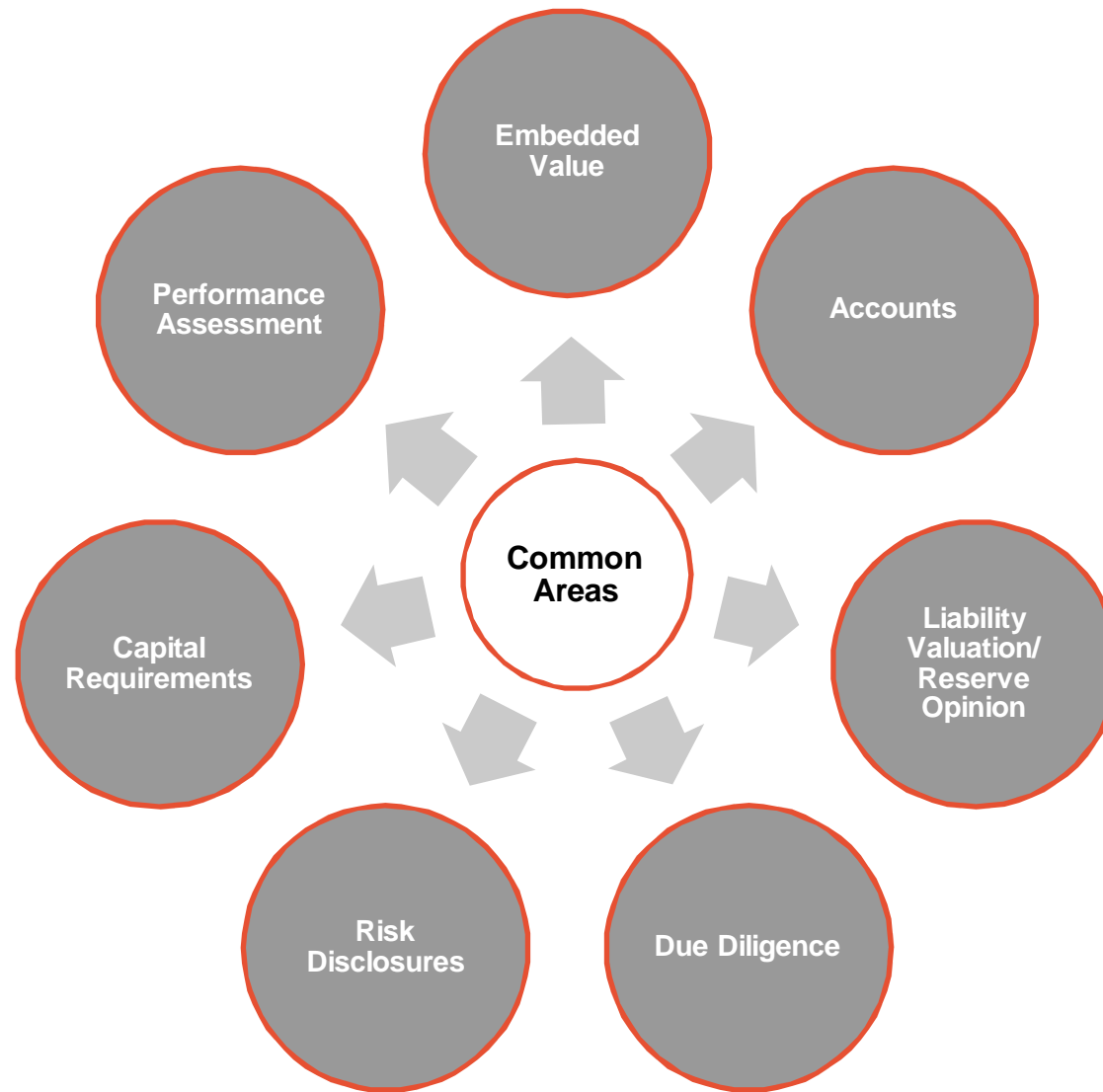
Preparing for an IPO

- Process begins with discussions with the Board
 - What is the **objective** behind going public?
 - Is the company **attractive** to investors?
 - Does the company have a strong future **outlook**?
 - Is the company resourced to produce **timely disclosures**?
 - Is the **corporate governance** structure optimal?
 - Do we wish to use the IPO as a **platform for operational change**?

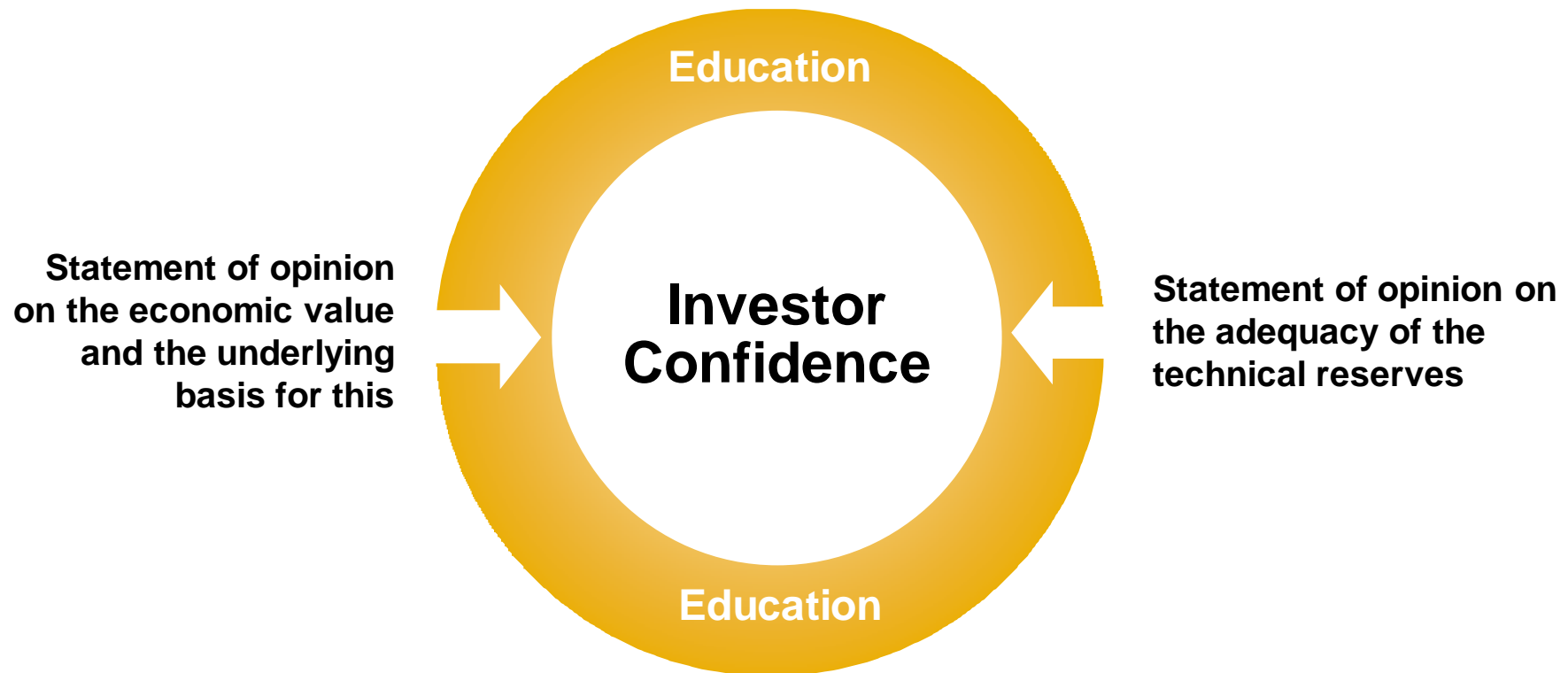
Before an IPO

- Set up a management team for steering the IPO process
- Enhance public relations and market credibility
- Build affiliation with advisors
 - Investment bankers, legal advisors, actuarial consultants etc.
- Design competitive employee benefits and compensation
- Evaluate corporate governance principles and practices
- Audit of financial statements and other disclosure documents
- Budget and resource planning

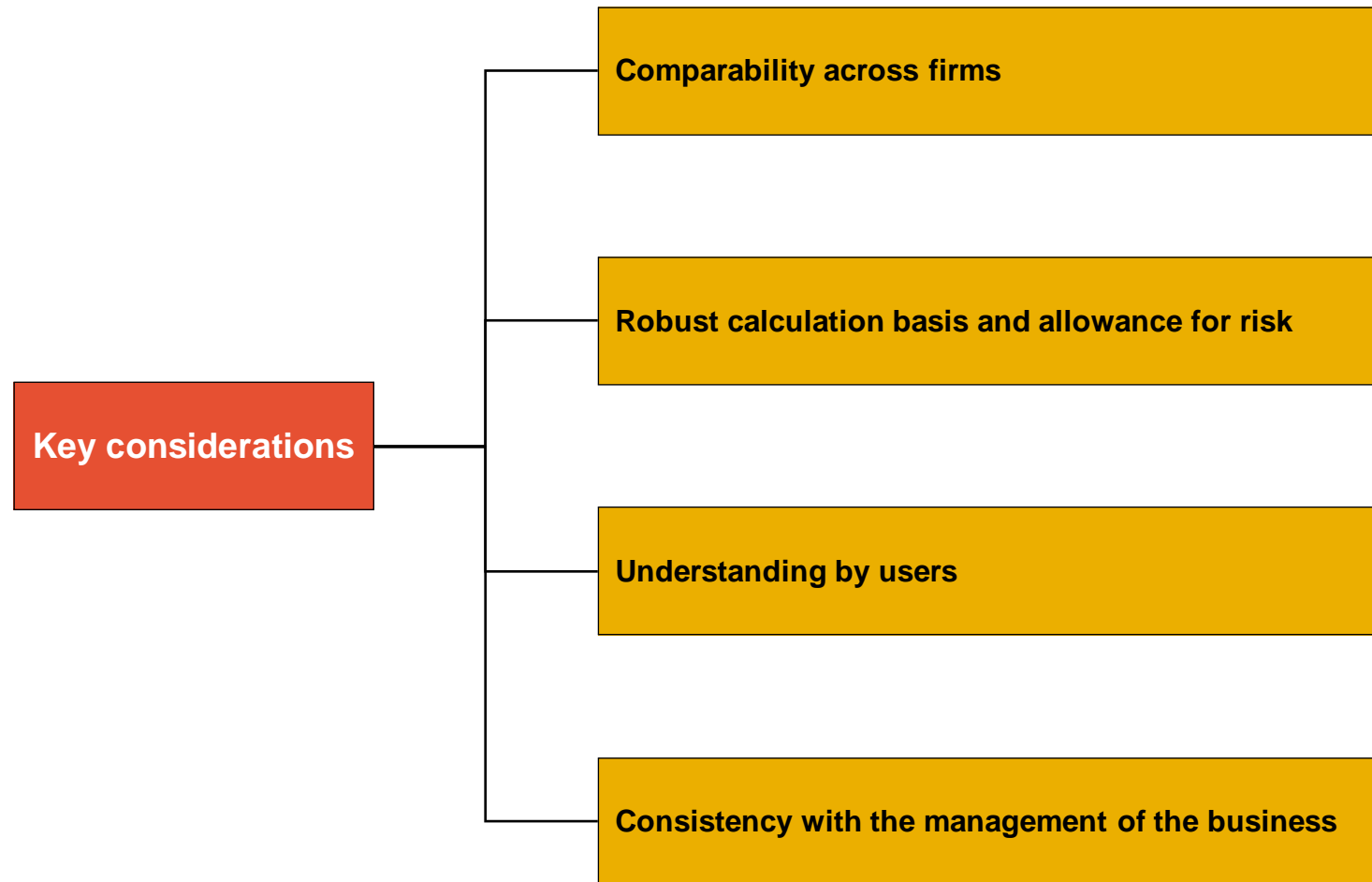
The role of an Actuary in an IPO



Key actuarial input to the Prospectus



Economic Value .. choice of method



...governed by Indian Embedded Value as per APS10

Economic Value ... choice of assumptions

- **Criteria**
 - Robust and justifiable
 - Credible
 - In line with management expectations
 - Supported by experience
 - Disclosure experience
 - Allowance for changes in environment
 - Basis where no experience is available

World after IPO

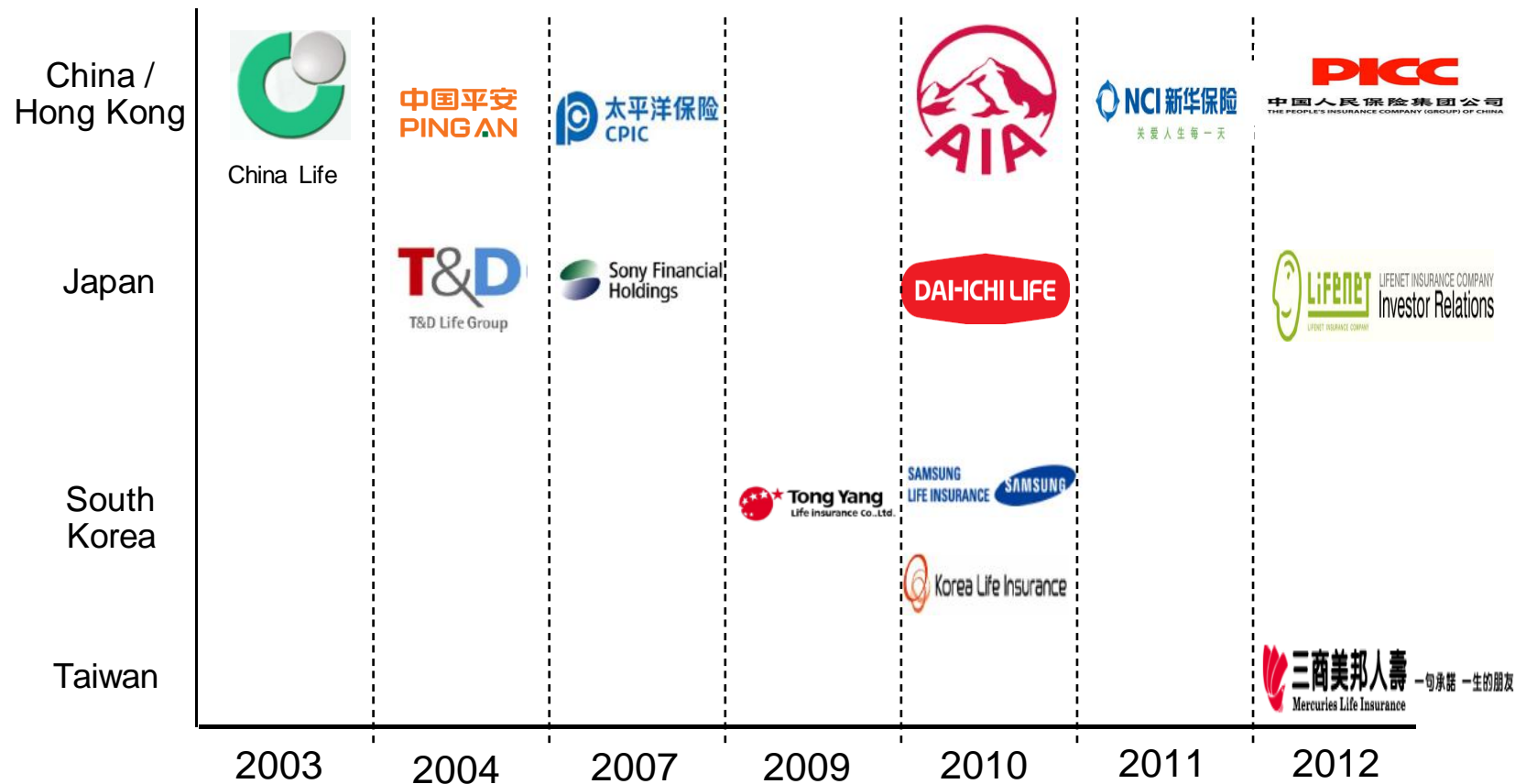
- Greater public scrutiny
- Increased risk of reputational damage and compliance costs
- Frequent disclosure of financial statements and results
- Need to strengthen the planning and analysis functions
- Requirement for a standardized ethics and compliance process throughout the organization
- Ensure forward-looking statements released by the company carry necessary caveats
- Establish restrictions on insider trading
- Increased consciousness of fiduciary duties
- Effective management of costs
- Need to maintain investor enthusiasm

Supplementary disclosures

- Minimum disclosures as per norms need to be produced
- Production of additional disclosures recommended for IPO
 - To educate investors and analysts
- Some examples are:
 - Analysis of change in economic value
 - Demonstrating sources of value in the long term
 - Cash flows expected from in-force and future new business
 - New business metrics – IRR, payback period, value, strain

The number of Asian listed insurance companies has grown significantly in recent years

Selected listings of Asian insurance companies



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