



The LIC-IDBI Bank deal was completed in January 2019. (Mint)

RBI said to have pushed for IDBI Bank board's independence before LIC deal

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- RBI deleted two tweaks LIC proposed in IDBI Bank's articles of association before approving the deal
- RBI is said to have told LIC that it should only have control to the extent of an owner in IDBI Bank

MUMBAI: Mumbai: The Reserve Bank of India (RBI) struck down two contentious amendments, proposed by Life Insurance Corporation of India (LIC), in IDBI Bank Ltd's articles of association (AoA), before it approved the LIC-IDBI Bank deal as it wanted the bank's board to retain its independence, said an IDBI Bank board member on condition of anonymity.

"The regulator said LIC should only have control to the extent of an owner," said the board member. "Articles 203 and 204 were earlier proposed by LIC to be incorporated in AoA. However, RBI, under Section 12B approval, put a condition for deletion of these articles,"

IDBI Bank said. Section 12B of The Banking Regulation Act, 1937, deals with regulation of acquisition of shares or voting rights.

IDBI Bank's AoA showed that a few articles were introduced on 7 November 2018. Article 203 stipulates that the bank's board would not pass any "resolution adversely affecting the interests of LIC" without any affirmative vote of LIC. "For the purposes of this provision, a resolution adversely affecting the interests of LIC shall be such resolution, which is so considered by the board of LIC," the article reads.

Experts indicated this does not allow the board full independence, as required in a listed entity. Some experts said this would have prevented IDBI Bank from competing with LIC in their loan products or even getting other bancassurance partners. Bancassurance is an agreement between a bank and an insurance company to sell insurance products to the bank's customers.

"There were restrictions on the passing of any resolution adversely impacting the interest of LIC and what is adverse was at LIC's discretion," said Alipak Banerjee, leader at law firm Nishith Desai Associates.

The Union cabinet had approved the acquisition of controlling stake by LIC in the state-run bank in August last year. The LIC-IDBI Bank deal was completed in January 2019.

What affects the interests of LIC is a very broad and vague concept and it is not known if it is in relation to its investment in IDBI or anything else that LIC might be interested in, said Vaibhav Kothari, partner at law firm Trilegal.

"Also, the fact that it is as determined by LIC does take away, at the minimum, the independence of the board of IDBI to some extent. For every decision the board of IDBI takes, even for the slightest of the doubts, it will tend to go back to LIC for their judgement," said Kothari.

The situation could have come to a point where before IDBI could do anything it would have to pass it through LIC, said Ashvin Parekh, managing partner at Ashvin Parekh Advisory Services LLP, a global management consulting firm.

“This to my mind is, for other shareholders, not in keeping with good governance,” said Parekh. “Even the Securities and Exchange Board of India may wish to examine this considering the Uday Kotak Committee recommendations on good governance,” said Parekh.

Another amended article, Article 204 (1), says that the IDBI Bank board shall constitute a committee, which shall prepare a quarterly performance report for the review of the LIC. This shall be based on parameters prescribed by the LIC. Article 204 (2) states that LIC shall preserve the report as confidential and it shall not be disclosed to anyone except when required by law. It is to be seen if this passes Sebi’s good governance test, Parekh said.

Emails sent to LIC and RBI remained unanswered till the time of publishing this story.