M&A Lab

October 06, 2017

HDFC LIFE - MAX LIFE: A LOST PURSUIT

Announcements made on June 17, 2016 by HDFC Standard Life Insurance Company Limited ("**HDFC Life**"), Max Life Insurance Company Limited ("**Max Life**") and Max Financial Services Limited ("**MFSL**") regarding a proposed merger of Max Life with HDFC Life ("**Proposed Merger**"), created a stir in the Indian insurance sector. The announcement of the Proposed Merger came after the disclosure made by HDFC Limited to the stock exchanges on April 21, 2016, regarding its intention to sell 10% stake in HDFC Life via an initial public offering process.

The primary objective of the Proposed Merger appeared to have been the proposed listing of HDFC Life through a reverse listing process. However, the Proposed Merger also offered various other baits to the parties involved in the Proposed Merger. While on one hand, the Proposed Merger would have facilitated an exit for the shareholders of Max Life, including the promoter group of Max Life, on the other hand, it would have resulted in a resultant entity commanding 12.4% of the total market share in the Indian life insurance sector (making it the largest private insurance provider in India). The Proposed Merger would have also increased HDFC Life's solvency margin from 198% to 252% and the resultant entity would have benefitted from the positive synergies and economies of scale, through a wider outreach, broader range of products and access to common pool of resources.

Given the objectives of the parties to the Proposed Merger and regulatory framework for mergers and acquisitions in India, specifically in the Insurance sector, the Proposed Merger: (a) entailed a multi-layered complex merger process through a composite scheme of arrangement between HDFC Life, Max Life, MFSL and Max India Limited; and (b) required scrutiny and approval of Insurance Regulatory and Development Authority of India ("**IRDA**") and the Competition Commission of India ("**CCI**"). The IRDA rejected the Proposed Merger in the form proposed on a literal interpretation of the provisions of the Insurance Act, 1938.

Having seen a couple of structures rejected by the IRDA and given HDFC Life's intentions to list itself on the Indian bourses, the Proposed Merger was called off by the parties on July 31, 2017. While the announcements made by HDFC Life calling off the Proposed Merger puts an end to the speculation in the insurance sector regarding the Proposed Merger, we have made an attempt to analyse the legal, regulatory, commercial and tax aspects of the Proposed Merger in this M&A Lab.

For a detailed analysis of the commercial, legal, regulatory and tax considerations and to access the M&A Lab, please click here.

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You can direct your queries or comments to the authors

circumstances. This Hotline does not substitute the need to refer to the original pronouncements.

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